



# ASSOCIATION OF ACCOUNTING TECHNICIANS

## Code of Ethics

This Code of Ethics is set by the Board of Directors of the Association of Accounting Technicians (AAT) as the minimum standards of ethical behaviour for members. The Board expect that members would seek to meet higher standards of ethical behaviour than that set out in this Code.

This Code of Ethics is mandatory for all members and therefore failure to comply with this Code may lead to the member being subject to disciplinary by the AAT.

Being a member of the AAT is more than a qualification. An objective of the AAT is for it and its members to be well recognised and respected throughout a wide range of industries. In order to build and maintain this reputation and to continue to offer quality training and support, we require our members to have a professional and ethical approach.

To assist our members to offer the highest levels of professional service at all times to their employer, clients and professional accountants, we have published this Code of Ethics.

The decisions you make in the everyday course of your professional lives can have real ethical implications. This is where members must refer to this Code of Ethics. The Code of Ethics:

- Sets out the minimum standards of professional behaviour
- Helps protect the public interest
- Helps to build and maintain the AAT's good reputation

## 1. Introduction

- 1.1 This Code of Ethics is applicable to all members and unless otherwise indicated, the term 'member' is deemed to include Members and Fellows. This Code of Ethics has been approved by the AAT Board of Directors, to be effective from 2 February 2007.
- 1.2 This Code of Ethics draws from the Code of Ethics set by the International Federation of Accountants (IFAC) and Guidelines on Professional Ethics of the Association of Accounting Technicians (United Kingdom).
- 1.3 There may be occasions when members, having sought independent advice or not, and having considered the application of the Code, are still in doubt about the proper course of action to be taken. In such cases the member should consider contacting the AAT or the St James Ethics Centre and be prepared to give all relevant facts.
- 1.4 A distinguishing mark of the accountancy profession, including the part represented by the AAT, is its acceptance of the responsibility to act in the public interest. Therefore, a member's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest a professional accountant should observe and comply with the ethical requirements of this Code.
- 1.5 In addition to the duty to the public, as identified above, this Code recognises that the accountancy profession, including the part represented by the AAT, is identified by the following characteristics that members are required to meet in their professional conduct. These include:
  - **Objectivity**  
To act without any conflict of interest and in the best interest of their clients at all times within their duty to the law and their duty to the public.
  - **Professionalism**  
To provide service at the highest possible standards and to conduct themselves in a highly professional manner at all times.
  - **Confidence**  
Members submit themselves to the investigation and disciplinary process of the AAT, therefore compliance with this Code is compulsory and any violation may result in disciplinary action.

This Code, in no way intends to cover all areas of conduct, or attempts to override any legislative requirement. The spirit of the Code should be followed rather than taking any narrow interpretation.

## 2. Fundamental Principles

2.1 A member is required to comply with the following fundamental principles:

(a) *Integrity*

A member should be straightforward and honest in all professional and business relationships.

(b) *Objectivity*

A member should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.

(c) *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 should act diligently and in accordance with applicable technical and professional standards when providing professional services.

(d) *Confidentiality*

A member should respect the confidentiality of information acquired as a result of professional and business relationships and should 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 should not be used for the personal advantage of the member or third parties.

(e) *Professional Behaviour*

A member should comply with relevant laws and regulations and should avoid any action that discredits the profession. Members should consider their responsibilities as a professional accountant to clients, third parties, other members of the accountancy profession, staff, employers, and the general public.

Each of these fundamental principles is discussed in more detail below.

*Conceptual framework approach*

2.2 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 complies with a set of specific rules which may be arbitrary, is, therefore, in the public interest. A member must also consider the law and other requirements when formulating the conceptual framework. This Code provides a framework to assist a member to identify, evaluate and respond to threats to compliance with the fundamental principles. If the identified threat or threats are other than clearly insignificant, a member should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.

- 2.3 A member has an obligation to 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.
- 2.4 A member should 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 should decline or discontinue the specific professional service involved, or where necessary resign from the client (in the case of a member in public practice) or the employing organisation (in the case of a member in business).
- 2.5 A member may inadvertently violate a provision of this Code. Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 2.6 This Code includes examples that are intended to illustrate how the conceptual framework is to be applied. 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. Consequently, it is not sufficient for a member merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances encountered by the member.

### ***Threats and Safeguards***

- 2.10 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
- (a) Self- interest threats, which may occur as a result of the financial or other interests of a member or of an immediate or **close family**\* member;
  - (b) Self-review threats, which may occur when a previous judgment needs to be reviewed by the member responsible for that judgment or by someone directly under their control;
  - (c) Advocacy threats, which may occur when a member promotes a position or opinion to the point that subsequent objectivity, may be compromised;
  - (d) Familiarity threats, which may occur when, because of a close relationship, a member becomes too sympathetic to the interests of others; and
  - (e) Intimidation threats, which may occur when a member may be deterred from acting objectively by threats, actual or perceived. This can include where a client/perspective client threatens to remove their business from a member in public practice.
- This Code provides examples of circumstances that may create these categories of threat for members in public practice and members in business.
- 2.11 Safeguards that may eliminate or reduce such threats to an acceptable level fall into two broad categories:
- (a) Safeguards created by the profession, legislation or regulation; and
  - (b) Safeguards in the work environment.

- 2.12 Safeguards created by the profession, legislation or regulation include, but are not restricted to:
- Educational, training and experience requirements for entry into the AAT;
  - Continuing professional development requirements of the AAT;
  - Corporate governance regulations;
  - Professional standards; and
  - Professional or regulatory monitoring and disciplinary procedures.
- 2.13 This Code discusses safeguards in the work environment for members in public practice and those in business.
- 2.14 Certain safeguards may increase the likelihood of identifying or deterring unethical behaviour. Such safeguards, that may be established by the accounting profession including that part represented by the AAT, in legislation, regulation or an employing organisation. All members of the AAT are subject to an investigations and disciplinary process, this process enables members of the public, other accountants, regulators and even the Association itself, to draw attention to unprofessional and/or unethical behaviour. The AAT expects members to inform the Association if they are aware that another member has or potentially has acted unethically and/or unprofessionally. This expectation extends to members informing the professional body of a professional accountant if they are aware that such a professional accountant has or potentially has acted unethically and/or unprofessionally. Members who have been found to have a case proven against them by the Disciplinary Tribunal may have such details notified to the public.
- 2.15 The nature of the safeguards to be applied will vary depending on the circumstances. In exercising professional judgment, a member should 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*

- 2.16 In evaluating compliance with the fundamental principles, a member may be required to resolve a conflict in the application of fundamental principles.
- 2.17 When initiating either a formal or informal conflict resolution process, a member should consider the following, either individually or together with others, as part of the resolution process:
- (a) Relevant facts;
  - (b) Ethical issues involved;
  - (c) Fundamental principles related to the matter in question;
  - (d) Established internal procedures;
  - (e) any legal requirements or expectations and
  - (f) Alternative courses of action.

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

- 2.18 Where a matter involves a conflict with, or within, an organisation, a member should also consider consulting with those charged with governance of the organisation, such as the board of directors or the audit committee as well as their immediate supervisor (unless that person is a party to the ethical conflict).
- 2.19 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. A member may also want to investigate if there are internal and/or external “whistleblowing” processes that may be utilised. A member should also be aware of any statutory requirements which may require that certain information or actions be reported to the appropriate authority.
- 2.20 If a significant conflict cannot be resolved, a member may wish to obtain professional advice from the AAT, experts in ethical issues or legal advisors, and thereby obtain guidance on ethical issues without breaching confidentiality. For example, a member may have encountered a fraud, the reporting of which could breach the member’s responsibility to respect confidentiality. The member should consider obtaining legal advice to determine whether there is a requirement to report.
- 2.21 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a member should, where possible, refuse to remain associated with the matter creating the conflict. The member may determine that, in the circumstances, it is appropriate to withdraw from the engagement, if in practice or to resign altogether from the employing organisation.

## Detailed Explanation of Fundamental Principles

### *Integrity & Objectivity*

- 2.30 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. Integrity also implies intellectual honesty and the avoidance of conflict of interest where possible, and where it is not, full and upfront explanation of any conflicts of interest that may exist.
- 2.31 A member should not be associated with reports, returns, communications or other information where they believe that the information:
- (a) Contains a materially false or misleading statement;
  - (b) Contains statements or information furnished recklessly; or
  - (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.
- A member will not be considered to be in breach of paragraph 2.31 if the member provides a modified report in respect of a matter contained in paragraph 2.31.
- 2.32 The principle of objectivity imposes an obligation on all members not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others. Objectivity requires a member to consider the truthfulness of a situation, regardless of the impact upon themselves, a client or an employer.

- 2.33 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 judgment of the member should be avoided.

***Professional Competence and Due Care***

- 2.40 The principle of professional competence and due care imposes the following obligations on members:
- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service;
  - (b) To act diligently in accordance with applicable technical and professional standards when providing **professional services**;
  - (c) to be honest and upfront to a client or employer if they do not possess required professional knowledge in regards to a specific issue and to seek such information or services from others to address this;
  - (d) To refrain from portraying themselves or allowing another to portray that they possess skills, knowledge, accreditation or resources that they do not possess; and
  - (e) Make disparaging references or unsubstantiated comparisons to the work of others, or to denigrate another member or professional accountant.
- 2.41 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:
- (a) Attainment of professional competence; and
  - (b) Maintenance of professional competence.
- 2.42 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical professional and business developments. Continuing professional development develops and maintains the capabilities to enable a member to perform competently within the professional environments. The AAT requires members to keep their skills up to date through minimum continued professional education requirements and members are expected to be cognisant of such requirements.
- 2.43 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis. Consideration must be given to any specific requirements or timelines of the client or employer.
- 2.44 A member should take steps to ensure that those working under the member's authority in a professional capacity have appropriate training and supervision.
- 2.45 Where appropriate, a member should 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. Where external expertise has been sought such expertise should be credited.

## **Confidentiality**

- 2.50 The principle of confidentiality imposes an obligation on members to refrain from:
- (a) 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
  - (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.
- 2.51 A member should maintain confidentiality even in a social environment. The member should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a close or **immediate family**\* member. A member must be aware of the legal requirements in Australia in relation to the *Privacy Act* and all other legal and regulatory requirements dealing with privacy and confidentiality. Clients need to be informed if such a demand is made and given the opportunity to seek advice as to whether any or all of the material demanded is subject to legal or other protections. Where any information is provided to a regulator, this should be documented, including what was provided, to whom and on what date.
- 2.52 A member should also maintain confidentiality of information disclosed by a prospective client or employer.
- 2.53 A member should also consider the need to maintain confidentiality of information within the firm or employing organisation.
- 2.54 A member should take all reasonable steps to ensure that staff under the member's control and persons from whom advice and assistance is obtained respect the member's duty of confidentiality.
- 2.55 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 should not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.
- 2.56 The following are circumstances where members are or may be required to disclose confidential information or when such disclosure may be appropriate:
- (a) Disclosure is permitted by law and is authorised by the client or the employer;
  - (b) Disclosure is required by law, for example:
    - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
    - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
  - (c) There is a professional duty or right to disclose, when not prohibited by law:
    - (i) To comply with the quality review of a professional body;
    - (ii) To respond to an inquiry or investigation by a the Association, another professional body or regulatory body;
    - (iii) To protect the professional interests of a member or a professional accountant in legal proceedings; or
    - (iv) To comply with technical standards and ethics requirements.



- 2.57 In deciding whether to disclose confidential information, member should consider the following points:
- (a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the member;
  - (b) Whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment should be used in determining the type of disclosure to be made, if any; and
  - (c) The type of communication that is expected and to whom it is addressed; in particular, members should be satisfied that the parties to whom the communication is addressed are appropriate recipients.

A member may want to consult a legal adviser or another professional where they have concern about whether confidential information can or should be provided. Members should be aware of the capacity of regulators to require the production of confidential information and ensure that where such information is being sought that the person seeking it is properly authorised to require the production of such information.

### ***Professional Behaviour***

- 2.60 The principle of professional behaviour imposes an obligation on members to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession. This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively affects the good reputation of the profession.
- 2.61 In marketing and promoting themselves and their work, members should not bring the profession into disrepute. Members should be honest and truthful and should not:
- (a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
  - (b) Make disparaging references or unsubstantiated comparisons to the work of others.

### ***Members outside of Australia***

- 2.70 When members are employed or providing services outside Australia they are bound by this Code and any legal requirements specific to the jurisdiction in which they conduct their business. Any disputes arising out of non-compliance shall be dealt with in accordance with the Code.
- 2.71 When a member performs services in a country other than Australia and differences on specific matters exist between ethical requirements of the two jurisdictions the stricter provisions apply.

### 3. Members in Practice

#### *Introduction*

- 3.1 This Section of the Code illustrates how the conceptual framework contained in Section 2 is to be applied by members in public practice. The examples in the following sections are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a member in public practice that may create threats to compliance with the principles. Consequently, it is not sufficient for a member in public practice merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances faced. The mere fact that a similar situation is not presented in the examples provided, does not mean that the conceptual framework does not need to be applied in that circumstance. The fundamental principles must be applied to all professional circumstances in line with the conceptual framework. The examples are merely guides to help members come to the appropriate determination when a threat exists.
- 3.2 A member in public practice should not 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. This includes where such activities are separate from a members public practice.

#### *Threats and Safeguards*

- 3.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
- (a) Self- interest;
  - (b) Self-review;
  - (c) Advocacy;
  - (d) Familiarity; and
  - (e) Intimidation.

These threats are discussed more fully in Section 2 of this Code.

The nature and significance of the threats may differ depending on the nature of the engagement with the client.

#### *Self-interest threat*

- 3.4 Self-interest threats generally occur where the interest of the member or a close relative are closely aligned with a client, so that the member may, either deliberately or inadvertently, act in a way to preserve that interest over acting in a professional or ethical way. Examples of circumstances that may create self-interest threats for a member in public practice include, but are not limited to:
- A financial interest in a client or jointly holding a financial interest with a client.
  - Undue dependence on total fees from a client.
  - Having a close business relationship with a client.
  - Concern about the possibility of losing a client.
  - Potential employment with a client.
  - Contingent fees.
  - A loan to or from a client or any of its directors or officers
  - relationship between spouse or other close relative to a client

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- involvement in a community or other organisation where the members standing in that community or organisation could be affected by the professional decisions they make.

#### *Self-review threat*

3.5 A self-review threat usually arises where a member is required to review or re-evaluate professional work that either they themselves or someone under their control has done. It is often hard to be objective when reviewing one's own work and therefore mistakes or issues that a fresh set of eyes would pick up, are less likely to be noticed. Examples of circumstances that may create self-review threats include, but are not limited to:

- The discovery of a significant error during a re-evaluation of the work of the member in public practice.
- Reporting on the operation of financial systems after being involved in their design or implementation.
- Having prepared the original data used to generate records that are the subject matter of the engagement.
- Having recently been, a director of a client or employed by that client.

#### *Advocacy Threat*

3.6 An advocacy threat will usually arise where a member has stated firmly an opinion on a matter, usually publicly, which either associates that person with a particular view or with a particular organisation. What occurs is that it may be difficult for the member to then view the subject matter with the appropriate degree of objectivity. Examples of circumstances that may create advocacy threats include, but are not limited to:

- Promoting shares in a listed entity when that entity is a client.
- Acting as an advocate on behalf of a client in litigation or disputes with third parties.

#### *Familiarity Threat*

3.7 A familiarity threat may arise where a member may be less critical and/or less objective in their professional work because they have a close relationship with another or the subject matter. Examples of circumstances that may create familiarity threats include, but are not limited to:

- Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant.
- Long association with the client where the client is trusted and an assumption may be formed about the client.
- Member may have previously worked for the client and be familiar with employees of the client.
- Member may be preparing many similar documents over a short period and become less diligent the more of the documents the member prepares.

#### *Intimidation Threat*

3.8 Intimidation threats arise where either due to explicit action by the client or concern about potential action by the client, a member is disinclined to act in a professional way. Examples of circumstances that may create intimidation threats include, but are not limited to:

- Being threatened with dismissal or replacement in relation to a client engagement.
- Being threatened with litigation.

- Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- Constant calling of member or staff in relation to certain matters until client gets what they want
- Being threatened to report a member to a statutory authority or professional body for investigation in order to make things difficult

3.9 A member in public 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 categorized. In either professional or business relationships, a member in public practice should always be on the alert for such circumstances and threats.

3.10 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:  
(a) Safeguards created by the profession, legislation or regulation; and  
(b) Safeguards in the work environment.

Examples of safeguards created by the profession, legislation or regulation are described in paragraph 2.12 of Section 2 of this Code.

3.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement specific safeguards. A member in public practice should exercise judgment to determine how to best deal with an identified threat. In exercising this judgment a member in public practice should 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 reasonably conclude to be acceptable. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

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

- Leadership of the firm that stresses the importance of compliance with the fundamental principles.
- Leadership of the firm that establishes the expectation those members will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- 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.
- 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.
- Policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the member or their staff and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.

- Timely communication of a firm's policies and procedures, including any changes to them, to all staff, and appropriate training and education on such policies and procedures.
- A disciplinary mechanism to promote compliance with policies and procedures.
- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

- 3.13 Engagement-specific safeguards in the work environment may include:
- Involving a professional accountant to review the work done or otherwise advise as necessary.
  - Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or a professional accountant.
  - Discussing ethical issues with those charged with governance of the client.
  - Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
  - Involving another firm to perform or re-perform part of the engagement.
- 3.14 Depending on the nature of the engagement, a member in public 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.
- 3.15 Safeguards within the client's systems and procedures may include:
- When a client appoints a firm in public practice to perform an engagement, persons other than management ratify or approve the appointment.
  - The client has competent employees with experience and seniority to make managerial decisions.
  - The client has implemented internal procedures that ensure objective choices in commissioning engagements.
  - The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

### ***Professional Appointment***

- 3.20 The clients of a member have an indisputable right to choose their advisers and to change to others should they so desire.

### ***Client Acceptance***

- 3.21 Before accepting a new client relationship, a member in public practice should consider whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, questionable issues associated with the client (its owners, management and activities).
- 3.22 Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or other questionable practices.

- 3.23 The significance of any threats should be evaluated. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 3.24 Appropriate safeguards may include obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities, or securing the client's commitment to improve corporate governance practices or internal controls.
- 3.25 Where it is not possible to reduce the threats to an acceptable level, a member in public practice should decline to enter into the client relationship.
- 3.26 Acceptance decisions should be periodically reviewed for recurring client engagements.

#### *Engagement Acceptance*

- 3.27 A member in public practice should agree to provide only those services that the member in public practice is competent to perform. Members must have the skills and experience necessary to undertake the work they seek to perform. If a member is not competent to take on the work they should refer the work to a person who is competent to do such work. Before accepting a specific client engagement, a member in public practice should 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. Members are required to have clients review, confirm and sign an engagement letter with the client that sets out the nature of the engagement and other relevant matters. It is recommended members include a scale of fees for the work that they and their practice perform.
- 3.28 As stated above, a member in public practice should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be applied as necessary to eliminate them or reduce them to an acceptable level.

Such safeguards may include:

- 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.
  - Acquiring knowledge of relevant industries or subject matters.
  - Possessing or obtaining experience with relevant regulatory or reporting requirements.
  - Assigning sufficient staff with the necessary competencies.
  - Using experts where necessary.
  - Agreeing on a realistic time frame for the performance of the engagement.
  - Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.
- 3.29 When a member in public practice intends to rely on the advice or work of an expert, the member in public practice should evaluate whether such reliance is warranted. The member in public practice should 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*

- 3.30 A member in public practice who is asked to replace another professional (including another member or a professional accountant) in public practice, or who is considering tendering for an engagement currently held by another professional in public practice, should determine whether there are any professional or other reasons, such as circumstances that threaten compliance with the fundamental principles, for not accepting the engagement. For example, there may be a threat to professional competence and due care if a member in public practice accepts the engagement before knowing all the pertinent facts.
- 3.31 The significance of the threats should be evaluated. The Association requires direct communication with the existing professional to establish the facts and circumstances behind the proposed change and to enquire whether there are any professional reasons why they should not accept the appointment, so that the member in public 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 professional that may influence the decision as to whether to accept the appointment. In addition, such communication helps to preserve the harmonious relationships which should exist between all members and other professionals, including professional accountants in public practice on whom clients rely for professional advice and assistance.
- 3.32 An existing member is bound by confidentiality. The extent to which the professional in public practice can and should discuss the affairs of a client with a proposed professional will depend on the nature of the engagement and on:
- (a) Whether the client's permission to do so has been obtained; or
  - (b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.
- 3.33 In the absence of specific instructions by the client, an existing member 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 2 of this Code.
- 3.34 If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 3.35 Such safeguards may include:
- Discussing the client's affairs fully and freely with the existing professional servicing the client;
  - Asking the existing professional to provide known information on any facts or circumstances, that, in the existing professional's opinion, the proposed member should be aware of before deciding whether to accept the engagement;

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing professional 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.

- 3.36 A member in public practice will ordinarily need to obtain the client's permission, preferably in writing, to initiate discussion with the client's existing professional. Once that permission is obtained, the existing professional should comply with relevant legal and other regulations governing such requests. Where the existing professional provides information, it should be provided honestly and unambiguously. If the client's proposed professional is unable to communicate with the existing professional, the proposed professional 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.
- 3.37 Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a member in public practice should, unless there is satisfaction as to necessary facts by other means, decline the engagement.
- 3.38 A member in public practice may be asked to undertake work that is complementary or additional to the work of the existing professional. Such circumstances may give rise to potential threats to professional competence and due care resulting from, for example, a lack of or incomplete information. Safeguards against such threats include notifying the existing professional of the proposed work, which would give the existing professional the opportunity to provide any relevant information needed for the proper conduct of the work.

*Accepting a new assignment that does not supersede an existing professional*

- 3.39 The receiving member should limit the services provided to the specific assignment received by referral from the existing accountant or the client unless otherwise requested by the client.
- 3.40 The receiving member also has the duty to take reasonable steps to support the existing professional's current relationship with the client and should not express any criticism of the professional services of the existing professional without giving the latter an opportunity to provide all relevant information.
- 3.41 A receiving member who is asked by the client to undertake an assignment of a type which is clearly distinct from that being carried out by the existing professional or from that initially received by referral from the existing professional or from the client should regard this as a separate request to provide services or advice.
- 3.42 Before accepting any appointments of this nature, the receiving member should advise the client of the professional obligation to communicate with the existing professional and should immediately do so preferably in writing, advising of the approach made by the client and the general nature of the request as well as seeking all relevant information, if any, necessary to perform the assignment.



- 3.43 Circumstances sometimes arise when the client insists that the existing professional should not be informed. In this case, the receiving member should decide whether the client's reasons are valid. In the absence of special circumstances a mere disinclination by the client for communication with the existing professional would not be a satisfactory reason.
- 3.44 The receiving member should:
- (a) Comply with the instructions received from the existing professional or the client to the extent that they do not conflict with relevant legal, professional or other requirements; and
  - (b) Ensure, insofar as it is practicable to do so, that the existing professional is kept informed of the general nature of the professional services being performed.
- 3.45 When there are two or more other members or other professionals in public practice perform professional services for the client concerned it may be appropriate to notify only the relevant member or other professionals in public practice depending on the specific services being performed.
- 3.46 When appropriate the existing professional, in addition to issuing instructions concerning referred business, should maintain contact with the receiving member or other professional and cooperate with them in all reasonable requests for assistance.
- 3.47 When the opinion of a member or other professional, other than the existing professional is sought on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions, the member should be alert to the possibility of the opinion creating undue pressure on the judgment and objectivity of the professional. An opinion given without full and proper facts can cause difficulty to the receiving professional if the opinion is challenged or the receiving professional is subsequently appointed by the client. Accordingly, the member should seek to minimise the risk of giving inappropriate guidance by ensuring that he or she has access to all relevant information. When there is a request for an opinion in the above circumstances there is a requirement for communication with the existing professional. It is important that the existing professional, with the permission of the client, provide the receiving professional with all requested relevant information about the client. With the permission of the client, the receiving professional should also provide a copy of the final report to the existing professional. If the client does not agree to these communications, then the receiving professional should consider whether to accept the engagement or not.
- 3.48 The extension of the operations of a business undertaking frequently results in the formation of branches or subsidiary companies at locations where an existing professional does not practice. In these circumstances, the client or the existing professional in consultation with the client may request a receiving professional practicing at those locations to perform such professional services as necessary to complete the assignment.

*Professional Competence and Responsibilities Regarding the Use of  
Non-Accountants*

- 3.49 Members in public practice should refrain from agreeing to perform professional services which they are not competent to carry out unless

competent advice and assistance is obtained so as to enable them to satisfactorily perform such services. If a member does not have the competence to perform a specific part of the professional service, technical advice may be sought from experts.

3.50 In such situations, although the member is relying on the technical competence of the expert, the knowledge of the ethical requirements cannot be automatically assumed. Since the ultimate responsibility for the professional service rests with the member, the member should see that the requirements of ethical behaviour are followed.

3.51 When using the services of experts who are not members or professional accountants, the member must take steps to see that such experts are aware of ethical requirements. Primary attention should be paid to the fundamental principles in this Code. These principles would extend to any assignment in which such experts would participate.

3.52 The degree of supervision and the amount of guidance that will be needed will depend upon the individuals involved and the nature of the engagement.

Examples of such guidance and supervision might include:

- Asking individuals to read the appropriate ethical codes;
- Requiring written confirmation of understanding of the ethical requirements; and
- Providing consultation when potential conflicts arise.

3.53 The member should also be alert to specific independence requirements or other risks unique to the engagement. Such situations will require special attention and guidance/supervision to see that ethical requirements are met.

3.54 If at any time the member is not satisfied that proper ethical behaviour can be respected or assured, the engagement should not be accepted; or, if the engagement has commenced, it should be terminated.

### **Conflicts of Interest**

3.60 A member in public practice should 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 public 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 public 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.

Examples of conflict of interest include, but are not limited to:

- Member provides advice to a direct competitor of another client;

- Member, or a close relative of the member, is in a business that directly competes with a client;
- Member is the adviser to a couple who are in the process of separation;
- Member is involved in legal action that may include a client or a relative of a client;
- Member is a significant investor in a business venture of a client; and
- Member is in or has previously been in a personal relationship with a client.

- 3.61 A member in public practice should evaluate the significance of any threats. Evaluation includes considering, before accepting or continuing a client relationship or specific engagement, whether the member in public practice has any business interests or relationships with the client or a third party that could give rise to threats. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.
- 3.63 Depending upon the circumstances giving rise to the conflict, safeguards should ordinarily include the member in public practice:
- (a) Notifying the client of the member's business interest or activities that may represent a conflict of interest, and obtaining their consent to act in such circumstances; or
  - (b) Notifying all known relevant parties that the member in public 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; or
  - (c) Notifying the client that the member in public 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); to so act.
- 3.64 The following additional safeguards should also be considered:
- (a) The use of separate teams or personnel; and
  - (b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing); and
  - (c) Clear guidelines for staff on issues of security and confidentiality; and
  - (d) The use of confidentiality agreements signed by employees and partners of the firm; and
  - (e) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.
- 3.65 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 public practice should conclude that it is not appropriate to accept a specific engagement or that resignation from one or more conflicting engagements is required.
- 3.66 Where a member in public 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 must not continue to act for one of the parties in the matter giving rise to the conflict of interest.

## Second Opinions

- 3.70 Situations where a member in public practice is asked to provide a second opinion on an accounting or bookkeeping issue by or on behalf of an entity that is not an existing client 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 member, other accounting technician or professional 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 judgment.

- 3.71 When asked to provide such an opinion, a member in public practice should evaluate the significance of the threats and, if they are other than clearly insignificant, safeguards should 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 member, other accounting technician or professional accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing member, other accounting technician or professional accountant with a copy of the opinion. A member should only accept providing a second opinion in areas of practice that they are knowledgeable and experienced to provide. The professional requirements in relation to Competence and Due care as described above apply to such engagements.
- 3.72 If the entity seeking the opinion will not permit communication with the existing member, other accounting technician or professional accountant, a member in public practice should consider whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

When providing a second opinion, the member should limit their response to the issues at hand and not make disparaging comments about the member, other accounting technician or professional accountant whose opinion the member is being asked to comment on. Any differences in opinion should be backed up with examples and appropriate references to show why the opinion is different, whether in whole or in part.

A member should not discourage a client from seeking a second opinion in relation to advice they have provided. It is the prerogative of the client and should not be seen as a slight on the member. A member can recommend another member, accounting technician or professional accountant that they trust has the requisite skills, knowledge and professionalism, should a client seek a second opinion.

### **Fees and Other Types of Remuneration**

- 3.80 When entering into negotiations regarding professional services, a member in public practice may quote whatever fee deemed to be appropriate. The fact that one member in public practice 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.

Professional fees should be a fair reflection of the value of the professional services performed for the client, taking into account:

(a) The skill and knowledge required for the type of professional services involved;  
(b) The level of training and experience of the persons necessarily engaged in performing the professional services;

(c) The time necessarily occupied by each person engaged in performing the professional services; and

(d) The degree of responsibility that performing those services entails.

Professional fees may be computed taking into account matters on various bases including:

a) appropriate rates per hour or per day for the time for each person engaged in performing professional services; or

b) an agreed fee basis not necessarily related to time

A member in public practice should not make a representation that specific professional services in current or future periods will be performed for a stated fee, estimated fee, or fee range if it is likely at the time of the representation that such fees will be substantially increased and the prospective client is not advised of that likelihood.

3.81 The 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 should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards which may be adopted include:

- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and the services covered by the quoted fee. The scale of fees should be included in the engagement letter signed by the client.
- Assigning appropriate time and qualified staff to the task.
- Where the fees for service are likely to be higher than previous years or higher than estimated, the client should be informed of such likelihood at the earliest opportunity.

#### *Contingency Fees*

3.82 Contingent fees are widely used for certain types of engagements. They may, however, give rise to threats to compliance with the fundamental principles in certain circumstances. A contingency fee arrangement for professional services must not be entered into where independence and objectivity are of primary importance such as the preparation and/or lodgement of a Business Activity Statement. They may give rise to a self-interest threat to objectivity. The significance of such threats will depend on factors including:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis for determining the fee.
- Whether the outcome or result of the transaction is to be reviewed by an independent third party.

- 3.83 The significance of such threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards may include:
- An advance written agreement with the client as to the basis of remuneration.
  - Disclosure to intended users of the work performed by the member in public practice and the basis of remuneration.
  - Quality control policies and procedures.
  - Review by an objective third party of the work performed by the member in public practice.

#### *Referrals and Commissions*

- 3.84 In certain circumstances, a member in public practice may receive a referral fee or commission relating to a client. For example, where the member in public practice does not provide the specific service required, a fee may be received for referring a continuing client to another member in public practice or other expert. A member in public practice may receive a commission from a third party (e.g., a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission may give rise to self-interest threats to objectivity and professional competence and due care.
- 3.85 A member in public practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another member, other accounting technician or professional accountant in public practice 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.
- 3.86 A member in public practice should not pay or receive a referral fee or commission, unless the member in public practice has established safeguards to eliminate the threats or reduce them to an acceptable level. Such safeguards may include:
- Disclosing to the client any arrangements to pay a referral fee to another member, other accounting technician or professional accountant for the work referred.
  - Disclosing to the client any arrangements to receive a referral fee for referring the client to another member, other accounting technician or professional accountant in public practice.
  - Disclosing to the client all information about the commission, including where possible the amount of the commission and the period for which a commission is received and from whom the commission is received
  - 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.
  - Ensuring that any such arrangements are in compliance with all legal and statutory requirements
- 3.87 A member in public 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.

#### **Marketing Professional Services**

- 3.90 When a member in public 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.

- 3.91 A member in public practice should not bring the profession into disrepute when marketing professional services. The member in public practice should be honest and truthful and should not:
- Make exaggerated claims for services offers, qualifications possessed or experience gained; or
  - Make disparaging references to unsubstantiated comparisons to the work of another.
  - Use means which brings the profession into disrepute or that are inappropriate to the profession;

Specifically, such advertising and solicitation must not:

- (a) Create false, misleading, deceptive or unjustified expectations of favourable results;
- (b) Imply the ability to influence any court, tribunal, regulatory agency or similar body or official;
- (c) Consist of self-laudatory statements that are not based on verifiable facts;
- (d) Make comparisons with other members, other accounting technicians or professional accountants in public practice that exploit, belittle or claim superiority over them;
- (e) Contain misrepresentations that are likely to cause damage to the business or goodwill of a competitor;
- (f) Portray people or depict material in a way, which discriminates against or vilifies a person or section of the community on account of race, ethnicity, nationality, sex, age, marital status, sexual preference, religion, disability or political belief;
- (g) Contain inappropriate language and strong or obscene language;
- (h) Contain testimonials, endorsements or any other representations that would be likely to cause a reasonable person to misunderstand or be deceived; and
- (i) Make unjustified claims to be an expert or specialist in a particular field.

- 3.92 A member must register a proposed business name, including trading name with the AAT and must not use any other than the name or names that are registered. The AAT will only register names that are professional and in good taste.

In pursuing such publicity, the member must not describe him or herself in letterheads, business cards and any other business stationery or publicity material in any other way than in accordance with this Code together with, where appropriate, any of the following designations:

- (a) membership of the AAT, which is expressed in such material with the postnominal that the member has been awarded;
- (b) membership of bodies recognised by the AAT for membership purposes;
- (c) membership of other bodies having a requirement to hold academic qualifications at least equivalent to that required by the AAT;

- (d) membership of any other body the AT so approves;
- (e) appropriate university and other tertiary qualifications;
- (f) civil and military honours; and
- (g) any statutory registrations.

Members are encouraged to include a description of the specialist skills held by them or their practice in such material.

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

### **Gifts and Hospitality**

- 3.100 A member in public practice, or an immediate or close family member, 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.
- 3.101 The 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 public practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the member in public practice may generally conclude that there is no significant threat to compliance with the fundamental principles.
- 3.102 If evaluated threats are other than clearly insignificant, a member in public practice should not accept such an offer.

Safeguards that could be implemented to reduce or mitigate any threats could include ensuring the member has a robust and publicised policy in relation to the acceptance of gifts and hospitality;

### **Custody of Client Assets**

- 3.110 A member in public practice should 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 public practice holding such assets.
- 3.111 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 may be a self interest threat to objectivity arising from holding client assets. To



safeguard against such threats, a member in public practice entrusted with money (or other assets) belonging to others should:

- (a) Keep such assets separately from personal or firm assets;
- (b) Use such assets only for the purpose for which they are intended;
- (c) At all times, be ready to account for those assets, and any income, dividends or gains generated, to any persons entitled to such accounting; and
- (d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.

- 3.112 In addition, members in public 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, such as money laundering. As part of client and engagement acceptance procedures for such services, members in public practice should make appropriate enquiries about the source of such assets and should consider their legal and regulatory obligations. They may also consider seeking legal advice and the advice of the AAT.

### **Objectivity – All Services**

- 3.120 A member in public practice should 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. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.
- 3.121 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 public practice is performing.
- 3.122 A member in public practice should evaluate the significance of identified threats and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:
- Withdrawing from the engagement.
  - Supervisory procedures.
  - Terminating the financial or business relationship giving rise to the threat.
  - Discussing the issue with higher levels of management within the firm.
  - Discussing the issue with those charged with governance of the client.

### **Independence**

#### *Basic Principles*

- 3.130 Independence, regardless of context, 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 reasonably conclude a member's objectivity or professional scepticism had been compromised.

- 3.131 The use of the word "independence" on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgement ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others.

Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.

- 3.132 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of client engagements may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires members to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

#### *Conceptual Framework*

- 3.133 The "conceptual approach" requires members to identify threats to independence, evaluate the significance of those threats, and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level. Judgement is needed to determine which safeguards are to be applied. Some safeguards may eliminate the threat while others may reduce the threat to an acceptable level. The "conceptual approach" requires members to apply the framework to the particular circumstances under consideration. In addition to identifying relationships between the member and the client, consideration should be given to whether other relationships create threats to independence.

- 3.134 The nature of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level differ depending on the characteristics of the individual engagement. Members should, therefore, evaluate the relevant circumstances, the nature of the engagement and the threats to independence in deciding whether it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and whether a particular individual should be involved in the particular engagement.

#### *Appointments Generally*

- 3.135 Whenever contemplating the acceptance of a proposed appointment, the member should consider whether acceptance of the appointment might compromise or give the appearance of compromising professional independence. In the situation of a pre-existing appointment, members should be on guard as to whether independence may or may appear to be compromised as the engagement progresses. Situations change over time and that needs to be taken into

consideration. Where a threat exists or comes into existence, immediate steps must be taken to resolve the threat or reduce the threat to acceptable levels.

#### *Relationships – Personal and Business*

- 3.136 Personal and business relationships can affect objectivity. Members therefore need to ensure that an objective approach to any assignment is not endangered as a consequence of any such relationship. By way of example, objectivity may be impaired where a member has a mutual business interest with an officer or employee of a client or has an interest in a joint venture with a client.

#### *Conflicts*

- 3.137 Conflicts of interest have an important bearing on actual and perceived independence. Members should have regard to what was said previously in this Code of Ethics in relation to conflicts of interests, as these apply in all circumstances, not just in relation to independence. A member should not accept or continue an engagement in which there is, or is likely to be, a significant conflict of interest between the firm and its client.

It is recognised that, from time to time, unavoidable conflicts of interest or of duty will occur. Conflicts are generally of two types:

- there may be an actual or perceived conflict between the respective interests of two or more clients of a firm; or
- there may be an actual or perceived conflict between the duty owed by the member to a client and the personal interest of the member.

- 3.138 In all cases, a member should ensure that a detailed explanation and disclosure of the conflict is made to the clients together with details of the safeguards referred to below, so they may make an informed decision as to whether to engage the firm or continue their relationship with the firm. Members are advised to seek to have any such approval in writing so as to reduce the potential for the client to complain that the conflict was either not reported to them or they did not agree that the member should continue to act.
- 3.139 Where a firm becomes aware of a possible conflict between the interests of two or more clients, all reasonable steps should be taken to manage the conflict and thereby avoid any adverse consequences. These steps should include the following safeguards, except where they are inappropriate:
- where possible the use of different partners and teams of staff for different engagements;
  - standing instructions and all other steps necessary to prevent the leakage of confidential information between relevant teams and sections within the firm;
  - regular review by a partner not personally involved with those clients;
  - written confirmation that all the clients involved have been informed of the conflict or potential conflict; and
  - advising at least one or all clients to seek additional independent advice.
- 3.140 Where there is a conflict of duty, such as where two clients are, or are about to become in dispute, or in competition otherwise than in the ordinary course of business (e.g. in a takeover), the member or the firm in which the member works, must not advise both clients on the matter, unless consent to do so is received

from both clients in writing. The member may elect to continue to advise one client on the matter provided written consent has been obtained from both clients. In a dispute the firm may, if requested in writing by both clients, act as mediator but not as arbitrator.

- 3.141 With the exception of services provided as an independent expert, (and only in such cases with the written consent of the conflicting or potentially conflicting parties that are clients of the member) a member:
- (a) shall not represent or continue to represent conflicting interests in potential or actual litigation (including divorce property settlements and partnership dissolutions); and
  - (b) can only represent parties with conflicting or potentially conflicting interests in other circumstances where to do so is not likely to prejudice the interests of those parties and where each of those parties:
    - is fully informed of the nature and implications of the member so acting or continuing to act; and
    - has voluntarily consented in writing.

## 4. MEMBERS IN BUSINESS (EMPLOYMENT)

### Introduction

- 4.1 This Part of the Code illustrates how the conceptual framework contained in Part 2 is to be applied by members in business (employment).
- 4.2 Investors, creditors, employers and other sectors of the business community, as well as professional accountants, governments and the public at large, all may rely on the work of accounting technicians in business. Members in business may be solely, jointly or partially 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 and work under the direction of a professional accountant.
- 4.3 A member in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organisation. The legal form of the relationship with the employing organisation, if any, has no bearing on the ethical responsibilities incumbent on the member in business.
- 4.4 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 considers circumstances in which conflicts may be created with the absolute duty to comply with the fundamental principles.
- 4.5 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 emphasizes the importance that senior management places on ethical behaviour.
- 4.6 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 should be applied to the particular circumstances faced.

### *Threats and Safeguards*

- 4.7 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
- (a) Self-interest;
  - (b) Self-review;
  - (c) Advocacy;
  - (d) Familiarity; and
  - (e) Intimidation.
- These threats are discussed more fully in Part 2 of this Code.

- 4.8 Examples of circumstances that may create self-interest threats for a member in business include, but are not limited to:
- Financial interests, loans or guarantees.
  - Incentive compensation arrangements.
  - Inappropriate personal use of corporate assets.
  - Concern over employment security.
  - Commercial pressure from outside the employing organisation.
- 4.9 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.
- 4.10 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.
- 4.11 Examples of circumstances that may create familiarity threats include, but are not limited to:
- A member in business in a position to influence financial or non-financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.
  - Long association with business contacts influencing business decisions.
  - Acceptance of a gift or preferential treatment, unless the value is clearly insignificant.
- 4.12 Examples of circumstances that may create intimidation threats include, but are not limited to:
- Threat of dismissal or replacement of the member in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.
  - 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.
- 4.13 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 should always be on the alert for such circumstances and threats.
- 4.14 Safeguards that may eliminate or reduce to an acceptable level the threats faced by members in business fall into two broad categories:
- (a) Safeguards created by the AAT (such as contained in this Code), legislation or regulation; and
  - (b) Safeguards in the work environment.
- 4.15 Examples of safeguards created by the AAT, legislation or regulation are detailed in paragraph 2.17 of Part 2 of this Code.

- 4.16 Safeguards in the work environment include, but are not restricted to:
- The employing organisation's systems of corporate oversight or other oversight structures.
  - The employing organisation's ethics and conduct programs.
  - Recruitment procedures in the employing organisation emphasizing the importance of employing high calibre competent staff.
  - Strong internal controls.
  - Appropriate disciplinary processes.
  - Leadership that stresses the importance of ethical behaviour and the expectation that employees will act in an ethical manner.
  - Policies and procedures to implement and monitor the quality of employee performance.
  - 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.
  - 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.
  - Consultation with another appropriate member, accounting technician or professional accountant.
- 4.17 In circumstances where a member in business believes that unethical behaviours or actions by others will continue to occur within the employing organisation, the member in business should 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.

### **Potential Conflicts**

- 4.20 A member in business has a professional obligation to 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 should 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 must consider a response to the circumstances.
- 4.21 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:
- Act contrary to law or regulation.
  - Act contrary to technical or professional standards.
  - Facilitate unethical or illegal earnings management strategies.
  - Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
    - The auditors of the employing organisation; or
    - Regulators.

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- Issue, or otherwise be associated with, a financial or non- financial report that materially misrepresents the facts, including statements in connection with, for example:
  - The financial statements;
  - Tax compliance;
  - Legal compliance; or
  - Reports required by securities regulators.

- 4.22 The significance of threats arising from such pressures, such as intimidation threats, should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Such safeguards may include:
- Obtaining advice where appropriate from within the employing organisation, an independent professional advisor or the AAT.
  - The existence of a formal dispute resolution process within the employing organisation.
  - Seeking legal advice.

### **Preparation and Reporting of Information**

- 4.30 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 should prepare or present such information fairly, honestly and in accordance with relevant accounting standards so that the information will be understood in its context.
- 4.31 A member in business who has responsibility for the preparation or approval of the general purpose financial statements of an employing organisation should ensure that those financial statements are presented in accordance with the applicable financial reporting standards.
- 4.32 A member in business should maintain information for which the member in business is responsible in a manner that:
- (a) Describes clearly the true nature of business transactions, assets or liabilities;
  - (b) Classifies and records information in a timely and proper manner; and
  - (c) Represents the facts accurately and completely in all material respects.
- 4.33 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 where a member in business may be pressured (either externally or by the possibility of personal gain) to become associated with misleading information or to become associated with misleading information through the actions of others.



- 4.34 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 significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should 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 the AAT.
- 4.35 Where it is not possible to reduce the threat to an acceptable level, a member in business should refuse to remain associated with information they consider is or may be misleading. Should the member in business be aware that the issuance of misleading information is either significant or persistent; the member in business should consider informing appropriate authorities in line with the guidance in sections 2.50 to 2.57. The member in business may also wish to seek legal advice or resign.

#### **Acting with Sufficient Expertise**

- 4.40 The fundamental principle of professional competence and due care requires that a member in business should only undertake significant tasks for which the member in business has, or can obtain, sufficient specific training or experience. A member in business should not intentionally mislead an employer as to the level of expertise or experience possessed, nor should a member in business fail to seek appropriate expert advice and assistance when required.
- 4.41 Circumstances that threaten the ability of a member in business to perform duties with the appropriate degree of professional competence and due care include:
- Insufficient time for properly performing or completing the relevant duties.
  - Incomplete, restricted or otherwise inadequate information for performing the duties properly.
  - Insufficient experience, training and/or education.
  - Inadequate resources for the proper performance of the duties.
- 4.42 The significance of such threats will depend on factors such as the extent to which the member in business is working with others, relative seniority in the business and the level of supervision and review applied to the work. The significance of the threats should be evaluated and, if they are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Safeguards that may be considered include:
- Obtaining additional advice or training.
  - Ensuring that there is adequate time available for performing the relevant duties.
  - Obtaining assistance from someone with the necessary expertise.
  - Consulting, where appropriate, with:
    - Superiors within the employing organization;
    - Independent experts; or
    - A relevant professional body.
- 4.43 Where threats cannot be eliminated or reduced to an acceptable level, members in business should consider whether to refuse to perform the duties in question. If the professional accountant in business determines that refusal is appropriate the reasons for doing so should be clearly communicated

## Financial Interests

- 4.50 Members in business may have financial interests, or may know of financial interests of immediate or close family members, 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 professional accountant in business or an immediate or close family member:
- 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;
  - 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;
  - 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;
  - Holds, directly or indirectly, share options in the employing organisation which are, or will soon be, eligible for conversion; or
  - May qualify for share options in the employing organisation or performance related bonuses if certain targets are achieved.
- 4.51 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 must examine the nature of the financial interest. This includes an evaluation of 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.
- 4.52 If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate or reduce them to an acceptable level. Such safeguards may include:
- Policies and procedures for a committee independent of management to determine the level of form of remuneration of senior management.
  - 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.
  - Consultation, where appropriate, with superiors within the employing organisation.
  - Consultation, where appropriate, with those charged with the governance of the employing organisation or relevant professional bodies.
  - Internal and external audit procedures.
  - Up-to-date education on ethical issues and the legal restrictions and other regulations around potential insider trading.
- 4.53 A member in business should neither manipulate information nor use confidential information for personal gain.

## Inducements

### *Receiving Offers*

- 4.60 A member in business or an immediate or close family member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.
- 4.61 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 situation should be carefully considered. 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 an immediate or close family member.
- 4.62 The significance of such threats will depend on the nature, value and intent behind the offer. In 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 business and may generally conclude that there is no significant threat to compliance with the fundamental principles.
- 4.63 If evaluated threats are other than clearly insignificant, a member in business should 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, additional safeguards should be adopted. A member in business should assess the risk associated with all such offers and consider whether the following actions should be taken:
- (a) Where such offers have been made, immediately inform higher levels of management or those charged with governance of the employing organisation;
  - (b) 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 should, however, consider seeking legal advice before taking such a step; and
  - (c) Advise immediate or close family members 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; and
  - (d) Inform higher levels of management or those charged with governance of the employing organisation where immediate or close family members are employed by competitors or potential suppliers of that organisation.

### *Making Offers*

- 4.64 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 subordinate the judgment of another individual or organisation, influence a decision making process or obtain confidential information.

- 4.65 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.
- 4.66 A member in business should not offer an inducement to improperly influence professional judgment of a third party.
- 4.67 Where the pressure to offer an such unethical inducement comes from within the employing organisation, the member should follow the principles and guidance regarding ethical conflict resolution set out in Part 2 of this Code.

## Definitions

<i>Advertising</i>	Communicating to the public information as to the services or skills provided by members in public practice with a view to procuring professional business.
<i>Accounting Technician</i>	An appropriately qualified person employed, contracted or otherwise engaged in an accounting support role in such areas as commerce, manufacturing, industry services, the public sector, education, the not for profit sector or in professional bodies.
<i>Accounting Technician in practice</i>	An <i>Accounting Technician</i> , in public practice, self employed or in a firm, that provides accounting support services. This term is also used to refer to a firm of <i>members in practice</i> .
<i>Clearly Insignificant</i>	Is a matter that is deemed to be both trivial and inconsequential.
<i>Close family</i>	A parent, non-dependent child or sibling.
<i>Contingent fee</i>	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.
<i>Direct financial interest</i>	<p><i>A direct financial interest:</i></p> <ul style="list-style-type: none"> <li>• owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</li> <li>• beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.</li> </ul>
<i>Directors</i>	Those charged with the governance of an entity, regardless of their title.
<i>Officer</i>	Is an <i>officer</i> within the meaning of the <i>Corporations Act</i> .
<i>Engagement partner</i>	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.
<i>Engagement quality control review</i>	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
<i>Engagement team</i>	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.

<i>Existing accountant</i>	Is a professional accountant in public practice carrying out accounting, taxation, consulting or similar professional services for a client.
<i>Existing Accounting Technician in practice</i>	Is an accounting technician (including a <i>member</i> ) in public practice, carrying out an accounting support role, or providing similar para professional services for a client.
<i>Financial interest</i>	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.
<i>Firm</i>	<ul style="list-style-type: none"> <li>(a) A sole practitioner, partnership or corporation of professional accountants or accounting technicians or both;</li> <li>(b) An entity that controls such parties;</li> <li>(c) An entity controlled by such parties; and</li> <li>(d) An Auditor-General's office or department.</li> </ul>
<i>Immediate family</i>	Is a spouse (or equivalent) or dependent.
<i>Independence</i>	<p><i>Independence</i> is:</p> <ul style="list-style-type: none"> <li>(a) <i>independence</i> 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 scepticism; and</li> <li>(b) <i>independence</i> 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 firm's, integrity, objectivity or professional scepticism had been compromised.</li> </ul>
<i>Indirect financial interest</i>	A <i>financial interest</i> beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.
<i>Listed entity</i>	An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.
<i>Managerial employee</i>	An employee or contracted person who acts in a managerial capacity within the structure of the firm, including providing oversight, in the provision of services to clients.

<i>Member</i>	An individual, inducted by the Association of Accounting Technicians Australia as a <i>member</i> and who abides by the constitution, code of Ethics and by-laws of the Association as amended from time to time.
<i>Office</i>	A distinct sub-group, whether organised on geographical or practice lines.
<i>Partner</i>	Any individual with authority to bind the firm with respect to the performance of a professional services engagement.
<i>Professional Accountant</i>	A member of an a professional accounting body that is a member of the International Federation of Accountants;
<i>Professional Body</i>	A professional accounting body that is a member of the International Federation of Accountants;
<i>Member in business</i>	A <i>member</i> employed or engaged in an accounting support role in an executive or non-executive capacity in such areas as commerce, manufacturing, industry, services, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.
<i>Member in practice</i>	A <i>member</i> , in a firm or self-employed that provides accounting support services to clients on a fee for service basis. This term is also used to refer to a firm of <i>members in practice</i> .
<i>Accounting support services</i>	Skills performed by a <i>member</i> including data input, bookkeeping, the compilation of basic reports for the preparation of statutory returns and financial management services.
<i>Related entity</i>	An entity that has any of the following relationships with the client: <ul style="list-style-type: none"> <li>(a) an entity that has direct or indirect control over the client provided the client is material to such entity;</li> <li>(b) an entity with a <i>direct financial interest</i> in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity;</li> <li>(d) an entity in which the client, or an entity related to the client under (c) above, has a <i>direct financial interest</i> that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and</li> <li>(e) an entity which is under common control with the client (hereinafter a “sister entity”) provided the sister entity and the client are both material to the entity that controls both the client and sister entity.</li> </ul>