



CHANGES TO THE IRBA CODE OF PROFESSIONAL CONDUCT NON-COMPLIANCE WITH LAWS AND REGULATIONS CONTENTS

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The proposed amendments to this Code are based on local requirements as per Part B of the IRBA Code of Professional Conduct for Registered Auditors. The IRBA Code of Professional Conduct adopted the *International Ethics Standards Board for Accountants (IESBA) Code of Ethics* published by the International Federation of Accountants (IFAC), which is used with the permission of IFAC. Adaptations to Parts A and B are underlined and *in italics*.

SECTION 225

Responding to Non-Compliance with Laws and Regulations

Purpose

- 225.1 A registered auditor in public practice may encounter or be made aware of non-compliance or suspected non-compliance with laws and regulations in the course of providing a professional service to a client. The purpose of this section is to set out the registered auditor's responsibilities when encountering such non-compliance or suspected non-compliance, and guide the registered auditor in assessing the implications of the matter and the possible courses of action when responding to it. This section applies regardless of the nature of the client, including whether or not it is a public interest entity.
- 225.2 Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with governance, by management or by other individuals working for or under the direction of a client which are contrary to the prevailing laws or regulations.
- 225.3 In some jurisdictions, there are legal or regulatory provisions governing how registered auditors should address non-compliance or suspected non-compliance which may differ from or go beyond this section. When encountering such non-compliance or suspected non-compliance, the registered auditor has a responsibility to obtain an understanding of those provisions and comply with them, including any requirement to report the matter to an appropriate authority and any prohibition on alerting the client prior to making any disclosure, for example, pursuant to anti-money laundering legislation.
- 225.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the registered auditor are:
- (a) To comply with the fundamental principles of integrity and professional behaviour;
 - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
 - i. Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
 - ii. Deter the commission of the non-compliance where it has not yet occurred; and
 - (c) To take such further action as appropriate in the public interest.

Scope

- 225.5 This section sets out the approach to be taken by a registered auditor who encounters or is made aware of non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the client’s financial statements; and

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- (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client's financial statements, but compliance with which may be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

225.6 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

225.7 Non-compliance may result in fines, litigation or other consequences for the client that may have a material effect on its financial statements. Importantly, such non-compliance may have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

225.8 A registered auditor who encounters or is made aware of matters that are clearly inconsequential, judged by their nature and their impact, financial or otherwise, on the client, its stakeholders and the general public, is not required to comply with this section with respect to such matters.

225.9 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the client; and
- (b) Non-compliance other than by the client or those charged with governance, management or other individuals working for or under the direction of the client. This includes, for example, circumstances where a registered auditor has been engaged by a client to perform a due diligence assignment on a third party entity and the identified or suspected non-compliance has been committed by that third party.

The registered auditor may nevertheless find the guidance in this section helpful in considering how to respond in these situations.

Responsibilities of the Client's Management and Those Charged with Governance

225.10 It is the responsibility of the client's management, with the oversight of those charged with governance, to ensure that the client's business activities are conducted in accordance with laws and regulations. It is also the responsibility of management and those charged with governance to identify and address any non-compliance by the client, by an individual charged with governance of the entity, by a member of management, or by other individuals working for or under the direction of the client.

Responsibilities of Registered Auditors in Public Practice

225.11 Where a registered auditor becomes aware of a matter to which this section applies, the steps that the registered auditor takes to comply with this section shall be taken on a timely basis, having regard to the registered auditor's understanding of the nature of the matter and the potential harm to the interests of the entity, investors, creditors, employees or the general public.

Audits of Financial Statements

Obtaining an Understanding of the Matter

225.12 If a registered auditor engaged to perform an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, whether in the course of performing the engagement or through information provided by other parties, the registered auditor shall obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may occur.

225.13 The registered auditor is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of knowledge of laws and regulations that is greater than that which is required to undertake the engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the registered auditor may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

225.14 If the registered auditor identifies or suspects that non-compliance has occurred or may occur, the registered auditor shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

225.15 Such discussion serves to clarify the registered auditor's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also may prompt management or those charged with governance to investigate the matter.

225.16 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.

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- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

225.17 The appropriate level of management is generally at least one level above the person or persons involved or potentially involved in the matter. If the registered auditor believes that management is involved in the non-compliance or suspected non-compliance, the registered auditor shall discuss the matter with those charged with governance. The registered auditor may also consider discussing the matter with internal auditors, where applicable. In the context of a group, the appropriate level may be management at an entity that controls the client.

Addressing the Matter

225.18 In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the registered auditor shall advise them to take appropriate and timely actions, if they have not already done so, to:

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
- (b) Deter the commission of the non-compliance where it has not yet occurred; or
- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

225.19 The registered auditor shall consider whether the client's management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance. If not, the registered auditor may suggest appropriate sources of information or recommend that they obtain legal advice.

225.20 The registered auditor shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority. In this regard, some laws and regulations may stipulate a period within which reports are to be made; and
- (b) Requirements under auditing standards, including those relating to:
 - Identifying and responding to non-compliance, including fraud.
 - Communicating with those charged with governance.
 - Considering the implications of the non-compliance or suspected non-compliance for the auditor's report.

Communication with Respect to Groups

225.21 A registered auditor may:

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- (a) For purposes of an audit of group financial statements, be requested by the group engagement team to perform work on financial information related to a component of the group; or
- (b) Be engaged to perform an audit of a component's financial statements for purposes other than the group audit, for example, a statutory audit.

Where the registered auditor becomes aware of non-compliance or suspected non-compliance in relation to the component in either situation, the registered auditor shall, in addition to responding to the matter in accordance with the provisions of this section, communicate it to the group engagement partner unless prohibited from doing so by law or regulation. This is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how it should be addressed in accordance with the provisions in this section.

225.22 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an audit of group financial statements, including as a result of being informed of such a matter in accordance with paragraph 225.21, the group engagement partner shall, in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section, consider whether the matter may be relevant to one or more components:

- (a) Whose financial information is subject to work for purposes of the audit of the group financial statements; or
- (b) Whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.

If so, the group engagement partner shall take steps to have the non-compliance or suspected non-compliance communicated to those performing work at components where the matter may be relevant, unless prohibited from doing so by law or regulation. If necessary in relation to subparagraph (b), appropriate inquiries shall be made (either of management or from publicly available information) as to whether the relevant component(s) is subject to audit and, if so, to ascertain to the extent practicable the identity of the auditor. The communication is to enable those responsible for work at such components to be informed about the matter and to determine whether and, if so, how it should be addressed in accordance with the provisions in this section.

Determining Whether Further Action Is Needed

225.23 The registered auditor shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

225.24 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.

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- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

225.25 In light of the response of management and, where applicable, those charged with governance, the registered auditor shall determine if further action is needed in the public interest.

225.26 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the matter.
- The pervasiveness of the matter throughout the client.
- Whether the registered auditor continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the entity, investors, creditors, employees or the general public.

225.27 Examples of circumstances that may cause the registered auditor no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The registered auditor suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The registered auditor is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

225.28 In determining the need for, and nature and extent of, further action, the registered auditor shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the registered auditor at the time, would be likely to conclude that the registered auditor has acted appropriately in the public interest.

225.29 Further action by the registered auditor may include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.

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- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

225.30 Where the registered auditor determines that withdrawing from the engagement and the professional relationship would be appropriate, doing so would not be a substitute for taking other actions that may be needed to achieve the registered auditor's objectives under this section. In some jurisdictions, however, there may be limitations as to the further actions available to the registered auditor and withdrawal may be the only available course of action.

225.31 Where the registered auditor has withdrawn from the professional relationship pursuant to paragraphs 225.25 and 225.29, the registered auditor shall, on request by the proposed successor registered auditor, provide all such facts and other information concerning the identified or suspected non-compliance that, in the predecessor registered auditor's opinion, the proposed successor registered auditor needs to be aware of before deciding whether to accept the audit appointment. The predecessor registered auditor shall do so despite paragraph 210.14, unless prohibited by law or regulation. If the proposed successor registered auditor is unable to communicate with the predecessor registered auditor, the proposed successor registered auditor shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means, such as through inquiries of third parties or background investigations of management or those charged with governance.

225.32 As consideration of the matter may involve complex analysis and judgments, the registered auditor may consider consulting internally, obtaining legal advice to understand the registered auditor's options and the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

Determining Whether to Disclose the Matter to an Appropriate Authority

225.33 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

225.34 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or may be caused by the matter to investors, creditors, employees or the general public. For example, the registered auditor may determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The entity is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The entity is regulated and the matter is of such significance as to threaten its license to operate.

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- The entity is listed on a securities exchange and the matter could result in adverse consequences to the fair and orderly market in the entity's securities or pose a systemic risk to the financial markets.
- Products that are harmful to public health or safety would likely be sold by the entity.
- The entity is promoting a scheme to its clients to assist them in evading taxes.

The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter, for example, a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the registered auditor or other individuals.

225.35 If the registered auditor determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the registered auditor shall act in good faith and exercise caution when making statements and assertions. The registered auditor shall also consider whether it is appropriate to inform the client of the registered auditor's intentions before disclosing the matter.

225.36 In exceptional circumstances, the registered auditor may become aware of actual or intended conduct that the registered auditor has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the registered auditor shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

Documentation

225.37 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the registered auditor shall, in addition to complying with the documentation requirements under applicable auditing standards, document:

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- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the registered auditor considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party perspective.
- How the registered auditor is satisfied that the registered auditor has fulfilled the responsibility set out in paragraph 225.25.

225.38 *International Standards on Auditing (ISAs)*, for example, require a registered auditor performing an audit of financial statements to:

- Prepare documentation sufficient to enable an understanding of significant matters arising during the audit, the conclusions reached, and significant professional judgments made in reaching those conclusions;
- Document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place; and
- Document identified or suspected non-compliance, and the results of discussion with management and, where applicable, those charged with governance and other parties outside the entity.

Professional Services Other than Audits of Financial Statements

Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance

225.39 If a registered auditor engaged to provide a professional service other than an audit of financial statements becomes aware of information concerning an instance of non-compliance or suspected non-compliance, the registered auditor shall seek to obtain an understanding of the matter, including the nature of the act and the circumstances in which it has occurred or may be about to occur.

225.40 The registered auditor is expected to apply knowledge, professional judgment and expertise, but is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the registered auditor was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body. Depending on the nature and significance of the matter, the registered auditor may consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

225.41 If the registered auditor identifies or suspects that non-compliance has occurred or may occur, the registered auditor shall discuss the matter with the appropriate level of management and, if the registered auditor has access to them and where appropriate, those charged with governance.

225.42 Such discussion serves to clarify the registered auditor's understanding of the facts and circumstances relevant to the matter and its potential consequences. The

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discussion also may prompt management or those charged with governance to investigate the matter.

225.43 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

Communicating the Matter to the Entity's External Auditor

225.44 If the registered auditor is performing a non-audit service for an audit client of the firm, or a component of an audit client of the firm, the registered auditor shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance with the firm's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.

225.45 If the registered auditor is performing a non-audit service for an audit client of a network firm, or a component of an audit client of a network firm, the registered auditor shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures or, in the absence of such protocols and procedures, directly to the audit engagement partner.

225.46 If the registered auditor is performing a non-audit service for a client that is not:

- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,

the registered auditor shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the client's external auditor, if any.

225.47 Factors relevant to considering the communication in accordance with paragraphs 225.45 and 225.46 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.

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- The likely materiality of the matter to the audit of the client's financial statements or, where the matter relates to a component of a group, its likely materiality to the audit of the group financial statements.

225.48 In all cases, the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how it should be addressed in accordance with the provisions of this section.

Considering Whether Further Action Is Needed

225.49 The registered auditor shall also consider whether further action is needed in the public interest.

225.50 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the matter.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the client, investors, creditors, employees or the general public.

225.51 Further action by the registered auditor may include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

225.52 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.

225.53 If the registered auditor determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, this will not be considered a breach of the duty of confidentiality under Section 140 of this Code. When making such disclosure, the registered auditor shall act in good faith and exercise caution when making statements and assertions. The registered auditor shall also consider whether it is

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appropriate to inform the client of the registered auditor's intentions before disclosing the matter.

225.54 In exceptional circumstances, the registered auditor may become aware of actual or intended conduct that the registered auditor has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having considered whether it would be appropriate to discuss the matter with management or those charged with governance of the entity, the registered auditor shall exercise professional judgment and may immediately disclose the matter to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. Such disclosure will not be considered a breach of the duty of confidentiality under Section 140 of this Code.

225.55 The registered auditor may consider consulting internally, obtaining legal advice to understand the professional or legal implications of taking any particular course of action, or consulting on a confidential basis with a regulator or professional body.

Documentation

225.56 In relation to an identified or suspected act of non-compliance that falls within the scope of this section, the registered auditor is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the registered auditor considered, the judgments made and the decisions that were taken.
- How the registered auditor is satisfied that the registered auditor has fulfilled the responsibility set out in paragraph 225.49.

CONSEQUENTIAL AND CONFORMING CHANGES TO OTHER SECTIONS OF THE CODE

(MARK-UP FROM EXTANT CODE)

SECTION 100

Introduction and Fundamental Principles

Fundamental Principles

100.5 A registered auditor shall comply with the following fundamental principles:

- (e) Professional Behaviour – to comply with relevant laws and regulations and avoid any ~~action~~ conduct that discredits the profession.

Conflicts of Interest

Ethical Conflict Resolution

100.23 If a significant conflict cannot be resolved, a registered auditor may consider obtaining professional advice from the relevant professional body or from legal advisors. The registered auditor generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. ~~Instances in which the registered auditor may consider obtaining legal advice vary. For example, a registered auditor may have encountered a fraud, the reporting of which could breach the registered auditor's responsibility to respect confidentiality. The registered auditor may consider obtaining legal advice in that instance to determine whether there is a requirement to report.~~

100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a registered auditor shall, ~~where possible~~ unless prohibited by law, refuse to remain associated with the matter creating the conflict. The registered auditor shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

Communicating with Those Charged with Governance

100.25 When communicating with those charged with governance in accordance with the provisions of this Code, the registered auditor or firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the registered auditor or firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the registered auditor or firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

100.26 In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. The *registered auditor* or firm shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the *registered auditor* or firm would otherwise communicate in their governance capacity.

SECTION 140

Confidentiality

140.7 As a fundamental principle, confidentiality serves the public interest because it facilitates the free flow of information from the *registered auditor's* client or employing organization to the *registered auditor*. Nevertheless, the following are circumstances where *registered auditors* are or may be required to disclose confidential information or when such disclosure may be appropriate:

- (a) Disclosure is permitted by law and is authorized by the client or the employer;
- (b) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a member body or professional body;
 - (ii) To respond to an inquiry or investigation by a member body or regulatory body;
 - (iii) To protect the professional interests of a *registered auditor* in legal proceedings; or
 - (iv) To comply with technical and professional standards, and including ethics requirements.

SECTION 150

Professional Behaviour

150.1 The principle of professional behaviour imposes an obligation on all *registered auditors* to comply with relevant laws and regulations and avoid any action conduct that the *registered auditor* knows or should know may discredit the profession. This includes actions conduct that a reasonable and informed third party, weighing all the specific facts and circumstances available to the *registered auditor* at that time, would be likely to conclude adversely affects the good reputation of the profession.

SECTION 210

Professional Appointment

Client Acceptance and Continuance

210.1 Before accepting a new client relationship, a registered auditor in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, ~~questionable~~ issues associated with the client (its owners, management or activities). ~~210.2 Client issues~~ that, if known, could threaten compliance with the fundamental principles. These include, for example, client involvement in illegal activities (such as money laundering), dishonesty, or questionable financial reporting practices or other unethical behaviour.

210.23 A registered auditor in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:

- Obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities; or
- Securing the client's commitment to address the questionable issues, for example, through improveing corporate governance practices or internal controls.

210.34 Where it is not possible to reduce the threats to an acceptable level, the registered auditor in public practice shall decline to enter into the client relationship.

210.45 ~~It is recommended that a registered auditor in public practice periodically review acceptance decisions for recurring client engagements. Potential threats to compliance with the fundamental principles may have been created after acceptance that would have caused the registered auditor to decline the engagement had that information been available earlier. A registered auditor in public practice shall, therefore, periodically review whether to continue with a recurring client engagement. For example, a threat to compliance with the fundamental principles may be created by a client's unethical behaviour such as improper earnings management or balance sheet valuations. If a registered auditor in public practice identifies a threat to compliance with the fundamental principles, the registered auditor shall evaluate the significance of the threats and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Where it is not possible to reduce the threat to an acceptable level, the registered auditor in public practice shall consider terminating the client relationship where termination is not prohibited by law or regulation.~~

Engagement Acceptance

210.56 The fundamental principle of professional competence and due care imposes an obligation on a registered auditor in public practice to provide only those services that the registered auditor in public practice is competent to perform. Before accepting a specific client engagement, a registered auditor in public practice shall determine

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whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.

210.67 A registered auditor in public practice shall evaluate the significance of threats and apply safeguards, when necessary, to eliminate them or reduce them to an acceptable level. Examples of such safeguards include:

- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
- Acquiring knowledge of relevant industries or subject matters.
- Possessing or obtaining experience with relevant regulatory or reporting requirements.
- Assigning sufficient staff with the necessary competencies.
- Using experts where necessary.
- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.78 When a registered auditor in public practice intends to rely on the advice or work of an expert, the registered auditor in public practice shall determine whether such reliance is warranted. Factors to consider include: reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

Changes in a Professional Appointment

210.89 A registered auditor in public practice who is asked to replace another registered auditor in public practice, or who is considering tendering for an engagement currently held by another registered auditor in public practice, shall determine whether there are any reasons, professional or otherwise, for not accepting the engagement, such as circumstances that create threats to compliance with the fundamental principles that cannot be eliminated or reduced to an acceptable level by the application of safeguards. For example, there may be a threat to professional competence and due care if a registered auditor in public practice accepts the engagement before knowing all the pertinent facts.

210.940 A registered auditor in public practice shall evaluate the significance of any threats. ~~Depending on the nature of the engagement, this may require direct communication with the existing registered auditor to establish the facts and circumstances regarding the proposed change so that the registered auditor in public practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing registered auditor that may influence~~

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~~the decision to accept the appointment.~~ 210.11 Safeguards shall be applied when necessary to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:

- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing or predecessor registered auditor will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted;
- Asking the ~~existing~~ predecessor registered auditor to provide known information on any facts or circumstances that, in the ~~existing~~ predecessor registered auditor's opinion, the proposed successor registered auditor needs to be aware of before deciding whether to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing predecessor registered auditor that may influence the decision to accept the appointment.;
or
- Obtaining necessary information from other sources.

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

210.11~~2~~ A registered auditor in public practice may be asked to undertake work that is complementary or additional to the work of the existing registered auditor. Such circumstances may create threats to professional competence and due care resulting from, for example, a lack of or incomplete information. The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is notifying the existing registered auditor of the proposed work, which would give the existing registered auditor the opportunity to provide any relevant information needed for the proper conduct of the work.

210.12~~3~~ An existing or predecessor registered auditor is bound by confidentiality. Whether that registered auditor is permitted or required to discuss the affairs of a client with a proposed registered auditor will depend on the nature of the engagement and on:

- (a) Whether the client's permission to do so has been obtained; or
- (b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

Circumstances where the registered auditor is or may be required to disclose confidential information or where such disclosure may otherwise be appropriate are set out in Section 140 of Part A of this Code.

210.13~~4~~ A registered auditor in public practice will generally need to obtain the client's permission, preferably in writing, to initiate discussions with an existing or predecessor registered auditor. Once that permission is obtained, the existing or

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predecessor registered auditor shall comply with relevant legal laws and other regulations governing such requests. Where the existing or predecessor registered auditor provides information, it shall be provided honestly and unambiguously. If the proposed registered auditor is unable to communicate with the existing or predecessor registered auditor, the proposed registered auditor shall take reasonable steps to obtain information about any possible threats by other means, such as through inquiries of third parties or background investigations of senior management or those charged with governance of the client

210.14 In the case of an audit of financial statements, a registered auditor shall request the predecessor registered auditor to provide known information regarding any facts or other information that, in the predecessor registered auditor's opinion, the proposed successor registered auditor needs to be aware of before deciding whether to accept the engagement. Except for the circumstances involving identified or suspected non-compliance with laws and regulations set out in paragraph 225.31:

- (a) If the client consents to the predecessor registered auditor disclosing any such facts or other information, the predecessor registered auditor shall provide the information honestly and unambiguously; and
- (b) If the client fails or refuses to grant the predecessor registered auditor permission to discuss the client's affairs with the proposed successor registered auditor, the predecessor registered auditor shall disclose this fact to the proposed successor registered auditor, who shall carefully consider such failure or refusal when determining whether or not to accept the appointment.

SECTION 270

Custody of Client Assets

270.3 As part of client and engagement acceptance procedures for services that may involve the holding of client assets, a registered auditor in public practice shall make appropriate inquiries about the source of such assets and consider legal and regulatory obligations. For example, if the assets were derived from illegal activities, such as money laundering, a threat to compliance with the fundamental principles would be created. In such situations, the registered auditor may consider seeking legal advice shall comply with the provisions of section 225.

Effective Date

These changes are effective as of 15 July 2017. Early adoption is permitted.