

## Ethical guidelines

### Preface

As a member of the International Federation of Accountants (IFAC) the Chartered Institute of Management Accountants is committed to IFAC's broad objective of developing and enhancing a co-ordinated worldwide accountancy profession with harmonised standards.

In 1991, CIMA's Council adopted IFAC's Guideline on Ethics for Professional Accountants and, as allowed by IFAC, authorised certain amendments and additions in order to reflect more clearly CIMA policies and requirements.

Under its Royal Charter, the Institute has powers to set standards of professional conduct and competence. Its Byelaws allow Council to make regulations for the professional standards to be observed by members, and the Ethical guidelines were so adopted in 1992.

It is not practical or possible to establish ethical requirements which apply to all situations and circumstances members may encounter. The objectives as well as the fundamental principles of the Guidelines are of a general nature and are not intended to be used to solve a member's ethical problems in a specific case. Members should consider the principles set out in the Guidelines as the basic principles which they should follow when performing their work.

In the event of a complaint being made against a member, failure to comply with the appropriate Guideline, or with advice given by the Institute, will be taken into consideration in deciding whether their action constitutes a prima facie case of professional misconduct requiring further investigation by the Institute. Disciplinary proceedings, however, are not restricted to matters set out in the Guidelines.

**These guidelines are applicable to all members and registered students.**

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## Definitions

*In these guidelines the following expressions have these meanings (given beside them) assigned to them:*

<b>Advertising</b>	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
<b>Client Account</b>	Any bank account which is used solely for the banking of clients' monies.
<b>Clients' Monies</b>	Any monies - including documents of title to money e.g., bills of exchange, promissory notes and documents of title which can be converted into money e.g., bearer bonds - received by a professional accountant in public practice to be held or paid out on the instruction of the person from whom or on whose behalf they are received.
<b>Company</b>	Any entity or person(s), whether organised for profit or not, including a parent company and all of its subsidiaries.
<b>Existing Accountant</b>	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, auditing, taxation, consulting or similar professional services for a client.
<b>Member</b>	<p>As fully defined in CIMA Bye-Laws there are two grades of membership of the Institute, namely Fellow (FCMA) and Associate (ACMA).</p> <p>For these, candidates must have attained:</p> <ul style="list-style-type: none"><li>• the specified age for the appropriate category;</li><li>• passed the prescribed examination and/or other tests of knowledge and experience.</li></ul> <p>On having demonstrated these and having been awarded membership by Council, they may use the appropriate designatory description and letters.</p>
<b>Member in Public Practice</b>	In adopting the IFAC Guidelines CIMA has used the expression 'member in public practice' in place of 'professional accountant in public practice'. The two are synonymous.
<b>Objectivity</b>	A combination of impartiality, intellectual honesty and a freedom from conflicts of interest.
<b>Practice</b>	A sole practitioner, a partnership or company which offers professional services to the public.
<b>Professional accountant</b>	Those individuals, whether they be in public practice, industry, commerce, the public sector or education, who are members of a recognised professional accountancy body.

<b>Professional Accountant in Public Practice</b>	Each partner or person occupying a position similar to that of a partner, and each employee in a practice providing professional services to a client irrespective of their functional classification (for example, audit tax or consulting) and professional accountants in a practice having managerial responsibilities. This term is also used to refer to a firm of professional accountants in public practice.
<b>Professional Services</b>	Any service requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.
<b>Publicity</b>	The communication to the public of facts about a professional accountant which are not designed for the deliberate promotion of that professional accountant.
<b>Receiving Accountant</b>	A professional accountant in public practice to whom the existing accountant or client of the existing accountant has referred accounting, audit, taxation, consulting or similar appointments, or who is consulted in order to meet the needs of the client.
<b>Registered Student</b>	As fully defined in CIMA members' Regulations a registered student is a person recognised by the Institute as seeking to qualify for membership and whose name has been entered on the Institute's Register of Students.  Student registration shall not confer any membership rights or entitle any person registered to claim any form of membership of the Institute. Before any person can claim to be a Member, they must satisfy the criteria outlined under the definition of Member.
<b>Reporting Assignment</b>	An engagement which requires the expression of an opinion by a professional accountant in public practice on financial information.
<b>Solicitation</b>	The approach to a potential client for the purpose of offering professional services.

## INTRODUCTION

1. As members of a profession, **CIMA's members** (definition) have a duty to observe the highest standard of conduct and integrity.
2. The IFAC Guidelines, on which these CIMA guidelines are based:
  - set standards of conduct for **professional accountants** (definition); and
  - state the fundamental principles that have to be observed by professional accountants in order to achieve common objectives.
3. The Guidelines assume that unless a limitation is specifically stated the objectives and fundamental principles are equally valid for all members, whether they be in industry, commerce, the public sector, public practice or education.
4. A profession is distinguished by certain characteristics including:
  - mastery of a particular intellectual skill, acquired by training and education;
  - acceptance of duties to society as a whole in addition to duties to the client or employer;
  - an outlook which is essentially objective;
  - rendering personal services to a high standard of conduct and performance.
5. The specialised knowledge and skills, the training and experience required to be a professional accountant, and the personal nature of the services that professional accountants render, make it difficult for those who depend upon them to assess the responsibility for and the quality of their **professional services** (definition) and the standards used in the performance of such services.
6. Against this background, CIMA requires all its members to comply with these guidelines to ensure the highest quality of performance.

## THE PUBLIC INTEREST

7. A distinguishing mark of a profession is acceptance of its responsibility to the public. The accountancy profession's public consists of employers, creditors, clients, governments, employees, investors, the business and financial community and others who rely on the **objectivity** (definition) and integrity of professional accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on the accountancy profession. The public interest is defined as the collective well-being of the community of people and institutions the professional accountant serves.
8. A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employer. The standards of the accountancy profession are heavily determined by the public interest, for example:

- financial managers serve in various financial management capacities in organisations and contribute to the efficient and effective use of the organisation's resources;
  - internal auditors provide assurance about a sound internal control system which enhances the reliability of the external financial information of the employer;
  - independent auditors help to maintain the integrity and efficiency of the financial statements presented to financial institutions in partial support for loans and to shareholders for obtaining capital;
  - tax experts help to establish confidence and efficiency in, and the fair application of, the tax system;
  - management consultants have a responsibility toward the public interest in advocating sound management decision making.
  - professional accountants have an important role in society
9. 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 their community and country.
10. Professional accountants can remain in this advantageous position only by continuing to provide these services at a level which demonstrates that public confidence is firmly founded. It is in the best interest of the accountancy profession to make known to users that the services it provides are executed at the highest level of performance and in accordance with ethical requirements set to ensure such performance.

## OBJECTIVES

11. These Guidelines recognise 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. These objectives require four basic needs to be met:
- Credibility  
There is a need for credibility in information and information systems.
  - Professionalism  
There is a need for to be clearly identified by employers, clients and other interested parties as professional persons in the accountancy field.
  - Quality of Services  
Assurance is needed 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 is a framework of professional ethics to govern the provision of services.

## FUNDAMENTAL PRINCIPLES

12. In order to achieve the objectives of the accountancy profession, professional accountants have to observe a number of prerequisites.
13. The fundamental principles are:
  - Integrity  
A professional accountant should be straightforward and honest in performing professional services. Professional accountants should not be party to the falsification of any record or knowingly or recklessly supply any information or make any statement which is misleading, false or deceptive in a material particular.
  - Objectivity  
A professional accountant should be fair and should not allow prejudice or bias or the influence of others to override objectivity.
  - Professional Competence and Due Care  
In agreeing to provide professional services, a professional accountant implies that there is a level of competence necessary to perform those services and that his or her knowledge, skill and experience will be applied with reasonable care and diligence. Professional accountants must therefore refrain from performing any services which they are not competent to carry out unless appropriate advice and assistance is obtained to ensure that the services are performed satisfactorily. A professional accountant should perform professional services with due care, competence and diligence. There is a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives the advantage of competent professional service based on up-to-date developments in practice, legislation and techniques.
  - Confidentiality  
A professional accountant should respect the confidentiality of information acquired during the course of performing professional services and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.
  - Professional Behaviour  
A professional accountant should act in a manner consistent with the good reputation of the profession. CIMA requires from its members to refrain from any conduct which might bring discredit to the Institute, especially with regard to their responsibilities towards employers, clients, third parties, other members of the accountancy profession, employees and the general public.

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

- Professional and Technical Standards

A professional accountant is expected to present financial information fully, honestly and professionally, so that it will be understood in its context. He also knows, understands and follows professional standards; a professional accountant should carry out professional services in accordance with relevant technical and professional standards. They have a duty to carry out, 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 public practice, independence. In addition they should conform with the technical and professional standards promulgated by:

- IFAC
- IASC
- National professional bodies
- National regulatory bodies
- relevant international and national legislation.

14. In addition to the fundamental principles above, **professional accountants in public practice** (definition), when undertaking a **reporting assignment** (definition), should be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.

## 1: OBJECTIVITY

- 1.1 The principle of objectivity imposes the obligation on all members to be fair, intellectually honest and free of conflicts of interest.
- 1.2 Members serve in many different capacities and should demonstrate their objectivity in varying circumstances. **Members in Public Practice** (definition) undertake reporting assignments, and render tax and other management advisory services. Other members prepare financial statements as a subordinate of others, perform internal auditing services, and serve in financial management capacities in industry, commerce, the public sector and education. Regardless of service or capacity, all members should protect the integrity of their professional services, maintain objectivity, and avoid any subordination of their judgement by others.
- 1.3 In selecting the situations and practices to be specifically dealt with in ethical requirements relating to objectivity, adequate consideration shall be given to the following factors:
- a. Members will be exposed to situations which involve the possibility of pressures being exerted on them. These pressures may impair their objectivity. It is impracticable to define and prescribe all such situations where these possible pressures exist.

- b. Reasonableness will prevail in establishing standards and should prevail for identifying relationships that are likely to, or appear to, impair a member's objectivity.
- c. Relationships should be avoided which allow prejudice, bias or influences of others to override objectivity.
- d. Members have an obligation to ensure that personnel engaged on professional services adhere to the principle of objectivity.

## **2: RESOLUTION OF ETHICAL CONFLICTS**

- 2.1 From time to time members encounter situations which give rise to conflicts of interest. Such conflicts may arise in a wide variety of ways, ranging from the relatively trivial dilemma to the extreme case of fraud or similar illegal activities. It is not possible to attempt to itemise a comprehensive check list of potential cases where conflicts of interest might occur. Members should be constantly conscious of and be alert to factors which give rise to conflicts of interest. It should be noted that an honest difference of opinion between a member and another party is not in itself an ethical issue. However, the facts and circumstances of each case will need investigation by the parties concerned.
- 2.2 It is recognised, however, that there can be particular factors which occur when the responsibilities of a member may conflict with internal or external demands of one type or another. Hence:
  - there may be the danger of pressure from an overbearing supervisor, manager, director or partner, or when there are family or personal relationships which can give rise to the possibility of pressures being exerted upon them (see paragraph 10.5). Indeed, relationships or interests which could adversely influence, impair or threaten a member's integrity should be discouraged.
  - A member should not mislead his employer as to the degree of expertise or experience he or she possesses, and where appropriate expert advice and assistance should be sought.
  - A member may be asked to act contrary to technical and/or professional standards.
  - A question of divided loyalty as between the member'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 member as a result of such publication.

See also Introduction, Fundamental Principles, "Professional Behaviour".

- 2.3 When faced with identified and significant ethical issues in an employed situation members should, in the first instance, look to the grievance or other established policies of the organisation and follow these wherever possible. Members holding positions of responsibility should ensure that, as far as practicable, such policies are established and communicated to their staff and colleagues.

If following these policies does not resolve the problem or the member is unable to use such procedures, the member should consider discussing the problem with his or her immediate superior, unless that person is involved, in which case the issue should be submitted to the next higher level of management. At higher levels of management the acceptable reviewing authority may be some or all of the board of directors, or the auditors, but contact with levels above the immediate superior should only be initiated with the superior's knowledge, assuming non-involvement.

Prior to or following any of these stages, discussion with an objective adviser or the member's professional accountancy body may be useful. Such discussion should be concerned to clarify the issues involved and to identify possible courses of action without breaching the duty of confidentiality to the other parties involved.

If the ethical conflict still exists after fully exhausting all levels of internal review, the member as a last resort may have no other recourse on significant matters (e.g. fraud) than to resign and submit an information memorandum to an appropriate representative of his or her employing organisation. Members in practice or consultancy having a direct relationship with a client should, for example, take advice from partners, associates or other professionals with knowledge of the situation and should follow similar procedures with succeeding levels of authority within the client's organisation.

- 2.4 While the Institute cannot be directly involved in any dispute or support any legal action contemplated it may, in appropriate cases, make arrangements for assistance to be provided, either from a member of staff, a senior member of the Institute or an independent person. Advice may include an opinion on legal aspects or ethical consequences. Initially, assistance should be sought from the Chief Executive of the Institute.
- 2.5 If after exhausting all levels of review, a significant matter of ethical conflict still exists, a member may have no alternative but to resign from employment or discontinue association with the organisation or assignment.
- 2.6 Throughout, a record should have been maintained outlining the problem and the steps taken to resolve it and a note giving such information may be submitted to an appropriate member of the employing organisation.
- 2.7 Except when seeking advice from the Chief Executive of the Institute or when legally required to do so communication of information regarding the matter to persons outside the employing organisation is not considered appropriate.

### 3: PROFESSIONAL COMPETENCE

- 3.1 Members should carry out their work with a proper regard for the technical and professional competence expected of a member and, as stated in paragraph 12 of the Introduction, should refrain from agreeing to perform professional services which they are not competent to carry out unless competent advice and assistance is obtained to enable them to satisfactorily perform such services. If a member does not have the competence to perform a specific part of the professional service, technical advice may be sought from experts such as other professional accountants, lawyers, actuaries, engineers, geologists and valuers.
- 3.2 In the preparation and approval of information which is to become available outside the organisation in which the member is employed or holds office, members should use their best endeavours to achieve compliance with current professional pronouncements (e.g. those issued by the bodies referred to in paragraph 14 of the Introduction) and statutory requirements or if this is not possible to ensure that reasons for non-compliance are stated.
- 3.3 Professional competence may be divided into two separate phases:
- a. Attainment of professional competence  
The attainment of professional competence requires a high standard of general education followed by education, training and examination in professionally relevant subjects and a period of work experience. This is the normal pattern of development of **registered students** (definition) towards membership.
  - b. Maintenance of professional competence
    1. 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.
    2. A member should adopt a programme designed to ensure quality control in the performance of professional services consistent with appropriate national and international pronouncements. The Institute has published Professional Development Guidelines which set out the contents of a structured programme of post qualifying career development and training.

### 4: CONFIDENTIALITY

- 4.1 Members have an obligation to respect the confidentiality of information about an employer's or a client's affairs acquired in the course of their work. The duty of confidentiality continues even after the end of the relationship between the member and the employer or client.
- 4.2 Confidentiality should always be observed unless specific authority has been given to disclose information or there is a legal or professional duty to disclose.

- 4.3 Members have an obligation to ensure that staff under their control and persons from whom advice and assistance is obtained respect the principle of confidentiality.
- 4.4 Confidentiality is not only a matter of disclosure of information. It also requires that anyone acquiring information in the course of performing his or her work will not use that information for personal advantage or for the advantage of a third party.
- 4.5 Members have access to much confidential information about an employer's or client's affairs not otherwise disclosed to the public. They must be relied upon not to make unauthorised disclosures to other persons. This does not apply to disclosure of such information in order properly to discharge the individual's responsibility according to the profession's standards.
- 4.6 It is in the interest of the public and the profession that the profession's standards relating to confidentiality be defined and guidance given on the nature and extent of the duty of confidentiality and the circumstances in which disclosure of information acquired during the course of providing professional services shall be permitted or required.
- 4.7 It should be recognised, however, that confidentiality of information is part of statute or common law and that detailed ethical requirements will depend on the law of the country in which services are performed. The following are examples of the points which should be considered in determining the extent to which confidential information may be disclosed:
- a. When disclosure is authorised. When authorisation to disclose is given by the employer or the client the interests of all the parties including those third parties whose interests might be affected should be considered.
  - b. When disclosure is required by law. Examples of when an individual may be 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 ethical requirements; such disclosure is not contrary to this section;
    - ii. to protect the professional interests of a member in legal proceedings;
    - iii. to comply with the quality (or peer) review of the Institute or other professional body;

- iv. to respond to an inquiry or investigation by the Institute or other regulatory body.

## **5 : EMPLOYMENT**

- 5.1 Subject to statute or regulation only members are entitled to use the appropriate designatory letters, FCMA or ACMA. In relation to the Institute, registered students (whether or not they have passed all the Institute's examinations) are not entitled to use any designatory letters or to describe themselves other than as a "registered student".
- 5.2 Members should act responsibly and on their own behalf in any decision, negotiation or action concerning their terms of employment. The Institute does not represent the personal interests of its members in such matters and should not be brought into any dispute between a member and employer.
- 5.3 The Institute expects a member to honour any contract of employment or contract relating to employment freely entered into and not contrary to the law unless there are exceptional circumstances.
- 5.4 A member must conform to all statutory regulations relating to employment.
- 5.5 A member does not breach any rule of professional conduct by joining a trade union. Participation by a member, as a member of a trade union, in industrial action involving the withdrawal of labour will not normally be regarded as professional misconduct provided it does not contravene the law.
- 5.6 It is permissible for members to own and deal in shares in any organisation in which they are employed or hold office subject to the provisions of relevant legislation, the requirements of the appropriate stock exchange, other non-statutory rules and regulations and their own terms of employment.

## **6: TAX PRACTICE**

- 6.1 A member rendering professional tax services is entitled to put forward the best position in favour of an employer, or a client, provided the service is rendered with professional competence, does not in any way impair integrity and objectivity, and is in the opinion of the member consistent with the law. Doubt may be resolved in favour of the client or the employer if there is reasonable support for the position and provided legal obligations of full disclosure are satisfied.
- 6.2 A member should not hold out to an employer, or a client, the assurance that the tax return prepared and the tax advice offered are beyond challenge. Instead, the member should ensure that the employer or the client 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 member who undertakes or assists in the preparation of a tax return should advise the employer or the client that the responsibility for the content of the return rests primarily with the employer or client. The member 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 an employer or to a client should be recorded, either in the form of a letter or in a memorandum for the files.
- 6.5 A member should not be associated with any return or communication in which there is reason to believe that it:
- a. contains a false or misleading statement;
  - b. contains statements or information furnished recklessly or without any real knowledge of whether they are true or false; or
  - c. omits or obscures information required to be submitted and such omission or obscurity would mislead the revenue authorities.
- 6.6 A member may prepare tax returns involving the use of estimates if such use is generally acceptable or if it is impractical under the circumstances to obtain exact data. When estimates are used, they should be presented as such in a manner so as to avoid the implication of greater accuracy than exists. The member should be satisfied that estimated amounts are reasonable under the circumstances.
- 6.7 In preparing a tax return, a member ordinarily may rely on information furnished by the employer or client 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 member should encourage, when appropriate, such supporting data to be provided.  
In addition, the member:
- a. should make use of the employer's or 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;
  - c. is encouraged to make reference to the books and records of the business operations.
- 6.8 When a member learns of a material error or omission in a tax return of a prior year, with which he or she may or may not have been associated, or of the failure to file a required tax return, the member has a responsibility to promptly advise the employer or the client of the error or omission and recommend that disclosure be made to the revenue authorities. Normally, the member is not obligated to inform the revenue authorities, nor may this be done without permission.

If the employer or the client does not correct the error the member:

- i. should inform the employer or the client that it is not possible to act for them in connection with that return or other related information submitted to the authorities and,
- ii. should consider whether continued association with the employer or client in any capacity is consistent with professional responsibilities.

If the member concludes that a professional relationship with the employer or client can be continued, all reasonable steps should be taken to ensure that the error is not repeated in subsequent tax returns.

Professional or statutory requirements in some countries may also make it necessary for the member to inform the revenue authorities that there is no longer any association with the return or other information involved and that acting for the employer or client has ceased. In these circumstances, the member should advise the employer or client of the position before informing the authorities and should give no further information to the authorities without the consent of the employer or client unless required to do so by law.

## **7 : CROSS BORDER ACTIVITIES**

- 7.1 When considering the application of ethical requirements in cross border activities a number of situations may arise.
- 7.2 A member qualifying in one country may reside in another country or may be temporarily visiting that country to perform professional services. In all circumstances, the member should carry out professional services in accordance with the relevant technical standards and ethical requirements. The particular technical standards which should be followed are not dealt with in this section. In all other respects, however, the member should be guided by the ethical requirements set out below.
- 7.3 When a member performs services in a country other than the home country and differences on specific matters exist between the ethical requirements of the two countries the following provisions should be applied:
  - a. When the ethical requirements of the country in which the services are being performed are less strict than the Institute's ethical guidance then the ethical guidance of the Institute should be applied.
  - b. When the ethical requirements of the country in which services are being performed are stricter than the Institute's ethical guidance, then the ethical requirements in the country where services are being performed should be applied.
  - c. When the ethical requirements of the home country are mandatory for services performed outside that country and are stricter than set out in (a) and (b) above, then the ethical requirements of the home country should be applied.

## **8: AGENCY**

- 8.1 Members contemplating acceptance of an appointment as an agent should:
  - a. comply with all statutory and regulatory requirements;
  - b. satisfy themselves that such acceptance is not made inappropriate by reason of:

- i. the manner in which the service they are to provide may be brought to the attention of the public;
  - ii. the manner in which they or their firm may be publicised;  
and
- c. take all reasonable steps to assure themselves that the undertaking they may represent is properly conducted and financially sound.

## **9 : PUBLICITY AND SOLICITATION**

9.1 A member may seek publicity in an appropriate and dignified manner in respect of services or achievements including appointments and awards, and may be listed in trade and professional directories.

9.2 A member may inform interested parties through any medium that a partnership or salaried employment is being sought and may write to or make a direct approach to another when seeking employment or professional business.

9.3 A member may obtain or seek to obtain professional work by approaches to clients and non-clients by direct mail or other lawful means provided that:

- a. communications sent by direct mail are addressed to named individuals;
- b. in connection with telephone communications or personal visits:
  - i. no call should be made at an unsocial hour;
  - ii. the caller shall at the outset state their name and that of the practice;
  - iii. the caller shall immediately and courteously terminate the call if the person called indicates that they do not wish the discussion to continue, and they shall not attempt to make any further call on that person without being invited so to do.

9.4 A member may seek a personal introduction to an appropriate executive or prospective client through the medium of a person known to both parties but must not make any unethical payment.

9.5 Members may also publicise their name, qualifications and other relevant information in connection with books, articles, interviews, technical releases etc.

## **10 : INDEPENDENCE**

### **NOTE**

Certain paragraphs in this section refer to 'audit' or 'reporting assignment'. Members of CIMA are not permitted, unless otherwise qualified, to undertake the audit of limited companies and other organisations where audit is restricted, by statute or regulation, to holders of specific qualifications. Such references should be construed accordingly.

10.1 Members in public practice when undertaking a **Reporting Assignment** (definition) should be independent in fact and appearance.

10.2 The following paragraphs indicate some of those situations which, because of the actual or apparent lack of independence, would give a reasonable observer grounds for doubting the independence of a member in public practice.

### **Financial Involvement With, Or In, The Affairs Of, Clients**

10.3 Financial involvement with a client will affect independence and may lead a reasonable observer to conclude that it has been impaired. Such involvement can arise in a number of ways such as:

- by direct financial interest in a client;
- by indirect financial interest in a client e.g., by being a trustee of any trust or executor or administrator of any estate if such trust or estate has a financial interest in a client **company** (definition);
- by a loan to or from the client or any officer, director or principal shareholder of a client company;
- by holding a financial interest in a joint venture with a client or employee(s) of a client.

#### **Commentary**

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

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

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

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

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

- \* For the purposes of Paragraph 10.3 the term 'member in public practice' is restricted to:
- an individual performing professional services requiring independence;
  - all partners, directors or proprietors in the practice;
  - all professional employees engaged in the reporting assignment; and
  - all managerial employees located in an office participating in a significant part of the reporting assignment.

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

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

#### ***Commentary***

It is economic in terms of skill and effort for members in practice to be able to offer other financial and management consultancy services to their clients since they already have a close familiarity with the clients' businesses. Many companies, particularly smaller ones, would be adversely affected if they were denied the right to obtain other services from their accountants or auditors. Moreover, one key concept in auditing involves examination of the system of internal control which necessarily involves suggestions for improvement. For these reasons it is impracticable to define the limitations on the advice which a member in practice may give.

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

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

- a. the member in practice should not have any relationship or combination of relationships with the client or any conflict of interest which would impair integrity or independence.
- b. The client should accept responsibility for the statements.

The member in practice should not assume the role of employee or of management conducting the operations of an enterprise.

- c. Staff assigned to the preparation of accounting records ideally should not participate in the examination of such records. The fact that the member in practice has processed or maintained certain records does not eliminate the need to make sufficient audit tests.

Nothing in paragraphs 10.1 to 10.4 shall prevent a member in practice who is not involved in an audit or reporting assignment having a direct or indirect financial interest in a client, or acting as a member of the client's management team under, for example, an executive leasing or interim management contract. In the course of such work the client may make presentations to third parties on work that the member has done, for example, cash forecasts to a bank, as long as it is made clear that the member is acting in the capacity of a temporary employee and that they are not holding themselves out as independent reporting accountants. Otherwise the restrictions in paragraphs 10.1 to 10.4 shall apply.

### **Personal and Family Relationships**

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

### **Fees**

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

### ***Commentary***

This paragraph relates primarily to those involved in statutory audit. It would not normally apply to members of the Institute.

### **Goods and Services**

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

### ***Commentary***

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

### **Professional Indemnity Insurance**

- 10.8 All members in practice are strongly recommended to arrange adequate professional indemnity insurance, and those holding the Institute's Practising Certificate are required to hold professional indemnity insurance unless their work is entirely covered by insurance arranged by a third party.

## **11 : FEES AND COMMISSIONS**

- 11.1 Members in public practice who undertake professional services for a client,

assume the responsibility to perform such services with integrity and objectivity and in accordance with the appropriate technical standards. That responsibility is discharged by applying the professional skill and knowledge which members in practice have acquired through training and experience. For the services rendered, the member in practice is entitled to remuneration.

### **Professional Fees**

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

- a. the skill and knowledge required for the type of professional services involved;
- b. the level of training and experience of the persons necessarily engaged in performing the professional services;
- c. the time necessarily occupied by each person engaged in performing the professional services; and
- d. the degree of responsibility that performing those services entails.

11.3 It is recommended that professional fees should normally be computed on the basis of appropriate rates per hour or per day for the time of each person engaged in performing professional services. These rates should be based on the fundamental premise that the organisation and conduct of the member in practice and the services provided to clients are well planned, controlled and managed. They should take into account the factors set out in paragraph 11.2 and will be influenced by the legal, social and economic conditions of each country. It is for each member in practice to determine the appropriate rates.

#### ***Commentary***

However, it shall not be improper for a member in practice to agree with the client a value-based fee, for example, linked to achievement of cost savings or revenue increases, or "deal-based" or some other basis. In such cases great care must be exercised to agree at the outset the means of measurement of the value generated, the relevant timescale and their relationship to the fee.

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

11.5 When performing professional services for a client it may be necessary or expedient to charge a pre-arranged fee, in which event the member in practice should estimate a fee taking into account the matters referred to in paragraphs 11.2 - 11.4.

11.6 It is not improper for a member in practice to charge a client a lower fee than has previously been charged for similar services, provided the fee has been calculated in accordance with the factors referred to in paragraphs 11.2 - 11.4

11.7 The foregoing paragraphs relate to fees as distinct from reimbursement of expenses. Out-of-pocket expenses, in particular travelling 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.

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

### **Commissions**

11.9 Where advice given to a client is such that, if acted upon, it will result in commission being earned by the practice or anyone in it, special care should be taken that the advice is in fact in the best interests of the client. The client must be informed, in writing, both of the fact that commission will be received and, as soon as practicable, of the amount and terms of such commission.

## **12 : ACTIVITIES INCOMPATIBLE WITH THE PRACTICE OF PUBLIC ACCOUNTANCY**

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

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

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

## **13 : CLIENTS' MONIES**

13.1 It is recognised that in some countries the law does not permit a professional accountant in practice to hold **clients' monies** (definition), in other countries there are legal duties imposed on professional accountants in practice who do hold such monies. The member in practice should not hold clients' monies if there is reason to believe that they were obtained from, or are to be used for, illegal activities.

13.2 A member in public practice entrusted with monies belonging to others should:

- a. keep such monies separately from personal or firm monies;
- b. use such monies only for the purpose for which they are intended; and
- c. at all times, be ready to account for those monies to any persons entitled to such accounting.

- 13.3 A member in practice should maintain one or more bank accounts for clients' monies. Such bank accounts may include a general **client account** (definition) into which the monies of a number of clients may be paid.
- 13.4 Clients' monies received by a member in public practice should be deposited without delay to the credit of a client account, or - if in the form of documents of title to money and documents of title which can be converted into money - be safeguarded against unauthorised use.
- 13.5 Monies may only be drawn from the client account on the instructions of the client.
- 13.6 Fees due from a client may be drawn from client's monies provided the client, after being notified of the amount of such fees, has agreed to such withdrawal.
- 13.7 Payments from a client account shall not exceed the balance standing to the credit of the client.
- 13.8 When it seems likely that the client's monies will remain on client account for a significant period of time, the member in practice should, with the concurrence of the client, place such monies in an interest bearing account within a reasonable time.
- 13.9 All interest earned on clients' monies should be credited to the client account.
- 13.10 Members in public practice should keep such books of account as will enable them, at any time, to establish clearly their dealings with clients' monies in general and the monies of each individual client in particular. A statement of account should be provided to the client at least once a year.

## **14 : RELATIONS WITH OTHER PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

### **Accepting New Assignments**

- 14.1 The extension of the operations of a business undertaking frequently results in the formation of branches or subsidiary companies at locations where an **Existing Accountant** (definition) does not practice. In these circumstances, the client or the existing accountant in consultation with the client may request a **Receiving Accountant** (definition) practising at those locations to perform such professional services as are necessary to complete the assignment.
- 14.2 Referral of business may also arise in the area of special services or special tasks. The scope of the services offered by professional accountants in public practice continues to expand and the depth of knowledge which is needed to serve the public often calls for special skills. Since it is impracticable for any one professional accountant in public practice to acquire special expertise or experience in all fields of accountancy some professional accountants in public practice have decided that it is neither appropriate nor desirable to develop within their firms the complete range of special skills which may be required.
- 14.3 Members in public practice should only undertake such services which they can

expect to complete with professional competence. It is essential for the profession in general and in the interests of their clients that members in practice be encouraged to obtain advice when appropriate from those who are competent to provide it.

- 14.4 An existing accountant without a particular skill may however be reluctant to refer a client to another professional accountant in public practice who may possess that skill, because of the fear of losing existing business to the other professional accountant in public practice. As a result, clients may be deprived of the benefit of advice which they are entitled to receive.
- 14.5 The wishes of the client should be paramount in the choice of professional advisers, whether or not special skills are involved. Accordingly, a member in public practice should not attempt to restrict in any way the client's freedom of choice in obtaining special advice, and when appropriate should encourage a client to do so.
- 14.6 The services or advice of a professional accountant in public practice having special skills may be sought in one or other of the following ways:
  - a. by the client
    - i. after prior discussion and consultation with the existing accountant;
    - ii. on the specific request or recommendation of the existing accountant;
    - iii. without reference to the existing accountant; or
  - b. by the existing accountant with due observance of the duty of confidentiality.
- 14.7 When a member in public practice is asked to provide accounting services or advice, enquiries 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 14.8 - 14.13 should be observed. If the appointment will result in another professional accountant in practice being superseded the procedures set out in paragraphs 14.14 - 14.26 should be followed.
- 14.8 The receiving accountant should limit the services provided to the specific assignment received by referral from the existing accountant or the client unless otherwise requested by the client. The receiving accountant also has the duty to take reasonable steps to support the existing accountant's current relationship with the client and should not express any criticism of the professional services of the existing accountant without giving the latter an opportunity to provide all relevant information.
- 14.9 A receiving accountant who is asked by the client to undertake an assignment of a type which is clearly distinct from that being carried out by the existing accountant or from that initially received by referral from the existing accountant or from the client should regard this as a separate request to provide services or advice.

Before accepting any appointments of this nature, the receiving accountant should advise the client of the professional obligation to communicate with the existing accountant and should immediately do so preferably in writing, advising of the approach made by the client and the general nature of the request.

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

14.11 The receiving accountant should:

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

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

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

### **Superseding Another Professional Accountant in Practice**

14.14 Businesses have an indisputable right to choose their professional advisers and to change to others should they so desire.

14.15 While it is essential that the legitimate interests of the business are protected, it is also important that a member in public practice who is asked to replace another professional accountant in public practice has the opportunity to ascertain if there are any professional reasons why the appointment should not be accepted. This cannot effectively be done without direct communication with the existing accountant. In the absence of a specific request the existing accountant should not volunteer information about the client's affairs.

14.16 Communication enables a member in public practice to ascertain whether the circumstances in which a change in appointment is proposed are such that the appointment can properly be accepted and also whether there is a wish to undertake the engagement. In addition, such communication helps to preserve the harmonious relationships which should exist between all professional accountants in public practice on whom clients rely for professional advice and assistance.

14.17 The extent to which an existing accountant can discuss the affairs of the client with the proposed professional accountant in public practice will 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.

14.18 The proposed professional accountant in public practice should treat in the strictest confidence and give due weight to any information provided by the existing accountant.

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

14.20 Communication between the parties therefore serves:

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

14.21 Before accepting an appointment involving recurring professional services previously carried out by another professional accountant in public practice, the proposed professional accountant in public practice should:

- a. ascertain if the prospective client has advised the existing accountant of the proposed change and has given permission, preferably in writing, to discuss the client's affairs fully and freely with the proposed professional accountant in public practice;
- b. when satisfied with the reply received from the prospective client, request permission to communicate with the existing accountant. If such permission is refused or the permission referred to in (a) above is not given, the proposed professional accountant in public practice should, in the absence of exceptional circumstances of which there is full knowledge, and unless there is satisfaction as to necessary facts by other means, decline the appointment.
- c. On receipt of permission, ask the existing accountant, preferably in writing:
  - i. to provide information on any professional reasons which should be

known before deciding whether or not to accept the appointment, and, if there are such matters

- ii. to provide all the necessary details to be able to come to a decision.

14.22 The existing accountant, on receipt of the communication referred to in paragraph 14.21 (c) should forthwith:

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

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

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

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

14.26 Certain organisations, either because of legislative requirements or otherwise, call for submissions or tenders, e.g. competitive bids, in relation to professional services offered by accountants in public practice. In reply to an advertisement or an unsolicited request to make a submission or submit a tender a member in public practice should, if the appointment may result in the replacement of another professional accountant in public practice, state in the submission or tender that before acceptance the opportunity to contact the other professional

accountant in public practice is required so that inquiries may be made as to whether there are any professional reasons why the appointment should not be accepted. If the submission or tender is successful, the existing accountant should then be contacted.

## **15 : ADVERTISING**

15.1 Subject to any local statutory or regulatory requirements, members may advertise their services in such an appropriate and dignified manner as will reflect no discredit on the Institute or the profession.

In each case an advertisement:

- a. should be factual, not likely to mislead and should contain no explicit or implicit criticisms of the professional services of others;
- b. may include a list of the services available and the name, designatory letters and description of the member, or the name and description of a firm or company of consultants;
- c. may state the basis on which fees are calculated or offer a free consultation at which level of fees will be discussed, but should not quote fees or make comparisons;
- d. should conform to the standards for the time being set by legal and regulatory authorities, particularly those responsible for ensuring advertising standards.

15.2 Members may insert normal entries in directories and other similar books of reference.