

**Ethiopian Code of Ethics  
for Professional  
Accountants**

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Auditor General**

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## **Definitions**

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

1. **Accountancy profession:** Is a profession where accounting, auditing and other related services are performed.
2. **Professional accountant:** Those persons, whether they be in public practice, (including a sole practitioner, partnership), industry, commerce, the public sector or education who are skilled in the accounting practices.
3. **External auditor:** A professional accountant conducting auditing and related services to the entity but not employed by the entity or by its manager and is independent of the persons who manage the entity.
4. **Employed professional accountant:** A professional accountant employed in industry, commerce, the public sector or education to provide accounting, auditing or other related services.
5. **Authorised auditors:** Professional accountants who received certificate of professional competence from the Office of the Federal Auditor General and authorised to provide auditing and related services to audit clients.
6. **Authorised accountants:** Professional accountants who received certificate of competence from the office of the Federal Auditor General and authorised to perform accounting and related services except auditing, to clients.
7. **Professional services:** Any service requiring accountancy or related skills performed by a professional accountant

including accounting, auditing, taxation, management consulting, system design and development and financial management services.

8. **Audit client:** An entity in respect of which a professional accountant conducts an audit engagement.
9. **Firm:**
- ◆ A sole practitioner or partnership of professional accountants;
  - ◆ An entity that control such parties; and
  - ◆ An entity controlled by such parties
10. **Assurance engagement** An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. For further clarification one has to look into the “International Framework for Assurance Engagements” of IFAC.

## **Introduction and Statement of Problems**

1. The task of preparing detailed ethical principles and rules is primarily that of the professional associations and that all members of the associations have the responsibility to accept, implement and enforce such requirements. In Ethiopia, due to the absence of an organized strong national professional association there is no comprehensive set of ethical standards to govern the behaviors of professional accountants. In the case of authorized auditors, it is assumed that they adhere to the code of ethics set by the professional bodies to which they are members. Because many of these institutions are foreign based, they have remote access to follow the conducts of their members practicing in Ethiopia.
2. The absence of such strong national associations presupposes the existence of one regulatory organ to lay down ethical rules and follow their enforcement. It is based on this assumption that Office of the Federal Auditor General (OFAG) mandated to act upon taking the issue as one of the key objectives in its establishment legislation stated as: "make efforts, in co-operation with concerned organs, to promote and strengthen accounting and audit professions." In order to achieve this objective, from time to time, the Office needs to evaluate the prevailing condition and ensure that all authorised auditors and accountants have uniform ethical standard in place and respect in discharging their duties to the public.
3. According to the existing conditions, most authorised auditors and accountants perform their duties in accordance with the professional standards and ethical requirements developed by OFAG in the past. In other circumstances, we have received complaints made by clients and third parties against some authorised auditors and accountants regarding the unethical actions done by the practising auditors and accountants.
4. In addition, it is obvious that the performance of authorised auditors and accountants have a role and impact in the tax activities. In such cases, although they take responsibility to or from the general-purpose information users, they have to act in their professional services in conformity with accepted professional standards and ethical requirements and they are accountable for their activities.
5. For these reasons, it is essential to establish a revised Code of Ethics for Authorised Auditors and Accountants to be used as basis in discharging their professional duties to the public.

6. It is also important to understand the distinguishing characteristics of a profession where the accountancy profession is taken as the one. Knowing these characteristics helps members of the accountancy profession to determine their role in the society. Amongst the distinguishing characteristics are:
- Mastery of a particular intellectual knowledge and practical skill, acquired by training and education;
  - Adherence by its members to a common code of values and conduct established by its administrating body, including maintaining an outlook which is essentially objective; and
  - Acceptance of a duty to society as a whole (usually in return for restrictions in use of a title or in the granting of a qualification).
7. Based on these distinguishing characteristics the International Federation of Accountants (IFAC) being the leading international body in the accountancy profession promulgates various pronouncements to be applied by member countries in the world. In addition the United Nations arm in accountancy, the International Organisation of Supreme Audit Institutions (INTOSAI) has also being a member of IFAC has developed various rules and standards to be adapted by members. Both the international Codes of ethics enacted by IFAC and INTOSAI serves as a model on which the national ethical standards based. They set standards of conduct for professional accountants and state the fundamental principles that should be observed by professional accountants in order to achieve the common professional objectives. Therefore, taking the common professional objectives all over the world, it is a requirement to develop such a code that suits for the Ethiopian context. It was under this auspices of IFAC and INTOSAI code of ethics that OFAG took the initiative and developed tailored made ethical standards to be followed by all authorised auditors, authorised accountants and employed professional accountants in both in private and public sector.
8. Further, the Code is established on the basis that unless a limitation is specifically stated, the objectives and basic principles are equally valid for all authorised auditors and accountants and employees, whether they are in public practice, industry, commerce, the public sector or education.

### **The Public Interest and Objectives of Accountancy profession**

9. A distinguishing characteristic of any profession is acceptance of its responsibility to the public and serving with due care. Regarding the accountancy profession, the public consists of clients, credit grantors, governments, employers, employees, investors, the

business and financial community, and others who rely on the objectivity and integrity of professional accountants and auditors to maintain the orderly functioning of business. This reliance imposes a public interest responsibility on the accountancy profession.

10. In discharging their professional responsibilities, professional accountants may encounter conflicting pressures from among each of those groups. In resolving those conflicts, professional accountants should act with integrity, guided by the precept that when they fulfill their responsibility to the public, clients' and employers' interests are best served. This indicates, therefore, that an authorised auditor's and/or accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. It is on this basis that this code of ethics is prepared.
11. Authorised auditors and accountants have an important role in society. Investors, creditors, employers and other sectors of the business community, as well as the government and the public at large rely on professional accountants for sound financial accounting and reporting, effective financial management and competent advice on a variety of business and taxation matters. The attitude and behaviour of professional accountants in providing such services have an impact on the economic well being of the community. Therefore, they should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism.
12. Professional accountants can remain in this advantageous position only by continuing to provide the public with these unique services at a level, which demonstrates that the public confidence is firmly founded. They have to understand that those who rely on professional accountants expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public. They are expected to provide quality services, enter into fee arrangements, and offer a range of services in a manner that demonstrates a level of professionalism consistent with the principles and rules of the Code of Professional Conduct.

### **The Objectives of the Accountancy Profession**

13. The Code recognizes that the objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement set out above. These objectives require four basic needs to be met:

- **Credibility**

In the whole of society there is a need for credibility in information and information systems. It is essential that the information be considered to be thoroughly accurate and reliable and viewed as impartial by knowledgeable third parties.

- **Professionalism**

There is a need for individuals who can be clearly identified by clients, employers and other interested parties as professional persons in the accountancy field.

- **Quality of Services**

There is a need for assurance that all services obtained from a professional accountant are carried out to the highest standards of performance.

- **Confidence**

Users of the services of professional accountants should be able to feel confident that there exists a framework of professional ethics, which governs the provision of those services.

## **Technical Standards**

14. Currently there is no national technical standards used as a framework and govern the preparation of financial statements in Ethiopia. In addition, except in the government auditing, there is no national audit standard that describes the basic principles, which govern, the auditor's professional responsibilities, provides a framework within which professional judgment is exercised and which must be complied with whenever an audit is carried out. Therefore it would be more appropriate to use either International Accounting and Auditing Standard tailored to the objective reality of the Ethiopian context or Generally accepted accounting and auditing standards until the national standards are developed or the international standards are adopted/adapted. In this regard all authorized accountant and auditors should follow the technical and professional standards promulgated by:

- IFAC's International Standard on Auditing and
- IASB's International Financial Reporting Standards, if they opt for this or
- Generally accepted accounting and auditing standards as currently applicable in the country and
- Relevant Government legislation in Ethiopia

## **Basic Principles of the profession**

15. Professional accountants have to observe the basic principles used as a framework in applying the rules of conduct. As professionals, it is evident that all professional



accountants perform an essential role in the society. Moreover, in carrying out their responsibilities as professionals they should exercise sensitive professional and moral judgments in all their activities. In addition, they also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance, which would be expected in the future. The collective efforts of all professionals are required to maintain and enhance the quality of services of the profession as a whole.

16. The basic principles are:

**a. Integrity**

A professional accountant should be straightforward and honest in performing professional services.

In order to maintain and broaden public confidence, professional accountants should perform all professional responsibilities with the highest sense of integrity. Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a professional accountant must ultimately test all decisions.

Integrity requires a professional accountant to be, among other things, honest and candid within the constraints of client confidentiality. Service and the public trust should not be subordinated to personal gain and advantage.

**b. Objectivity**

A professional accountant should be fair and should not allow prejudice or bias, conflict of interest or influence of others to override objectivity. A professional accountant should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. Objectivity is a state of mind, a quality that lends value to a professional accountant's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.

**c. Independence**

Professional accountants working in attestation function should be independent of their clients and maintain an independent attitude. Independence precludes relationships that may appear to impair a member's objectivity in rendering attestation services. For professional accountants in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and public responsibility. Such a professional accountant who provides auditing and other attestation services should be independent in fact and appearance. In providing

all other services, a professional accountant should maintain objectivity and avoid conflicts of interest.

**d. Professional Competence and Due Care**

A professional accountant should perform professional services with due care, competence and diligence and has a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives the advantage of competent professional service based on up-to-date developments in practice, legislation and techniques.

As the quest for excellence is the essence of due care, it requires a professional accountant to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a professional's ability with concern for the best interest of those for whom the services are performed and consistent with the profession's responsibility to the public. Competence is derived from a synthesis of education and experience. The maintenance of competence requires a commitment to life long learning and professional improvement that must continue throughout his/her professional life. It is a professional accountant's individual responsibility. In all engagements and in all responsibilities, each professional accountant should undertake to achieve a level of competence that will assure that the quality of her/his services meets the high level of professionalism required by these Principles.

**e. Confidentiality**

A professional accountant should respect the confidentiality of information acquired during the course of performing professional services and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.

**f. Professional Behavior**

A professional accountant should act in a manner consistent with the good reputation of the profession and refrain from any conduct, which might bring discredit to the profession.

**g. Technical Standards**

A professional accountant should carry out professional services in accordance with the relevant technical and professional standards. In other words, he/she should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to

the best of his/her ability. Professional accountants have a duty to carry out diligently with care and skill, the instructions of the client or employer insofar as they are compatible with the requirements of integrity, objectivity and, in the case of authorized auditors, independence (see Rule 8 below). Above all, diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards. In addition, until we have our own technical and professional standards in this respect, they should conform to the technical and professional standards promulgated by:

- IFAC's International Standard on Auditing and
- IASB's International Financial Reporting Standards, if they opt for this or
- Generally accepted accounting and auditing standards as currently applicable in the country and
- Relevant Government legislation in Ethiopia

## **The Code**

17. The objectives as well as the basic principles are of a general nature and are not intended to be used to solve a professional accountant's ethical problems in a specific case. However, the Rule of Conduct provides guidance as to the application in practice of the objectives and the basic principles with regard to a number of typical situations occurring in the accountancy profession.
18. The Rule of conduct is divided into:
  - i. Rules of conduct that applies to all authorized auditors and accountants unless otherwise specified.
  - ii. Rules of conduct that applies only to those authorized auditors.
  - iii. Rules of conduct that applies to all employed accountants.
  - iv. Enforcement of rule of conduct

# PART 1

## RULES OF CONDUCT APPLICABLE TO

### ALL PROFESSIONAL ACCOUNTANTS

#### Rule 1

##### Integrity

Integrity implies not merely honesty but fair dealing and truthfulness in all professional dealings.

***All professional accountants in practice and employed should maintain a high standard of professional and personal conduct in performing their work and in their relationships with their clients and employer.***

- 1.1. Since integrity is the core value of a code of conduct, all professional accountants have a duty:
  - a) to adhere to a high standards of behavior ( e.g. honesty and candidness) in the course of their work and in their relationships with the staff of their clients and employer; and
  - b) In order to sustain public confidence, the conduct of professional accountants should be above suspicion and reproach.
  
- 1.2. Integrity is measured in terms of what is right and just. Therefore it requires both professional accountant in practice and employed:
  - a) To observe both the form and the spirit of accounting and auditing standards and the rule of conduct,
  - b) To observe the principles of independence and objectivity,
  - c) To maintain irreproachable standards of professional conduct,
  - d) To make decisions with the public interest in mind,
  - e) To apply absolute honesty in carrying out their work, and
  - f) To apply absolute honesty in handling the resources of the employer.

## **Rule 2**

### **Objectivity**

**Professional accountants should carry out their work impartially and objectively.**

- 2.1. The principle of objectivity imposes the obligation on all authorized auditors accountants to be fair, honest and free of conflicts of interest.
- 2.2. Professional accountants serve in many different capacities and should demonstrate their objectivity in varying circumstances. Authorized auditors in public practice undertake assurance engagement. Authorized accountants and others professional accountants render tax and other management advisory services, prepare financial statements, design and develop systems and serve in financial management capacities in industry, commerce, the public sector and education. They also educate and train those who plan their career to be a professional accountant. Regardless of service or capacity, professional accountants should protect the integrity of their professional services, and maintain objectivity in their judgment.
- 2.3. In identifying the situations and practices to be specifically dealt within ethics requirements relating to objectivity, adequate consideration should be given to the following factors.
  - a) Professional accountants are exposed to situations, which involve the possibility of pressures being exerted on them. These pressures may impair their objectivity. It would be difficult and impracticable to define and prescribe all such situations where these possible pressures exist. However, reasonableness should prevail in establishing standards for identifying relationships that are likely to, or appear to, impair a professional accountant's objectivity.
  - b) Therefore, in any case, relationships should be avoided which allow prejudice, bias or influences of others to override objectivity.
  - c) Professional accountants have an obligation to ensure that personnel engaged on professional services adhere to the principle of objectivity.
  - d) Professional accountants should neither accept nor offer gifts or entertainment, which might reasonably be believed to have a significant and improper influence on their professional judgment or those with whom they deal. What constitutes an excessive gift or offer of entertainment varies between the different situations

encountered but professional accountants should avoid circumstances, which would bring their professional standing into disrepute.

### **Rule 3**

#### **Independence and Conflicts of Interest**

##### **Independence**

**Professional accountants should be independent of their client and maintain an independent attitude.**

3..1 This rule places responsibility on each professional accountant to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. They should consider whether their attitudes and beliefs permit them to be independent and the existence of situations that might lead others to question on their independence. In this case:

- a) Professional accountants should behave in a way that increase, or in no way diminishes, their independence.
- b) Professional accountants should maintain an independent stance & remain impartial in facts and appearance.
- c) Professional accountants should strive, in all matters relating to their work, not to be impaired by personal or external interests.
- d) Professional accountants have an obligation to refrain from becoming involved in all matters in which they have vested interest.

##### **Conflicts of Interest**

**In the performance of any professional service a professional accountant should be free of conflict of interest that impairs integrity and objectivity.**

3..2 A conflict of interest may occur if a professional accountant performs a professional service for a client or employer and the professional accountant or his or her firm has a relationship with another person, entity, product, or service that could, in the his/her professional judgment, be viewed by the client, employer, or other appropriate parties as impairing the professional accountant's objectivity. If the professional accountant believes that the professional service can be performed with objectivity, and the relationship is disclosed to and consent is obtained from such client, employer, or other

appropriate parties, the rule shall not operate to prohibit the performance of the professional service.

3..3 Nevertheless, in discharging their duties, it is imperative to learn that professional accountants encounter situations that give rise to conflicts of interest. Such conflicts may arise in a wide variety of ways, ranging from the relatively trivial dilemma to the extreme case of fraud and similar illegal activities. It is not possible to attempt to itemize a comprehensive checklist of potential cases where conflicts of interest might occur. The professional accountant should be constantly conscious of and be alert to factors that give rise to conflicts of interest. It should be noted that an honest difference of opinion between a professional accountant and another party is not in itself an ethical issue. However, the facts and circumstances of each case need investigation by the parties concerned.

3..4 It is recognized, however, that there can be particular factors, which occur when the responsibilities of a professional accountant may conflict with internal or external demands of one type or another. Hence:

- There may be the danger of pressure from an overbearing supervisor, manager, director or partner; or when there are family or personal relationships that can give rise to the possibility of pressures being exerted upon them. Indeed, relationships or interests, which could adversely influence, impair or threaten a professional accountant's integrity, should be discouraged.
- A professional accountant may be asked to act contrary to technical and/or professional standards.
- A question of divided loyalty as between the professional accountant's superior and the required professional standards of conduct could occur.
- Conflict could arise when misleading information is published which may be to the advantage of the employer or client and which may or may not benefit the professional accountant as a result of such publication.

3..5 In applying rule of conduct professional accountants may encounter problems in identifying unethical behavior or in resolving an ethical conflict. When faced with significant ethical issues, professional accountants employed in public sector or private firms should follow the established policies of the employing organization to seek a resolution of such conflict. If those policies do not resolve the ethical conflict, the following should be considered:

- Review the conflict problem with the immediate superior. If the problem is not resolved with the immediate superior and the professional accountant decides to go to the next higher managerial level, the immediate superior should be notified of the

decision. If it appears that the superior is involved in the conflict problem, the professional accountant should raise the issue with the next higher level of management.

- Seek counseling and advice on a confidential basis with an independent advisor or the applicable professional accountancy body to obtain an understanding of possible courses of action.
- If the ethical conflict still exists after fully exhausting all levels of internal review, the professional accountant as a last resort may have no other recourse on significant matters (e.g., fraud) than to resign and to submit an information memorandum to an appropriate representative of that organization.

3..6 Any professional accountant in a senior position should endeavor to ensure that policies are established within his or her employing organization to seek resolution of conflicts.

## **Rule 4**

### **Professional Competence**

**Professional accountants should not portray themselves as having expertise or experience they do not possess.**

Professional competence may be divided into two separate phases:

#### **a) Attainment of professional competence**

The attainment of professional competence requires initially a high standard of general education followed by specific education, training and examination in professionally relevant subjects, and whether prescribed or not, a period of work experience. This should be the normal pattern of development for a professional accountant.

#### **b) Maintenance of professional competence**

- i) The maintenance of professional competence requires a continuing awareness of developments in the accountancy profession including relevant national and international pronouncements on accounting, auditing and other relevant regulations and statutory requirements.
- ii) A professional accountant should adopt a program designed to ensure quality control in the performance of professional services consistent with appropriate national and international pronouncements.



## Rule 5

### Confidentiality

*Professional accountants have an obligation to respect the confidentiality of information about a client's or employer's affairs acquired in the course of professional services. The duty of confidentiality continues even after the end of the relationship between the professional accountant and the client or employer.*

- 5.1 A. professional accountant should always observe confidentiality unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.
- 5.2 Professional accountants have an obligation to ensure that staff under their control and persons from whom advice and assistance is obtained respect the principle of confidentiality.
- 5.3 Confidentiality is not only a matter of disclosure of information. It also requires that a professional accountant acquiring information in the course of performing professional services does neither use nor appear to use that information for personal advantage or for the advantage of a third party.
- 5.4 A professional accountant has access to confidential information about a client's or employer's affairs not otherwise disclosed to the public. Therefore, the professional accountant should be relied upon not to make unauthorized disclosures to other persons. This does not apply to disclosure of such information in order to properly discharge the professional accountant's responsibility according to the profession's standards.
- 5.5 The following are examples of the points which should be considered in determining whether confidential information may be disclosed:

**(a) When disclosure is authorized.**

When authorization to disclose is given by the client or the employer the interests of all the parties including those third parties whose interests might be affected should be considered.

**(b) When law requires disclosure.**

Examples of when a professional accountant is required by law to disclose confidential information are:

- i) To produce documents or to give evidence in the course of legal proceedings;  
and
- ii) To disclose to the appropriate public authorities infringements of the law which come to light.

**(c) When there is a professional duty or right to disclose:**

- i) To comply with technical standards and ethics requirements; such disclosure is not contrary to this section;
- ii) To protect the professional interests of a professional accountant in legal proceedings;
- iii) ii) To comply with the quality (or peer) review of a member body or professional body; and
- iv) To respond to an inquiry or investigation by a member body or regulatory body

5.6 When the professional accountant has determined that confidential information can be disclosed, the following points should be considered:

- Whether or not all the relevant facts are known and substantiated, to the extent it is practicable to do so; when the situation involves unsubstantiated fact or opinion, professional judgment should be used in determining the type of disclosure to be made, if any;
- What type of communication is expected and the addressee; in particular, the professional accountant should be satisfied that the parties to whom the communication is addressed are appropriate recipients and have the responsibility to act on it; and
- Whether or not the professional accountant would incur any legal liability having made a communication and the consequences thereof.

5.7 In all such situations, the professional accountants should consider the need to consult legal counsel and/or the professional organization(s) concerned.

## **Rule 6**

### **Tax Practice**

6.1 A professional accountant rendering professional tax services is entitled to put forward the best position in favor of a client, or an employer, provided the service is rendered with professional competence, does not in any way impair integrity and objectivity, and is in the opinion of the professional accountant consistent with the tax law in the land. The tax advice given to the client or an employer in any case should not be to the

detriment of the public interest fostered by government. Doubt may be resolved in favor of the client or the employer if there is reasonable support for the position and the case is free of any misrepresentation, fraud, irregularity, and illegal act against the public interest.

- 6.2 A professional accountant should not hold out to a client or an employer the assurance that the tax return prepared and the tax advice offered are beyond challenge. Instead, the professional accountant should ensure that the client or the employer are aware of the limitations attaching to tax advice and services so that they do not misinterpret an expression of opinion as an assertion of fact.
- 6.3 A professional accountant who undertakes or assists in the preparation of a tax return should advise the client or the employer that the responsibility for the content of the return rests primarily with the client or employer. The professional accountant should take the necessary steps to ensure that the tax return is properly prepared on the basis of the information received.
- 6.4 Tax advice or opinions of material consequence given to a client or an employer should be recorded, either in the form of a letter or in a memorandum for the files.
- 6.5 A professional accountant should not be associated with any return or communication in which there is reason to believe that it:
  - Contains a false or misleading statement;
  - Contains statements or information furnished recklessly or without any real knowledge of whether they are true or false; or
  - Omits or obscures information required to be submitted and such omission or obscurity would mislead the revenue authorities.
- 6.6 A professional accountant may prepare tax returns involving the use of estimates if such use is generally acceptable or if it is impractical under the circumstances to obtain exact data. When estimates are used, they should be presented and disclosed in a manner so as to avoid the implication of greater accuracy than exists. The professional accountant should be satisfied that estimated amounts are reasonable under the circumstances.
- 6.7 In preparing a tax return, a professional accountant ordinarily may rely on information furnished by the client or employer provided that the information appears reasonable. Although the examination or review of documents or other evidence in support of the information is not required, the professional accountant should encourage, when appropriate, such supporting data to be provided.

- 6.8 In addition, the professional accountant:
- a) Should make use of the client's returns for prior years whenever feasible;
  - b) Is required to make reasonable inquiries when the information presented appears to be incorrect or incomplete; and
  - c) Is encouraged to make reference to the books and records of the business operations.
- 6.9 When a professional accountant learns of a material error or omission in a tax return of a prior year (with which the professional accountant may or may not have been associated), or of the failure to file a required tax return, the professional accountant has a responsibility to:
- i) Promptly advise the client or employer of the error or omission and recommend that disclosure be made to the revenue authorities. Normally, the professional accountant is not obligated to inform the revenue authorities, nor may this be done without permission.
  - ii) If the client or the employer does not correct the error the professional accountant:
    - a) Should inform the client or the employer that it is not possible to act for them in connection with that return or other related information submitted to the authorities; and
    - b) Should consider whether continued association with the client or employer in any capacity is consistent with professional responsibilities.
    - c) If the professional accountant concludes that a professional relationship with the client or employer can be continued, all reasonable steps should be taken to ensure that the error is not repeated in subsequent tax returns.
    - d) If it is a professional or statutory requirements for the professional accountant to inform the revenue authorities that there is no longer any association with the return or other information involved and that acting for the client or employer has ceased, the professional accountant should advise the client or employer of the position before informing the authorities and should give no further information to the authorities without the consent of the client or employer unless required to do so by law.

## **Rule 7**

### **Cross Border Activities**

- 7.1. When considering the application of rule of conduct in cross border activities in another sovereign state outside Ethiopia a number of situations may arise. Whether a professional accountant is a member of the profession in one country only or is also a member of the profession in the country where the services are performed should not affect the manner of dealing with each situation.
- 7.2. A professional accountant qualifying in one country may reside in another country or may be temporarily visiting that country to perform professional services. In all circumstances, the professional accountant should carry out professional services in accordance with the relevant technical standards and ethical requirements. In certain circumstances, however, the professional accountant should be guided by the ethical requirements set out below.
- 7.3. When a professional accountant performs services in a country other than Ethiopia and differences on specific matters exist between ethical requirements of the two countries it is mandatory to follow the Ethiopian ethical requirements.

## **Rule 8**

### **Publicity**

In the marketing and promotion of themselves and their work, professional accountants should:

- a. Not use means which brings the profession into disrepute;
- b. Not make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; and
- c. Not denigrate the work of other accountants.

# **PART 2**

## **APPLICABLE TO AUTHORIZED**

### **AUDITORS**

#### **Rule 9**

##### **Independence**

***A professional accountant, member of assurance teams and firms should be independent in the performance of professional services for the client.***

9.1 Independence requires:

***(a) Independence of mind:***

The state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

***(b) 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 firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

9.2 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.

- 9.3 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 assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms and members of assurance teams 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.
- 9.4 This section is based on such a conceptual approach, one that takes into account threats to independence, accepted safeguards and the public interest. Under this approach, firms and members of assurance teams have an obligation to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate these threats or to reduce them to an acceptable level by the application of safeguards. In addition to identifying and evaluating relationships between the firm, members of the assurance team and the assurance client, consideration should be given to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence.
- 9.5 The principles in this section apply to all assurance engagements. 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: whether the assurance engagement is an audit engagement or another type of engagement; and in the case of an assurance engagement that is not an audit engagement, the purpose, subject matter and intended users of the report. A firm should, therefore, evaluate the relevant circumstances, the nature of the assurance 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 a member of the assurance team.
- 9.6 Accordingly:
- For assurance engagements provided to an audit client, the members of the assurance team, the firm are required to be independent of the client;
  - For assurance engagements provided to clients that are not audit clients, when the report is not expressly restricted for use by identified users, the members of the assurance team and the firm are required to be independent of the client; and

- For assurance engagements provided to clients that are not audit clients, when the assurance report is expressly restricted for use by identified users, the members of the assurance team are required to be independent of the client. In addition, the firm should not have a material **direct** or **indirect financial interest** in the client.
- 9.7 The evaluation of threats to independence and subsequent action should be supported by evidence obtained before accepting the engagement and while it is being performed. The obligation to make such an evaluation and take action arises when a firm, or a member of the assurance team knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence. There may be occasions when the firm, or an individual inadvertently violates this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to an assurance client provided the firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 9.8 Throughout this section, reference is made to significant and clearly insignificant threats in the evaluation of independence. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is deemed to be both trivial and inconsequential.
- 9.9 The objective of this section is to assist firms and members of assurance teams in:
- a) Identifying threats to independence;
  - b) Evaluating whether these threats are clearly insignificant; and
  - c) In cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.
- 9.10 In situations when no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement.
- 9.11 When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.
- 9.12 The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threats to an acceptable level should take into account the



public interest. Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Because of the strong public interest in the financial statements of these entities, consideration should be given to the application of the principles set out in this section in relation to the audit of these entities to other audit clients that may be of significant public interest.

### **Threats to Independence**

**9.13** Independence is potentially affected by **self-interest, self-review, advocacy, familiarity and intimidation threats.**

9.14 “**Self-interest Threat**” occurs when a firm or a member of the assurance team could benefit from a financial interest in, or other self-interest conflict with, an assurance client.

Examples of circumstances that may create this threat include, but are not limited to:

- a) A direct financial interest or material indirect financial interest in an assurance client;
- b) A loan or guarantee to or from an assurance client or any of its **directors or officers**;
- c) Undue dependence on total fees from an assurance client;
- d) Concern about the possibility of losing the engagement;
- e) Having a close business relationship with an assurance client;
- f) Potential employment with an assurance client; and
- g) Contingent fees relating to assurance engagements.

9.15 “**Self-Review Threat**” occurs when (1) any product or judgment of a previous assurance engagement or non-assurance engagement needs to be re-evaluated in reaching conclusions on the assurance engagement or (2) when a member of the assurance team was previously a director or officer of the assurance client, or was an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement.

Examples of circumstances that may create this threat include, but are not limited to:

- a) A member of the assurance team being, or having recently been, a director or officer of the assurance client;

- b) A member of the assurance team being, or having recently been, an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement;
- c) Performing services for an assurance client that directly affect the subject matter of the assurance engagement; and
- d) Preparation of original data used to generate financial statements or preparation of other records that are the subject matter of the assurance engagement.

9.16 “**Advocacy Threat**” occurs when a firm, or a member of the assurance team, promotes, or may be perceived to promote, an assurance client’s position or opinion to the point that objectivity may, or may be perceived to be, compromised. Such may be the case if a firm or a member of the assurance team were to subordinate their judgment to that of the client.

Examples of circumstances that may create this threat include, but are not limited to:

- a) Dealing in, or being a promoter of, shares or other securities in an assurance client; and
- b) Acting as an advocate on behalf of an assurance client in litigation or in resolving disputes with third parties.

9.17 “**Familiarity Threat**” occurs when, by virtue of a close relationship with an assurance client, its directors, officers or employees, a firm or a member of the assurance team becomes too sympathetic to the client’s interests.

Examples of circumstances that may create this threat include, but are not limited to:

- a) A member of the assurance team having an **immediate family** member or close family member who is a director or officer of the assurance client;
- b) A member of the assurance team having an immediate family member or close family member who, as an employee of the assurance client, is in a position to exert direct and significant influence over the subject matter of the assurance engagement;
- c) A former partner of the firm being a director, officer of the assurance client or an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement;
- d) Long association of a senior member of the assurance team with the assurance client; and

- e) Acceptance of gifts or hospitality, unless the value is clearly insignificant, from the assurance client, its directors, officers or employees.

9.18 “**Intimidation Threat**” occurs when a member of the assurance team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the directors, officers or employees of an assurance client.

Examples of circumstances that may create this threat include, but are not limited to:

- a) Threat of replacement over a disagreement with the application of an accounting principle; and
- b) Pressure to reduce inappropriately the extent of work performed in order to reduce fees.

### **Safeguards**

9.19 The firm and members of the assurance team have a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats or reduce them to an acceptable level.

9.20 When threats are identified, other than those that are clearly insignificant, appropriate safeguards should be identified and applied to eliminate the threats or reduce them to an acceptable level. This decision should be documented. The nature of the safeguards to be applied will vary depending upon the circumstances. Consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable. The consideration will be affected by matters such as the significance of the threat, the nature of the assurance engagement, the intended users of the assurance report and the structure of the firm.

9.21 Safeguards fall into three broad categories:

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

The firm and the members of the assurance team should select appropriate safeguards to eliminate or reduce threats to independence, other than those that are clearly insignificant, to an acceptable level.

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

- a) Educational, training and experience requirements for entry into the profession;
- b) Continuing education requirements;
- c) Professional standards and monitoring and disciplinary processes;
- d) External review of a firm's quality control system; and
- e) Legislation governing the independence requirements of the firm.

9.23 Safeguards within the assurance client, include the following:

- a) When the assurance client's management appoints the firm, persons other than management ratify or approve the appointment;
- b) The assurance client has competent employees to make managerial decisions;
- c) Policies and procedures that emphasize the assurance client's commitment to fair financial reporting;
- d) A corporate governance structure, such as an audit committee, that provides appropriate oversight and communications regarding a firm's services.

9.24 Safeguards within the firm's own systems and procedures may include firm-wide safeguards such as the following:

- a) Firm leadership that stresses the importance of independence and the expectation that members of assurance teams will act in the public interest;
- b) Policies and procedures to implement and monitor quality control of assurance engagements;
- c) Documented independence policies regarding the identification of threats to independence, the evaluation of the significance of these threats and the identification and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level;
- d) Internal policies and procedures to monitor compliance with firm policies and procedures as they relate to independence;
- e) Policies and procedures that will enable the identification of interests or relationships between the firm or members of the assurance team and assurance clients;
- f) Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single assurance client;

- g) Using different partners and teams with separate reporting lines for the provision of non-assurance services to an assurance client;
- h) Policies and procedures to prohibit individuals who are not members of the assurance team from influencing the outcome of the assurance engagement;
- i) Timely communication of a firm's policies and procedures, and any changes thereto, to all partners and professional staff, including appropriate training and education thereon;
- j) Designating a member of senior management as responsible for overseeing the adequate functioning of the safeguarding system;
- k) A disciplinary mechanism to promote compliance with policies and procedures; and
- l) Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them; this includes informing staff of the procedures open to them.

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

- a) Involving an additional professional accountant to review the work done or otherwise advise as necessary. This individual could be someone from outside the firm or someone within the firm or network firm who was not otherwise associated with the assurance team;
- b) Consulting a third party, such as a committee of independent directors, a professional regulatory body or another professional accountant;
- c) Rotation of senior personnel;
- d) Discussing independence issues with the audit committee or others charged with governance;
- e) Disclosing to the audit committee, or others charged with governance, the nature of services provided and extent of fees charged;
- f) Policies and procedures to ensure members of the assurance team do not make, or assume responsibility for, management decisions for the assurance client;
- g) Involving another firm to perform or re-perform part of the assurance engagement;
- h) Involving another firm to re-perform the non-assurance service to the extent necessary to enable it to take responsibility for that service; and
- i) Removing an individual from the assurance team, when that individual's financial interests or relationships create a threat to independence.

9.26 When the safeguards available, such as those described above, are insufficient to eliminate the threats to independence or to reduce them to an acceptable level, or when a firm chooses not to eliminate the activities or interests creating the threat, the only course of action available will be the refusal to perform, or withdrawal from, the assurance engagement.

### **Engagement Period**

9.27 The members of the assurance team and the firm should be independent of the assurance client during the period of the assurance engagement. The period of the engagement starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature. If the assurance engagement is expected to recur, the period of the assurance engagement ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.

9.28 In the case of an audit engagement, the engagement period includes the period covered by the financial statements reported on by the firm. When an entity becomes an audit client during or after the period covered by the financial statements that the firm will report on, the firm should consider whether any threats to independence may be created by:

- Financial or business relationships with the audit client during or after the period covered by the financial statements, but prior to the acceptance of the audit engagement; or
- Previous services provided to the audit client.

Similarly, in the case of an assurance engagement that is not an audit engagement, the firm should consider whether any financial or business relationships or previous services may create threats to independence.

9.29 If non-assurance services were provided to the audit client during or after the period covered by the financial statements but before the commencement of professional services in connection with the audit and those services would be prohibited during the period of the audit engagement, consideration should be given to the threats to independence, if any, arising from those services. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level.

Such safeguards might include:

- Discussing independence issues related to the provision of the non-assurance services with those charged with governance of the client, such as the audit committee;
- Obtaining the audit client's acknowledgement of responsibility for the results of the non-assurance services;
- Precluding personnel who provided the non-assurance services from participating in the audit engagement; and
- Engaging another firm to review the results of the non-assurance services or having another firm re-perform the non-assurance services to the extent necessary to enable it to take responsibility for those services.

**Application of the rule of Independence to specific circumstances creating threats to independence and their safeguard**

9.30 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all-inclusive. In practice, the firm and the members of the assurance team will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards can be applied to satisfactorily address the threats to independence.

**Financial Interests**

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

9.32 If a member of the assurance team, or their immediate family member, has a direct financial interest, or a material indirect financial interest, in the assurance client, the self-interest threat created would be so significant the only safeguards available to eliminate the threat or reduce it to an acceptable level would be to:

- Dispose of the direct financial interest prior to the individual becoming a member of the assurance team;

- Dispose of the indirect financial interest in total or dispose of a sufficient amount of it so that the remaining interest is no longer material prior to the individual becoming a member of the assurance team; or
- Remove the member of the assurance team from the assurance engagement.

9.33 If a member of the assurance team, or their immediate family member receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat would be created. The following safeguards should be applied to eliminate the threat or reduce it to an acceptable level:

- Disposing of the financial interest at the earliest practical date; or
- Removing the member of the assurance team from the assurance engagement.

### **Loans and Guarantees**

9.34 A loan from, or a guarantee thereof by, an assurance client that is a bank or a similar institution, to the firm would not create a threat to independence provided the loan is made under normal lending procedures, terms and requirements and the loan is immaterial to both the firm and the assurance client. If the loan is material to the assurance client or the firm it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional professional accountant from outside the firm, to review the work performed.

9.35 However, if the loan or a guarantee thereof is from or to an assurance client that is not a bank or similar institution, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team and the assurance client.

### **Close Business Relationships with Assurance Clients**

9.36 A close business relationship between a firm or a member of the assurance team and the assurance client or its management, or between the firm and an audit client, will involve a commercial or common financial interest and may create self-interest and intimidation threats. unless the financial interest is immaterial and the relationship is clearly insignificant to the firm and the assurance client, no safeguards could reduce the threat to an acceptable level. Consequently, the only possible courses of action are to:



- Terminate the business relationship;
- Reduce the magnitude of the relationship so that the financial interest is immaterial and the relationship is clearly insignificant; or
- Refuse to perform the assurance engagement.

Unless any such financial interest is immaterial and the relationship is clearly insignificant to the member of the assurance team, the only appropriate safeguard would be to remove the individual from the assurance team.

9.37 The purchase of goods and services from an assurance client by the firm or a member of the assurance team would not generally create a threat to independence providing the transaction is in the normal course of business and on an arm's length basis. However, such transactions may be of a nature or magnitude so as to create a self-interest threat. If the threat created is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Eliminating or reducing the magnitude of the transaction;
- Removing the individual from the assurance team; or
- Discussing the issue with those charged with governance, such as the audit committee.

### **Family and Personal Relationships**

9.38 Family and personal relationships between a member of the assurance team and a director, an officer or certain employees, depending on their role, of the assurance client, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors including the individual's responsibilities on the assurance engagement, the closeness of the relationship and the role of the family member or other individual within the assurance client. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to be applied to reduce the threat to an acceptable level.

9.39 When an immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement, or was in such a position during any period covered by the engagement, the threats to

independence can only be reduced to an acceptable level by removing the individual from the assurance team. The closeness of the relationship is such that no other safeguard could reduce the threat to independence to an acceptable level. If application of this safeguard is not used, the only course of action is to withdraw from the assurance engagement.

9.40 When a close family member of a member of the assurance team is a director, an officer, or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement, threats to independence may be created. The significance of the threats will depend on factors such as:

- The position the close family member holds with the client; and
- The role of the professional on the assurance team.

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

- Removing the individual from the assurance team;
- Where possible, structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the close family member; or
- Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

9.41 In addition, self-interest, familiarity or intimidation threats may be created when a person who is other than an immediate or close family member of a member of the assurance team has a close relationship with the member of the assurance team and is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement. Therefore, members of the assurance team are responsible for identifying any such persons and for consulting in accordance with firm procedures.

### **Employment with Assurance Clients**

9.42 A firm or a member of the assurance team's independence may be threatened if a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement has

been a member of the assurance team or partner of the firm. Such circumstances may create threats to independence particularly when significant connections remain between the individual and his or her former firm. Similarly, a member of the assurance team's independence may be threatened when an individual participates in the assurance engagement knowing, or having reason to believe, that he or she is to, or may, join the assurance client some time in the future.

9.43 If a member of the assurance team, partner or former partner of the firm has joined the assurance client, the significance of the self-interest, familiarity or intimidation threats created will depend upon the following factors:

- The position the individual has taken at the assurance client;
- The amount of any involvement the individual will have with the assurance team;
- The length of time that has passed since the individual was a member of the assurance team or firm; and
- The former position of the individual within the assurance team or firm.

9.44 Significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Considering the appropriateness or necessity of modifying the assurance plan for the assurance engagement;
- Assigning an assurance team to the subsequent assurance engagement that is of sufficient experience in relation to the individual who has joined the assurance client;
- Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary; or
- Quality control review of the assurance engagement.

9.45 A self-interest threat is created when a member of the assurance team participates in the assurance engagement while knowing, or having reason to believe, that he or she is to, or may, join the assurance client some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

- Policies and procedures to require the individual to notify the firm when entering serious employment negotiations with the assurance client; and
- Removal of the individual from the assurance engagement.

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

### **Recent Service with Assurance Clients**

9.46 To have a former officer, director or employees of the assurance client serve as a member of the assurance team may create threats to independence.

9.47 If, during the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the assurance team.

9.48 If, prior to the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement, this may create threats to independence. However, the significance of the threats will depend upon factors such as:

- The position the individual held with the assurance client;
- The length of time that has passed since the individual left the assurance client; and
- The role the individual plays on the assurance team.

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

- Involving an additional professional accountant to review the work done by the individual as part of the assurance team or otherwise advise as necessary; or
- Discussing the issue with those charged with governance, such as the audit committee.

### **Serving as an Officer or Director on the Board of Assurance Clients**

9.50 If a partner or employee of the firm serves as an officer or as a director on the board of an assurance client the self-review and self-interest threats created would be so

significant that no safeguard could reduce the threats to an acceptable level. Consequently, the only course of action is to refuse to perform, or to withdraw from the assurance engagement.

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

### **Long Association of Senior Personnel with Assurance Clients**

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

- The length of time that the individual has been a member of the assurance team;
- The role of the individual on the assurance team;
- The structure of the firm; and
- The nature of the assurance engagement.

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

- Rotating the senior personnel off the assurance team;
- Involving an additional professional accountant who was not a member of the assurance team to review the work done by the senior personnel or otherwise advise as necessary; or
- Independent internal quality reviews.

### **Provision of Non-Assurance Services to Assurance Clients**

9.54 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Assurance clients value the benefits that derive from having these firms, who have a good understanding of the business, bring their knowledge and skill to bear in other areas. Furthermore, the provision of such non-assurance services will often result in the assurance team obtaining information regarding the assurance client's business and operations that is helpful in relation to the assurance engagement. The greater the knowledge of the

assurance client's business, the better the assurance team will understand the assurance client's procedures and controls, and the business and financial risks that it faces. The provision of non-assurance services may, however, create threats to the independence of the firm or the members of the assurance team, particularly with respect to perceived threats to independence. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards are available to reduce the threat to an acceptable level.

9.55 The following activities would generally create threats to independence that are so significant that only avoidance of the activity or refusal to perform the assurance engagement would reduce the threats to an acceptable level:

- Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so;
- Determining which recommendation of the firm should be implemented; and
- Reporting, in a management role, to those charged with governance.

9.56 The potential threats to independence will most frequently arise when a non-assurance service is provided to an audit client. Threats to independence, however, may also arise when a firm provides a non-assurance service related to the subject matter of a non-audit assurance engagement. In such cases, consideration should be given to the significance of the firm's involvement with the subject matter of the non-audit assurance engagement, whether any self-review threats are created and whether any threats to independence could be reduced to an acceptable level by application of safeguards, or whether the non-assurance engagement should be declined. When the non-assurance service is not related to the subject matter of the non-audit assurance engagement, the threats to independence will generally be clearly insignificant.

9.57 The following activities may also create self-review or self-interest threats:

- Having custody of an assurance client's assets;
- Supervising assurance client employees in the performance of their normal recurring activities; and
- Preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

9.58 The significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Making arrangements so that personnel providing such services do not participate in the assurance engagement;
- Involving an additional professional accountant to advise on the potential impact of the activities on the independence of the firm and the assurance team; or
- Policies and procedures to prohibit professional staff from making management decisions for the assurance client, or assuming responsibility for such decisions;
- Discussing independence issues related to the provision of non-assurance services with those charged with governance, such as the audit committee;
- Policies within the assurance client regarding the oversight responsibility for provision of non-assurance services by the firm;
- Involving an additional professional accountant to advise on the potential impact of the non-assurance engagement on the independence of the member of the assurance team and the firm;
- Involving an additional professional accountant outside of the firm to provide assurance on a discrete aspect of the assurance engagement;
- Obtaining the assurance client's acknowledgement of responsibility for the results of the work performed by the firm;
- Disclosing to those charged with governance, such as the audit committee, the nature and extent of fees charged; or

9.59 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, consideration should be given to whether the provision of such a service would create a threat to independence. In situations when a threat created is other than clearly insignificant, the non-assurance engagement should be declined unless appropriate safeguards can be applied to eliminate the threat or reduce it to an acceptable level.

### **Preparing Accounting Records and Financial Statements**

9.60 Assisting an audit client in matters such as preparing accounting records or financial statements may create a threat to independence when the firm subsequently audits the financial statements.

9.61 It is the responsibility of client management to ensure that accounting records are kept and financial statements are prepared, although they may request the firm to provide assistance. If a firm providing such assistance make management decisions, the self-review threat created could not be reduced to an acceptable level by any safeguards. Consequently, personnel should not make such decisions. Examples of such managerial decisions include the following:

- Determining or changing journal entries, or the classifications for accounts or transaction or other accounting records without obtaining the approval of the audit client;
- Authorizing or approving transactions; and
- Preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data.

9.62 The audit process involves extensive dialogue between the firm and management of the audit client. During this process, management requests and receives significant input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. Technical assistance of this nature and advice on accounting principles for audit clients are an appropriate means to promote the fair presentation of the financial statements. These services are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.

### **Valuation Services**

9.63 A valuation comprises the making of assumptions with regard to future developments, the application of certain methodologies and techniques, and the combination of both in order to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

9.64 A self-review threat may be created when a firm performs a valuation for an audit client that is to be incorporated into the client's financial statements.

9.65 If the valuation service involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any safeguard. Accordingly, such valuation services should not be provided or, alternatively, the only course of action would be to withdraw from the audit engagement.



9.66 Performing valuation services that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, may create a self-review threat that could be reduced to an acceptable level by the application of safeguards. Such safeguards might include:

- Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary;
- Confirming with the audit client their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;
- Obtaining the audit client's acknowledgement of responsibility for the results of the work performed by the firm; and
- Making arrangements so that personnel providing such services do not participate in the audit engagement.

9.67 In determining whether the above safeguards would be effective, consideration should be given to the following matters:

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

9.68 When a firm performs a valuation service for an audit client for the purposes of making a filing or return to a tax authority, computing an amount of tax due by the assurance client, or for the purpose of tax planning, this would not create a significant threat to independence because such valuations are generally subject to external review, for example by Inland Revenue.

- 9.69 When the firm performs a valuation that forms part of the subject matter of an assurance engagement that is not an audit engagement, the firm should consider any self-review threats. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

### **Provision of Taxation Services to Audit Clients**

- 9.70 Audit firms may be asked to provide taxation services to an audit client. Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to independence.

### **Provision of Internal Audit Services to Audit Clients**

- 9.71 A self-review threat may be created when a firm provides internal audit services to an audit client. Internal audit services may comprise an extension of the firm's audit service beyond requirements of generally accepted auditing standards, assistance in the performance of a client's internal audit activities or outsourcing of the activities. In evaluating any threats to independence, the nature of the service will need to be considered.
- 9.72 Services involving an extension of the procedures required to conduct an audit in accordance with International Standards on Auditing would not be considered to impair independence with respect to an audit client provided that the firm's personnel do not act or appear to act in a capacity equivalent to a member of audit client management.
- 9.73 When the firm provides assistance in the performance of a client's internal audit activities or undertakes the outsourcing of some of the activities, the self-review threat created would be so significant that no safeguard could reduce the threat to an acceptable level. Accordingly, such services should not be provided or, alternatively, the only course of action would be to withdraw from the audit engagement.

### **Provision of IT Systems Services to Audit Clients**

- 9.74 The provision of services by a firm to an audit client that involve the design and implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may create a self-review threat.
- 9.75 The self-review threat is likely to be too significant to allow the provision of such services to an audit client unless appropriate safeguards are put in place ensuring that:

- a) The audit client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- b) The audit client designates a competent employee, preferably within senior management, with the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system;
- c) The audit client makes all management decisions with respect to the design and implementation process;
- d) The audit client evaluates the adequacy and results of the design and implementation of the system; and
- e) The audit client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.

9.76 Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the audit engagement and with different reporting lines within the firm.

### **Temporary Staff Assignments to Audit Clients**

9.77 The lending of staff by a firm to an audit client may create a self-review threat when the individual is in a position to influence the preparation of a client's accounts or financial statements. In practice, such assistance may be given (particularly in emergency situations) but only on the understanding that the firm's personnel will not be involved in:

- a) Making management decisions;
- b) Approving or signing agreements or other similar documents; or
- c) Exercising discretionary authority to commit the client.

9.78 Each situation should be carefully analyzed to identify whether any threats are created and whether appropriate safeguards should be implemented. Safeguards that should be applied in all circumstances to reduce any threats to an acceptable level include:

- The staff providing the assistance should not be given audit responsibility for any function or activity that they performed or supervised during their temporary staff assignment; and
- The audit client should acknowledge its responsibility for directing and supervising the activities of firm, personnel.

## **Corporate Finance and Similar Activities**

- 9.79 The provision of corporate finance services, advice or assistance to an assurance client may create advocacy and self-review threats. In the case of certain corporate finance services, the independence threats created would be so significant no safeguards could be applied to reduce the threats to an acceptable level. For example, promoting, dealing in, or underwriting of an assurance client's shares is not compatible with providing assurance services. Moreover, committing the assurance client to the terms of a transaction or consummating a transaction on behalf of the client would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level. In the case of an audit client the provision of those corporate finance services referred to above by a firm would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level.
- 9.80 Other corporate finance services may create advocacy or self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Examples of such services include assisting a client in developing corporate strategies, assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria, and providing structuring advice and assisting a client in analyzing the accounting effects of proposed transactions. Safeguards that should be considered include:
- Policies and procedures to prohibit individuals assisting the assurance client from making managerial decisions on behalf of the client;
  - Using professionals who are not members of the assurance team to provide the services; and
  - Ensuring the firm does not commit the assurance client to the terms of any transaction or consummate a transaction on behalf of the client.

## **Fees and Pricing**

### **Fees – Relative Size**

- 9.81 When the total fees generated by an assurance client represent a large proportion of a firm's total fees, the dependence on that client or client group and concern about the possibility of losing the client may create a self-interest threat. The significance of the threat will depend upon factors such as:
- The structure of the firm; and
  - Whether the firm is well established or newly created.

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

- Discussing the extent and nature of fees charged with the audit committee, or others charged with governance;
- Taking steps to reduce dependency on the client;
- External quality control reviews; and
- Consulting a third party, such as a professional regulatory body or another professional accountant.

9.83 A self-interest threat may also be created when the fees generated by the assurance client represent a large proportion of the revenue of an individual partner. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Policies and procedures to monitor and implement quality control of assurance engagements; and
- Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary.

### **Fees – Overdue**

9.84 A self-interest threat may be created if fees due from an assurance client for professional services remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report for the following year. Generally the payment of such fees should be required before the report is issued. The following safeguards may be applicable:

- Discussing the level of outstanding fees with the audit committee, or others charged with governance; and
- Involving an additional professional accountant who did not take part in the assurance engagement to provide advice or review the work performed.

9.85 The firm should also consider whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed.

### **Pricing**

9.86 When a firm obtains an assurance engagement at a significantly lower fee level than that charged by the predecessor firm, or quoted by other firms, the self-interest threat created will not be reduced to an acceptable level unless:

- The firm is able to demonstrate that appropriate time and qualified staff are assigned to the task; and
- All applicable assurance standards, guidelines and quality control procedures are being complied with.

### **Contingent Fees**

9.87 Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them.

9.88 A contingent fee charged by a firm in respect of an assurance engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard. Accordingly, a firm should not enter into any fee arrangement for an assurance engagement under which the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement.

9.89 A contingent fee charged by a firm in respect of a non-assurance service provided to an assurance client may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement was agreed to, or contemplated, during an assurance engagement and was contingent on the result of that assurance engagement, the threats could not be reduced to an acceptable level by the application of any safeguard. Accordingly, the only acceptable action is not to accept such arrangements. For other types of contingent fee arrangements, the significance of the threats created will depend on factors such as:

- The range of possible fee amounts;
- The degree of variability;

- The basis on which the fee is to be determined;
- Whether the outcome or result of the transaction is to be reviewed by an independent third party; and
- The effect of the event or transaction on the assurance engagement.

9.90 The significance of the threats should be evaluated and, if the threats are other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threats to an acceptable level. Such safeguards might include:

- Disclosing to the audit committee, or others charged with governance, the extent of nature and extent of fees charged;
- Review or determination of the final fee by an unrelated third party; or
- Quality and control policies and procedures.

### **Gifts and Hospitality**

9.91 Accepting gifts or hospitality from an assurance client may create self-interest and familiarity threats. When a firm or a member of the assurance team accepts gifts or hospitality, unless the value is clearly insignificant, the threats to independence cannot be reduced to an acceptable level by the application of any safeguard. Consequently, a firm or a member of the assurance team should not accept such gifts or hospitality.

### **Actual or Threatened Litigation**

9.92 When litigation takes place, or appears likely, between the firm or a member of the assurance team and the assurance client, a self-interest or intimidation threat may be created. The relationship between client management and the members of the assurance team must be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. The firm and the client's management may be placed in adversarial positions by litigation, affecting management's willingness to make complete disclosures and the firm may face a self-interest threat. The significance of the threat created will depend upon such factors as:

- The materiality of the litigation;
- The nature of the assurance engagement; and
- Whether the litigation relates to a prior assurance engagement.

9.93 Once the significance of the threat has been evaluated the following safeguards should be applied, if necessary, to reduce the threats to an acceptable level:

- Disclosing to the audit committee, or others charged with governance, the extent and nature of the litigation;
- If the litigation involves a member of the assurance team, removing that individual from the assurance team; or
- Involving an additional professional accountant in the firm who was not a member of the assurance team to review the work done or otherwise advise as necessary.

9.94 If such safeguards do not reduce the threat to an appropriate level, the only appropriate action is to withdraw from, or refuse to accept, the assurance engagement.

## **RULE 10**

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

**Professional accountants 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.**

- 10.1. If a professional accountant does not have the competence to perform a specific part of the professional service, technical advice may be sought from experts such as other professional accountants, lawyers, actuaries, engineers, geologists, and valuers.
- 10.2. In such situations, although the professional accountant is relying on the technical competence of the expert, the knowledge of the ethical requirements cannot be automatically assumed. Since the ultimate responsibility for the professional service rests with the professional accountant, the professional accountant should see that the requirements of ethical behavior are followed.
- 10.3. When using the services of experts, who are not professional accountants, the professional accountant must take steps to see that such experts are aware of ethical requirements. Primary attention should be paid to the fundamental principles. These principles would extend to any assignment in which such experts would participate.
- 10.4. The degree of supervision and the amount of guidance that will be needed will depend upon the individuals involved and the nature of the engagement. Examples of such guidance and supervision might include:
  - Asking individuals to read the appropriate ethical codes;



- Requiring written confirmation of understanding of the ethical requirements; and
- Providing consultation when potential conflicts arise.

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

10.6. If at any time the professional accountant is not satisfied that proper ethical behavior can be respected or assured, the engagement should not be accepted; or, if the engagement has commenced, it should be terminated.

## **RULE 11**

### **Fees and Commissions**

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

#### **Professional Fees**

11.1 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.

11.2 Professional fees should normally be computed on the basis of appropriate rates per hour for the time of each person engaged in performing professional services. These rates should be based on the fundamental premise that the organization and conduct of the professional accountant and the services provided to clients are well planned, controlled and managed. They should take into account the factors set out in paragraph

11.1 and are influenced by the legal, social and economic conditions of the country. It is for each professional accountant to determine the appropriate rates.

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

11.4 It is not improper for a professional accountant to charge a client a lower fee than has previously been charged for similar services, provided the fee has been calculated in accordance with the factors referred to in paragraphs 11.1 through 11.3.

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

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

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

11.7 As stated in paragraph 9.88:

An assurance engagement should not be performed for a fee that is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement. Paragraph 9.89 provides guidance on threats that may be created if a non-assurance engagement is provide to an assurance client for a contingent fee, and the safeguards that may reduce the threats to an acceptable level.

11.8 Fees should not be regarded as being contingent if fixed by a court or other public authority. Fees charged on a percentage or similar basis should be regarded as contingent fees. The foregoing paragraphs relate to fees as distinct from reimbursement of expenses. Out-of-pocket expenses, in particular traveling expenses, attributable

directly to the professional services performed for a particular client would normally be charged to that client in addition to the professional fees.

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

### **Commissions**

- 11.10 A professional accountant should not pay a commission to obtain a client nor should a commission be accepted for referral of a client to a third party. A professional accountant should not accept a commission for the referral of the products or services of others.
- 11.11 Payment and receipt of referral fees between professional accountants when no services are performed by the referring accountant are regarded as commissions for the purpose of paragraph 11.10.

## **RULE 12**

### **Activities Incompatible with the Practice of Public Accountancy**

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

- 12.1 The rendering of two or more types of professional services concurrently does not by itself impair integrity, objectivity or independence.
- 12.2 The simultaneous engagement in another business, occupation or activity unrelated to professional services which has the effect of not allowing the professional accountant properly to conduct a professional practice in accordance with the fundamental ethical principles of the accountancy profession should be regarded as inconsistent with the practice of public accountancy.

## **RULE 13**

### **Relations with Other Professional Accountants**

#### **Accepting New Assignments**

- 13.1 An existing accountant without a particular skill may however be reluctant to refer a client to another professional accountant who may possess that skill, because of the fear of losing existing business to the other professional accountant. As a result, clients may be deprived of the benefit of advice, which they are entitled to receive.
- 13.2 Professional accountants should only undertake such services which they can expect to complete with professional competence. It is essential therefore for the profession in general and in the interests of their clients that professional accountants be encouraged to obtain advice when appropriate from those who are competent to provide it.
- 13.3 The wishes of the client should be paramount in the choice of professional advisers, whether or not special skills are involved. Accordingly, a professional accountant should not attempt to restrict in any way the client's freedom of choice in obtaining special advice, and when appropriate should encourage a client to do so.
- 13.4 The services or advice of a professional accountant having special skills may be sought in one or other of the following ways:
- a) By the client;
    - i) After prior discussion and consultation with the existing accountant;
    - ii) On the specific request or recommendation of the existing accountant; and
    - iii) Without reference to the existing accountant; or
  - b) By the existing accountant with due observance of the duty of confidentiality.
- 13.5 When a professional accountant is asked to provide services or advice, inquiries should be made as to whether the prospective client has an existing accountant. In cases where there is an existing accountant who will continue to provide professional services, the procedures set out in paragraphs 13.6-13.12 should be observed. If the appointment will result in another professional accountant being superseded, the procedures set out in paragraphs 13.13 – 13.24 should be followed.
- 13.6 The receiving accountant should limit the services provided to the specific assignment received by referral from the existing accountant or the client unless otherwise requested by the client. The receiving accountant also has the duty to take reasonable

steps to support the existing accountant's current relationship with the client and should not express any criticism of the professional services of the existing accountant without giving the latter an opportunity to provide all relevant information.

13.7 A receiving accountant who is asked by the client to undertake an assignment of a type which is clearly distinct from that being carried out by the existing accountant or from that initially received by referral from the existing accountant or from the client, should regard this as a separate request to provide services or advice. Before accepting any appointments of this nature, the receiving accountant should advise the client of the professional obligation to communicate with the existing accountant and should immediately do so preferably in writing, advising of the approach made by the client and the general nature of the request as well as seeking all relevant information, if any, necessary to perform the assignment.

13.8 Circumstances sometimes arise when the client insists that the existing accountant should not be informed. In this case, the receiving accountant should decide whether the client's reasons are valid. In the absence of special circumstances a mere disinclination by the client for communication with the existing accountant would not be a satisfactory reason.

13.9 The receiving accountant should:

- a) Comply with the instructions received from the existing accountant or the client to the extent that they do not conflict with relevant legal or other requirements; and
- b) Ensure, insofar as it is practicable to do so, that the existing accountant is kept informed of the general nature of the professional services being performed.

13.10 When there are two or more other professional accountants performing professional services for the client concerned it may be appropriate to notify only the relevant professional accountant depending on the specific services being performed.

13.11 When appropriate the existing accountant, in addition to issuing instructions concerning referred business, should maintain contact with the receiving accountants and cooperate with them in all reasonable requests for assistance.

13.12 When the opinion of a professional accountant, other than the existing accountant, is sought on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions, the professional accountant should be alert to the possibility of the opinion creating undue pressure on the judgment and objectivity of the accountant. An opinion given without full and proper facts can cause

difficulty to the receiving accountant if the opinion is challenged or the company subsequently appoints the receiving accountant. Accordingly, the professional accountant should seek to minimize the risk of giving inappropriate guidance by ensuring that he or she has access to all relevant information. When there is a request for an opinion in the above circumstances there is a requirement for communication with the existing accountant. It is important that the existing accountant, with the permission of the client, provide the receiving accountant with all requested relevant information about the client. With the permission of the client, the receiving accountant should also provide a copy of the final report to the existing accountant. If the client does not agree to these communications, then the engagement should ordinarily not be performed.

### **Superseding Another Professional Accountant**

- 13.13 The proprietors of a business have an indisputable right to choose their professional advisers and to change to others should they so desire. While it is essential that the legitimate interests of the proprietors be protected, it is also important that a professional accountant who is asked to replace another professional accountant has the opportunity to ascertain if there are any professional reasons why the appointment should not be accepted. This cannot effectively be done without direct communication with the existing accountant. In the absence of a specific request, the existing accountant should not volunteer information about the client's affairs.
- 13.14 Communication enables a professional accountant to ascertain whether the circumstances in which a change in appointment is proposed are such that the appointment can properly be accepted and also whether there is a wish to undertake the engagement. In addition, such communication helps to preserve the harmonious relationships, which should exist between all professional accountants on whom clients rely for professional advice and assistance.
- 13.15 The extent to which an existing accountant can discuss the affairs of the client with the proposed professional accountant depend on:
- a) Whether the client's permission to do so has been obtained; and/or
  - b) The legal or ethical requirements relating to such disclosure which may vary by country.
- 13.16 The proposed professional accountant should treat in the strictest confidence and give due weight to any information provided by the existing accountant.

13.17 The information provided by the existing accountant may indicate, for example, that the ostensible reasons given by the client for the change are not in accordance with the facts. It may disclose that the proposal to make a change in professional accountants was made because the existing accountants stood their ground and properly carried out the duties as professional accountants despite opposition or evasion on an occasion on which important differences of principles or practice have arisen with the client.

13.18 Communication between the parties therefore serves:

- a) To protect a professional accountant from accepting an appointment in circumstances where all the pertinent facts are not known.
- b) To protect the minority proprietors of a business who may not be fully informed of the circumstances in which the change is proposed.
- c) To protect the interests of the existing accountant when the proposed change arises from, or is an attempt to interfere with, the conscientious exercise of the existing accountant's duty to act as an independent professional.

13.19 Before accepting an appointment involving recurring professional services hitherto carried out by another professional accountant, the proposed professional accountant should:

- a) Ascertain if the prospective client has advised the existing accountant of the proposed change and has given permission in writing, to discuss the client's affairs fully and freely with the proposed professional accountant.
- b) When satisfied with the reply received from prospective client, request permission to communicate with the existing accountant. If such permission is refused or the permission referred to in (a) above is not given, the proposed professional accountant should, in the absence of exceptional circumstances of which there is full knowledge, and unless there is satisfaction as to necessary facts by other means, decline the appointment.
- c) On receipt of permission, ask the existing accountant in writing:
  - i) To provide information on any professional reasons which should be known before deciding whether or not to accept the appointment and, if there are such matters; and
  - ii) To provide all the necessary details to be able to come to a decision.

13.20 The existing accountant, on receipt of the communication referred to in paragraph 13.19 (c) should forthwith:

- a) Reply in writing, advising whether there are any professional reasons why the proposed professional accountant should not accept the appointment.
- b) If there are any such reasons or other matters, which should be disclosed, ensure that the client has given permission to give details of this information to the proposed professional accountant. If permission is not granted, the existing accountant should report that fact to the proposed professional accountant.
- c) On receipt of permission from the client, disclose all information needed by the proposed professional accountant to be able to decide whether or not to accept the appointment, and discuss freely with the proposed professional accountant all matters relevant to the appointment of which the latter should be aware.

13.21 If the proposed professional accountant does not receive, within a reasonable time, a reply from the existing accountant and there is no reason to believe that there are any exceptional circumstances surrounding the proposed change, the proposed professional accountant should endeavor to communicate with the existing accountant by some other means. If unable to obtain a satisfactory outcome in this way, the proposed professional accountant should send a further letter, stating that there is an assumption that there is no professional reason why the appointment should not be accepted and that there is an intention to do so.

13.22 The fact that there may be fees owing to the existing accountant is not a professional reason why another professional accountant should not accept the appointment.

13.23 The existing accountant should promptly transfer to the new professional accountant all books and papers of the client which are or may be held after the change in appointment has been effected and should advise the client accordingly, unless the professional accountant has a legal right to withhold them.

13.24 Certain organizations, either because of legislative requirements or otherwise, call for submissions or tenders, e.g., competitive bids, in relation to professional services offered by accountants. In reply to a public advertisement or an unsolicited request to make a submission or submit a tender, a professional accountant should, if the appointment may result in the replacement of another professional accountant, state in the submission or tender that before acceptance the opportunity to contact the other professional accountant is required so that inquiries may be made as to whether there



are any professional reasons why the appointment should not be accepted. If the submission or tender is successful, the existing accountant should then be contacted.

## **RULE 14**

### **Advertising and Solicitation**

- 14.1. Advertising and solicitation should be aimed at informing the public in an objective manner and should be decent, honest, truthful and in good taste. Solicitation by the use of coercion or harassment should be prohibited.
- 14.2. Examples of activities which may be considered not to meet the above criteria include those that:
- a) Create false, deceptive or unjustified expectations of favorable results;
  - b) Imply the ability to influence any court, 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 professional accountants;
  - e) Contain testimonials or endorsements;
  - f) Contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived; and
  - g) Make unjustified claims to be an expert or specialist in a particular field of accountancy.
- 14.3. It is clearly desirable that the public should be aware of the range of services available from a professional accountant. Accordingly there is no objection to a member body communicating such information to the public on an institutional basis, i.e., in the name of the member body.

# **PART 3**

## **RULES APPLICABLE TO EMPLOYED**

### **PROFESSIONAL ACCOUNTANTS**

#### **Rule 15**

##### **Conflict of Loyalties**

15.1 Employed professional accountants owe a duty of loyalty to their employer as well as to their profession and there may be times when the two are in conflict. An employee's normal priority should be to support his or her organization's legitimate and ethical objectives and the rules and procedures drawn up in support of them. However, an employee cannot legitimately be required to:

- a) Break the law;
- b) Breach the rules and standards of their profession;
- c) Lie to or mislead (including misleading by keeping silent) those acting as auditors to the employer; or
- d) Put their name to or otherwise be associated with a statement, which materially misrepresents the facts

15.2 Differences in view about the correct judgment on accounting or ethical matters should normally be raised and resolved within the employee's organization, initially with the employee's immediate superior and possibly thereafter, where disagreement about a significant ethical issue remains, with higher levels of management or non executive directors.

15.3 If employed accountants cannot resolve any material issue involving a conflict between their employers and their professional requirements they may, after exhausting all other relevant possibilities, have no other recourse but to consider resignation. Employees should state their reasons for doing so to the employer but their duty of confidentiality

normally precludes them from communicating the issue to others (unless legally or professionally required to do so).

## **Rule 16**

### **Support for Professional Colleagues**

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

## **Rule 17**

### **Professional Competence**

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

## **Rule 18**

### **Presentation of Information**

18.1. A professional accountant is expected to present financial information fully, honestly and professionally and so that it will be understood in its context.

18.2. Financial and non-financial information should be maintained in a manner that describes clearly the true nature of business transactions, assets or liabilities and classifies and records entries in a timely and proper manner, and professional accountants should do everything that is within their powers to ensure that this is the case.

# **PART 4**

## **ENFORCEMENT OF RULE OF**

### **CONDUCT**

#### **Implementation of Ethical Requirements**

- 19.1 The task of preparing detailed ethical requirements is primarily that of the concerned professional bodies. However, because of the absence of such strong professional bodies capable of setting, enforcing and regulating the profession; and pursuant to proclamation No 68/89 Article4 Sub-Article (4) and (6) and Article7 Sub-Article (10) the Office of the Federal Auditor General has hereby taken the initiative to issue this code of ethics.
- 19.2 Developing an ethical requirements by itself will not necessarily ensure that the standard of conduct laid down will be maintained; if it is to be effective, the involvement of and observance by each professional accountant would be important for their implementation.
- 19.3 Each professional accountant has the responsibility to promote the high standards of professional conduct and to ensure that ethical requirements are observed and failure to do so would be investigated and appropriate action taken.
- 19.4 Regulatory bodies and professional associations are encouraged to ensure that counseling and advice is available to help resolve ethical conflicts. This function is an important part of implementation and can be fulfilled by such means as providing a service to respond to questions raised by individual professional accountants on interpretations of ethical requirements and by the formation of appropriate committees such as disciplinary and appeal committees, which would monitor and follow up the enforcement of the ethical requirements.
- 19.5 Implementation of ethical requirements will be assisted by the introduction of a program designed to ensure that individual professional accountants are aware of all ethical requirements and the consequences of non-compliance with those requirements.

19.6 Professional accountants should therefore be prepared to justify any departures from the ethical requirements. Failure to comply with ethical requirements or the inability to justify departures therefrom may constitute professional misconduct that could give rise to disciplinary action.

## **Enforcement of Ethical Requirements**

19.7 The Office of the Federal Auditor General is responsible for the enforcement of the ethical requirements described in this code of ethics and for taking appropriate disciplinary action until such time that a separate and competent body able to take on this responsibility is established by the government of Ethiopia.

19.8 Disciplinary action ordinarily arises from such issues as:

- Failure to observe the required standard of professional care, skills or competence;
- Non-compliance with Code of ethics; and
- Discreditable or dishonorable conduct.

19.9 Disciplinary investigations will ordinarily commence as a result of a complaint. However, investigation could also be initiated without any prior complaint. Investigations can be carried out on a verbal or correspondence basis. Reference should always be lodged to the professional accountant against whom the complaint is being made as well as to the complainant. When there is a dispute, conciliation may be attempted as an initial step. Setting time limits on the investigatory process may be difficult, particularly when the circumstances involve other legal processes.

19.10 Based on the result of the investigation process the Federal Auditor General will decide as to whether to commence disciplinary proceedings.

19.11 The disciplinary committee established by Federal Auditor General will ordinarily carry out the disciplinary proceedings. The proceedings should be held in a manner that is consistent with the legal requirements. This will ordinarily involve legal representation, taking evidence and keeping records of the proceedings.

19.12 Sanctions commonly imposed by disciplinary Committee may include the following:

- Reprimand;
- Fine;
- Payment of costs arisen from the disciplinary proceeding;

- Suspension of Certificate of Competence; and
  - Withdrawal of Certificate of Competence;
- 19.13 Other sanctions can include warning, the refund of the fee charged to the client, additional education and the work to be completed by another professional accountant at the expense of the disciplined incumbent.
- 19.14 Ordinarily there is a right to appeal by both sides within fixed time limits. Such a right of appeal is to a Committee established by the Federal Auditor General. The committee will consist of a minimum of five members at least two of them shall be non-accountants. The FAG will nominate one of the non-accountants as chairman of the Appeal Committee. The Appeal Committee should review all the evidence considered at the disciplinary proceedings. Additional evidence may also be called for and taken either orally or in writing.
- 19.15 It may be appropriate for publicity to be given to the disciplinary and appeal proceedings. In this way, both members of the profession and the general public are informed. However, the aspects of confidentiality and the type of violation have to be considered in deciding the method of publicity. There may also be a need to communicate the decision to an appropriate professional association to which the disciplined member is affiliated.

### **Disciplinary Procedures**

- 19.16 The Federal Auditor General shall appoint an Investigation Committee from among the members of the concerned bodies.
- 19.17 The Investigation Committee shall consist of a minimum of five members at least two of them shall be members of the practicing Authorized Auditors and Accountants.
- 19.18 The Federal Auditor General shall nominate one of the members as chairman of the Investigation Committee.
- 19.19 The Federal Auditor General shall appoint a Disciplinary Committee from concerned bodies.
- 19.20 The Disciplinary Committee shall consist of a minimum five members at least two of them shall be members of the Authorized Auditors and Accountants .The Federal Auditor General shall nominate one of the members as the chairman of the Disciplinary Committee.

- 19.21 No member shall at the same time serve on both the Investigation and the Disciplinary Committees.
- 19.22 All complaints against an authorized accountants and auditors shall, in the first instance, be considered by three members of the Investigation Committee appointed to hear the case. Thereafter, the Investigation Committee shall submit a report, together with their recommendations, to the Federal Auditor General.
- 19.23 Based on the result of the investigation process and the recommendation given by the Investigation Committee the Federal Auditor General may, if considered necessary, refer the case to the Disciplinary Committee.
- 19.24 The Disciplinary Committee shall consider the case as referred to it by the Federal Auditor General. A member of the Investigation Committee shall be present at this time. The professional accountant complained against shall be given the right of a hearing. Expert witnesses may be called if either party or the committee considers this necessary.
- 19.25 The Disciplinary Committee, having considered the case shall give its decision. All decisions of the Disciplinary Committee will be notified in writing to the Federal Auditor General. Either the professional accountant or the complainant may appeal to the Appeal Committee against the decision of the Disciplinary Committee.
- 19.26 Paragraph 19.14 provides guidance on how the Appeal Committee shall be established and the procedures it follows to give decision. All decisions of the committee will be notified in writing to the Federal Auditor General.
- 19.27 In the event that any action by authorized auditors and accountants that appears to be in violation of this code of ethics comes to the attention of the Federal Auditor General, and no complaint has been filed against that professional accountant, the Federal Auditor General shall be responsible for establishing the case against that member.
- 19.28 All complaints against authorized auditors and accountants shall be addressed to the Federal Auditor General who shall acknowledge receipt of the same. Brief details of the complaint shall be recorded in the "register of complaints " maintained for this purpose. A copy of the complaint shall be forwarded to the professional accountant against whom the complaint is lodged and to the chairman of the Investigation Committee.

- 19.29 The chairman of the Investigation Committee shall forthwith appoint at least three members of Investigation Committee to form a sub-committee to consider the complaint. None of these members shall be a relative, partner, associate, employer or employee of the complainant or the professional accountant against whom the complaint is lodged. The chairman of the Investigation Committee shall nominate one person as the convener of the sub-committee set up to hear the complaint or complaints.
- 19.30 At least fifteen days notice in writing by registered mail shall be given by the chairman of the Investigative Committee to:
- a) the complainant;
  - b) the professional accountant against whom the complaint is lodged; and
  - c) all members of the sub-committee;
- setting out the date, time and place for the hearing. No hearing shall take place unless all members of the Investigation sub-committee appointed by the Chairman are present.
- 19.31 The Investigation Sub-committee will hear the complainant and the answer given by the professional accountant against whom the complaint is lodged. In the absence of the complainant or person holding his power of attorney the Sub-committee will base their enquires upon the initial, written complaint. In the absence, at the first hearing, of the professional accountant against whom the complaint is lodged or person holding his power of attorney the convener of the Sub-committee shall then adjourn the meeting for a period not exceeding thirty days.
- 19.32 The Investigation Sub-committee may call for such further evidence, as they require.
- 19.33 Having heard and considered the complaint the Sub-committee shall submit a report to the Federal Auditor General, together with their recommendations. In the event that the conclusions and recommendations of the sub-committee are not unanimous the report will state the same. All members of the Sub-committee shall sign the report and recommendations. At the same time the convener shall initial and date the register of complaints.
- 19.34 Copies of the report and recommendations shall be dispatched by registered mail, within five days of their signature, by the Federal Auditor General to;
- a) the complainant;
  - b) the authorized auditor and accountant;
  - c) each member of the Disciplinary Committee;



- d) each member of the Investigation Committee.
- 19.35 The Chairman of the Discipline Committee, when in receipt of the report and recommendation of the Investigative Committee, as forwarded by the Federal Auditor General, shall summon the Disciplinary Committee to hear the case. At least fifteen days notice in writing by registered mail shall be given by the Chairman to:
- a) all complainants whose cases are to be heard;
  - b) all authorized auditors and accountants;
  - c) all members of the disciplinary committee;
  - d) a representative of each of the Investigation Sub-committees whose cases are to be heard; setting out the date, time and place for the hearing.
- 19.36 No hearing shall take place unless at least three members of the Disciplinary Committee are present. None of the three members shall be a relative, partner, associate, employee or employer of the complainant or the professional accountant against whom complaint is lodged. The chairman of the committee may appoint an alternative to act in his place in the event that he is unable to attend a meeting.
- 19.37 The Disciplinary Committees shall consider the report submitted to it by, and the recommendations of, the Investigation Committee. The disciplinary Committee may call for a statement from:
- a) the complainant;
  - b) the representative of the Investigation Sub-committee;
  - c) the authorized auditors and accountant;
  - d) any expert witness called by the above;
  - e) any legal representative called by the above;
  - f) any person holding the power of attorney of the above;
- 19.38 Having heard and considered the complaint, report and parties listed in the last preceding section the committee will give its decision by a simple majority vote. In the event of a tie the Chairman will have a casting vote. Paragraph 19.12 and 19.13 describes some of the decisions commonly imposed by the disciplinary committee. However, if the committee finds it appropriate under the circumstances, may decide for the professional accountant against whom the complaint is lodged.
- 19.39 All the decisions of the Disciplinary Committee shall be notified in writing to the Federal Auditor General.

- 19.40 The Federal Auditor General, within five days of receiving the Disciplinary Committee decision shall notify in writing by registered mail to:
1. the complainant; and
  2. the professional accountant against whom the complaint is lodged
- The notification of the Federal Auditor General shall set out the right of appeal against the decision of the Disciplinary Committee.
- 19.41 The decision shall be recorded in the minutes of the committee, which shall be signed by the chairman. At the same time the chairman of the meeting shall initial and date the register of complaints.
- 19.42 Any aggrieved complainant or professional of the issue of such notification, appeal to the Federal Auditor General against the decision of the Disciplinary Committee. The Federal Auditor General shall refer the same to the Appeal Committee. The decision of the Disciplinary Committee shall be suspended during the period in which an appeal may be lodged and pending the hearing of the appeal. In the absence of such an appeal the decision of the Disciplinary Committee shall be final and shall be effective from the date of notification.
- 19.43 Minutes of all meetings of the Disciplinary Committee shall be circulated to all members of the Disciplinary Committee, Investigation Committee and Federal Auditor General.
- 19.44 The Appeal Committee may determine the appeal after consideration of the evidence given before, and documents produced to, the Investigation and Disciplinary Committees. It shall have full power to rehear any witness called before the Disciplinary Committee or (on special grounds only) to receive fresh evidence. The Appeal Committee shall give both the complainant and the professional accountant, against whom complaint is lodged, an opportunity of being heard personally or through their lawyer or power of attorney. A member of the Disciplinary Committee will normally state the case for the committee.
- 19.45 The Appeal Committee shall have full power to affirm, vary or reverse the findings and decision of the Disciplinary committee. The Appeal Committee shall present its decision to the Federal Auditor General for final approval.
- 19.46 The decision of the Appeal Committee when approved by the Federal Auditor General shall be final. There shall be no further appeal against this decision except the court of law.

## **Professional Indemnity Insurance**

19.47 Every Authorized Auditors should have Professional Indemnity Insurance in line with their audit engagements.

## **Limited Liability Partnership**

19.48 Authorized Accountants and Authorized Auditors can form Limited Liability Partnership (as prescribed by the Commercial Code of 1960) but can not be a limited liability company (private limited company). And Authorized Auditors can call themselves as “Authorized Auditors” and Authorized Accountants can call themselves “Authorized Accountants “ and use it on their own stationeries and stamp, including the professional qualification they have, if any, from a recognized professional qualifying body.

## **Tenure of the Committees**

19.49 The tenure of the Investigation and Disciplinary Committees shall be two years.