General application of this Code (Part A)

Section 100 Introduction and fundamental principles

100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

Acting in the public interest involves having regard to the legitimate interests of clients, government, financial institutions, employers, employees, investors, the business and financial community and others who rely upon the objectivity and integrity of the accounting profession to support the propriety and orderly functioning of commerce. This reliance imposes a public interest responsibility on the profession. Professional accountants should take into consideration the public interest and reasonable and informed public perception in deciding whether to accept or continue with an engagement or appointment, bearing in mind that the level of the public interest will be greater in larger entities and entities which are in the public eye.*

Therefore, a professional accountant's* responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest a professional accountant* should observe and comply with the ethical requirements of this Code.

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

* See Definitions

100.3 Parts B and C illustrate how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats and consequently the activity or relationship creating the threats should be avoided. Part B applies to professional accountants in public practice*. Part C applies to professional accountants in business*. Professional accountants in public practice* may also find the guidance in Part C relevant to their particular circumstances.

Fundamental Principles

100.4 A professional accountant* is required to comply with the following fundamental principles:

(a) Integrity
A professional accountant* should be straightforward and honest in all professional and business relationships.

(b) Objectivity
A professional accountant* should not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

(c) Professional Competence and Due Care
A professional accountant* has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques. A professional accountant* should act diligently and in accordance with applicable technical and professional standards when providing professional services*.

(d) Confidentiality
A professional accountant* should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant* or third parties.

(e) Professional Behaviour
A professional accountant* should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Each of these fundamental principles is discussed in more detail in Sections 110–150.

* See Definitions

Conceptual Framework Approach

100.5 The circumstances in which professional accountants* operate may give rise to specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates such threats and specify the appropriate mitigating action. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires a professional accountant* to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest. This Code provides a framework to assist a professional accountant* to identify, evaluate and respond to threats to compliance with the fundamental principles. If identified threats are other than clearly insignificant*, a professional accountant* should, where appropriate, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.

100.6 A professional accountant* has an obligation to evaluate any threats to compliance with the fundamental principles when the professional accountant* knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.

100.7 A professional accountant* should take qualitative as well as quantitative factors into account when considering the significance of a threat. If a professional accountant* cannot implement appropriate safeguards, the professional accountant* should decline or discontinue the specific professional service involved, or where necessary resign from the client (in the case of a professional accountant in public practice*) or the employing organisation (in the case of a professional accountant in business*).

100.8 A professional accountant* may inadvertently violate a provision of this Code. Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.

100.9 Parts B and C of this Code include examples that are intended to illustrate how the conceptual framework is to be applied. The examples are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances experienced by a professional accountant* that may create threats to compliance with the fundamental principles. Consequently, it is not sufficient for a professional accountant* merely to comply with the examples presented; rather, the framework should be applied to the particular circumstances encountered by the professional accountant*.

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* See Definitions

Threats and Safeguards

100.10 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

(a) Self-interest threats, which may occur as a result of the financial or other interests of a professional accountant* or of an immediate or close family* member;
(b) Self-review threats, which may occur when a previous judgement needs to be re-evaluated by the professional accountant* responsible for that judgement;
(c) Advocacy threats, which may occur when a professional accountant* promotes a position or opinion to the point that subsequent objectivity may be compromised;
(d) Familiarity threats, which may occur when, because of a close relationship, a professional accountant* becomes too sympathetic to the interests of others; and
(e) Intimidation threats, which may occur when a professional accountant* may be deterred from acting objectively by threats, actual or perceived.

Parts B and C of this Code, respectively, provide examples of circumstances that may create these categories of threats for professional accountants in public practice* and professional accountants in business*. Professional accountants in public practice* may also find the guidance in Part C relevant to their particular circumstances. *Part D deals with professional accountants* undertaking insolvency work.*

Professional accountants should note that each of the categories of threat discussed above may arise in relation to the professional accountant's* own person or in relation to connected persons such as members of their family or partners* or persons who are close to the professional accountants* for some other reason, for instance by reason of a past or present association, obligation or indebtedness.*

100.11 Safeguards that may eliminate or reduce such threats to an acceptable level fall into two broad categories:

(a) Safeguards created by the profession, legislation or regulation; and
(b) Safeguards in the work environment.

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

- Educational, training and experience requirements for entry into the profession.
- Continuing professional development requirements.
- Corporate governance regulations.
- Professional standards.
- Professional or regulatory monitoring and disciplinary procedures.

* See Definitions

- External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant*.

100.13 Parts B and C of this Code, respectively, discuss safeguards in the work environment for professional accountants in public practice* and those in business. *Part D deals with professional accountants* undertaking insolvency work.*

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

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

100.15 The nature of the safeguards to be applied will vary depending on the circumstances. In exercising professional judgement, a professional accountant* should consider what a reasonable and informed third party, having knowledge of all relevant information, including the significance of the threat and the safeguards applied, would conclude to be unacceptable.

Where a professional accountant decides to accept or continue an engagement, appointment, task or employment in a situation where a significant threat to the fundamental principles has been identified, the professional accountant* should be able to demonstrate that the availability and effectiveness of safeguards has been considered and it was reasonable to conclude that those safeguards will adequately preserve their compliance with the fundamental principles. It may be useful to document the reasoning and other evidence which supports the evaluation of threats and safeguards to such an extent that it enables a reasonable and informed third party to conclude that the decisions are acceptable.*

Ethical Conflict Resolution

100.16 In evaluating compliance with the fundamental principles, a professional accountant* may be required to resolve a conflict in the application of fundamental principles.

100.17 When initiating either a formal or informal conflict resolution process, a professional accountant* should consider the following, either individually or together with others, as part of the resolution process:

(a) Relevant facts;
(b) Relevant parties;
(c) Ethical issues involved;

* See Definitions

(d) Fundamental principles related to the matter in question;
(e) Established internal procedures; and
(f) Alternative courses of action.

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

It will generally be preferable for the ethical conflict to be resolved within the employing organisation before consulting individuals outside the employing organisation.

100.18 Where a matter involves a conflict with, or within, an organisation, a professional accountant* should also consider consulting with those charged with governance of the organisation, such as the board of directors or the audit committee*.

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

100.20 If a significant conflict cannot be resolved, a professional accountant* may wish to obtain professional advice from the *Institute* or legal advisors, and thereby obtain guidance on ethical issues without breaching confidentiality. For example, a professional accountant* may have encountered a fraud, the reporting of which could breach the professional accountant's* responsibility to respect confidentiality. The professional accountant* should consider obtaining legal advice to determine whether there is a requirement to report.

Further information on sources of guidance is available in Section 1.

100.21 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant* should, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant* may determine that, in the circumstances, it is appropriate to withdraw from the engagement team* or specific assignment, or to resign altogether from the engagement, the firm* or the employing organisation.

More detailed guidance on the ethical conflict resolution process is available in the Appendix to Part A.

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* See Definitions

Section 110 Integrity

110.1 The principle of integrity imposes an obligation on all professional accountants* to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.

It follows that a professional accountant's advice and work must be uncorrupted by self-interest and not be influenced by the interests of other parties.*

110.2 A professional accountant* should not be associated with reports, returns, communications or other information where they believe that the information:

(a) Contains a materially false or misleading statement;
(b) Contains statements or information furnished recklessly; or
(c) Omits or obscures information required to be included where such omission or obscurity would be misleading.

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

Section 120 Objectivity

120.1 The principle of objectivity imposes an obligation on all professional accountants* not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others.

Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other.

120.2 A professional accountant* may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgement of the professional accountant* should be avoided.

Section 130 Professional competence and due care

130.1 The principle of professional competence and due care imposes the following obligations on professional accountants*:

(a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
(b) To act diligently in accordance with applicable technical and professional standards when providing professional services*.

* See Definitions

130.2 Competent professional service requires the exercise of sound judgement in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:

(a) Attainment of professional competence; and
(b) Maintenance of professional competence.

130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments. Continuing professional development develops and maintains the capabilities that enable a professional accountant* to perform competently within the professional environments.

Further guidance on continuing professional development is available at www.icaew.com/cpd and in the Regulations relating to learning and professional development which are available in the Members Handbook at www.icaew.com/membershandbook.

130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

130.5 A professional accountant* should take steps to ensure that those working under the professional accountant's* authority in a professional capacity have appropriate training and supervision.

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

Section 140 Confidentiality

The Principle of Confidentiality
140.0 *The principle of confidentiality is not only to keep information confidential, but also to take all reasonable steps to preserve confidentiality. Whether information is confidential or not will depend on its nature. A safe and proper approach for professional accountants* to adopt is to assume that all unpublished information about a client's or employer's affairs, however gained, is confidential. Professional accountants* should be aware that some clients or employers may regard the mere fact of their relationship with a professional accountant* as being confidential.*

140.1 The principle of confidentiality imposes an obligation on professional accountants* to refrain from:

(a) Disclosing outside the firm* or employing organisation confidential information acquired as a result of professional and business relationships

* See Definitions

without proper and specific authority or unless there is a legal or professional right or duty to disclose; and

(b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.

Professional accountants in public practice must not disclose confidential information to a client even though the information is relevant to an engagement for, or would be beneficial to, that client.*

Where professional accountants in public practice have confidential information which affects an assurance report, or other report which requires a professional accountant* to state their opinion, the professional accountant* cannot provide an opinion which they already know, from whatever source, to be untrue. If the professional accountant in public practice* is to continue the engagement, the professional accountant* must resolve this disparity. In order to do so, the professional accountant* is entitled to apply normal procedures and to make such enquiries in order to enable the professional accountant* to obtain that same information but from another source. Under no circumstances, however, should there be any disclosure of confidential information outside the firm*.*

140.2 A professional accountant* should maintain confidentiality even in a social environment. The professional accountant* should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a close or immediate family* member.

140.3 A professional accountant* should also maintain confidentiality of information disclosed by a prospective client or employer.

This requirement extends not only to clients, past and present, but also to third parties from or about whom information has been received in confidence. The principle of confidentiality clearly does not prevent an employee from using the skills acquired while working with a former employer in undertaking a new role with a different organisation. Professional accountants should neither use nor appear to use special knowledge which could only have been acquired with access to confidential information. It is a matter of judgement as to the dividing line which separates experience gained, from special knowledge acquired.*

140.4 A professional accountant* should also consider the need to maintain confidentiality of information within the firm* or employing organisation.

140.5 A professional accountant* should take all reasonable steps to ensure that staff under the professional accountant's* control and persons from whom advice and assistance is obtained respect the professional accountant's* duty of confidentiality.

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* See Definitions

Member firms should ensure that all who work on their behalf are trained in, and understand:*

- *The importance of confidentiality;*
- *The importance of identifying any conflicts of interest and confidentiality issues between clients, or between themselves or the firm and a client, in relation to a current or prospective engagement; and*
- *The procedures the firm* has in place for the recognition and consideration of possible conflicts of interest and confidentiality issues.*

140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant* and a client or employer. When a professional accountant* changes employment or acquires a new client, the professional accountant* is entitled to use prior experience. The professional accountant* should not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.

140.6A *Detailed guidance on conflicts of interest, including situations where such conflicts may result in threats (or perceived threats) to preservation of confidentiality, are included in Section 220.*

Disclosure of Confidential Information

140.7 The following are circumstances where professional accountants* are or may be required to disclose confidential information or when such disclosure may be appropriate:

(a) Disclosure is permitted by law and is authorised by the client or the employer;
(b) Disclosure is required by law, for example:
  (i) Production of documents or other provision of evidence in the course of legal proceedings; or
  (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and

  Where required by law or regulations to disclose confidential information, for example as a result of anti-money laundering or anti-terrorist legislation, or in connection with legal proceedings involving either themselves or their employing organisation, professional accountants should always disclose that information in compliance with relevant legal requirements. Professional accountants* should take care when communicating relevant facts to others relating to known or suspected money laundering or terrorist activities. Under the Money Laundering Regulations 2007, the Terrorism Act 2000 and the Terrorism Act 2006, it is a criminal offence to 'tip off' a money launderer or terrorist. For further discussion, please refer to the money laundering legislation and guidance available at www.icaew.com/moneylaundering.*

* See Definitions

(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 professional accountant* in legal proceedings; or
   (iv) To comply with technical standards and ethics requirements.

A professional accountant may disclose confidential information to third parties, when not obliged to do so by law or regulations, if the disclosure can be justified in the public interest and is not contrary to laws and regulations. Before making such disclosure, professional accountants* should obtain legal or professional advice as to their duties and obligations in the context of their professional and business relationships, and possible protection under the Public Interest Disclosure Act 1998. Further guidance on disclosure in the public interest is available in Section 7.1, 'Professional conduct and disclosure in relation to defaults or unlawful acts' in the Members' Handbook (www.icaew.com/membershandbook).*

Confidentiality and privilege is a complex area. For example, information which is confidential may not be privileged and, therefore, may be admissible in court proceedings. Privilege is a difficult area, quite distinct from confidentiality, and it is recommended that further advice be taken if a professional accountant is in doubt as to the action that should be taken.*

Guidance on money laundering reporting requirements in privileged circumstances is included in Technical Release 02/06, available at www.icaew.com/technical.

140.8 In deciding whether to disclose confidential information, professional accountants* should consider the following points:

(a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant*;
(b) whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgement should be used in determining the type of disclosure to be made, if any;
(c) the type of communication that is expected and to whom it is addressed; in particular, professional accountants* should be satisfied that the parties to whom the communication is addressed are appropriate recipients;
(d) whether or not the information is privileged, either under Legal Professional

* See Definitions

Privilege or in Privileged Circumstances under Section 330 of the Proceeds of Crime Act 2002 (see Technical release 02/06); and

(e) the legal and regulatory obligations and the possible implications of disclosure for the professional accountant.*

140.9 *The paragraphs above deal with professional accountants'* treatment of confidential information belonging to a client or employer. There is another context in which professional accountants* will be given or may obtain information which they must handle sensitively. Professional accountants* may be approached in confidence with information about alleged illegal or improper actions on the part of employees or management of the business for which the informant works or with which the informant has some other relationship. Professional accountants* may receive that information because of being trusted by the informant, or may receive it in connection with work their firm* is carrying out for the informant's employer.*

Whatever the circumstances in which the information comes to professional accountants, the professional accountants* should:*

- *Advise informants to pass the information to their employer through the medium of the employer's own internal procedures (if they exist);*
- *Use their best endeavours to protect the identity of the informant, taking care not to mislead the informant as to the extent to which this can be done, and should only cause the employer to be made aware of the informant's identity where this cannot be avoided; and*
- *Take care in determining the quality of the information and how best to use it, if at all.*

140.10 *For a more detailed explanation of the operation of the provisions of the Public Interest Disclosure Act 1998, professional accountants* are referred to ICAEW Technical Releases 16/99 'Receipt of Information in Confidence by Auditors' and 17/99 'Public Interest Disclosure Act 1998' (www.icaew.com/technical).*

Section 150 Professional Behaviour

150.1 The principle of professional behaviour imposes an obligation on professional accountants* to comply with relevant laws and regulations and avoid any action that may bring discredit to the profession. This includes actions which a reasonable and informed third party, having knowledge of all relevant information, would conclude negatively affects the good reputation of the profession.

Professional accountants should conduct themselves with courtesy and consideration towards all with whom they come into contact when performing their work.*

* See Definitions

150.2 In marketing and promoting themselves and their work, professional accountants* should not bring the profession into disrepute. Professional accountants* should be honest and truthful and should not:

(a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
(b) Make disparaging references or unsubstantiated comparisons to the work of others.

Appendix to Part A – Further guidance on Ethical Conflict Resolution

Further guidance on the matters discussed in paragraph 100.17:

(a) Relevant facts
In order to clarify and identify the problem, the professional accountant should seek to establish the known facts of the situation and any limitations. It may not be possible to obtain all relevant facts but the professional accountant* may be able to obtain more background information to address the limitations by:*

- *Referring to the organisation's policy, procedures, code of conduct and previous history;*
- *Discussing the matter with parties internal and external to the organisation. For example trusted managers and colleagues.*

(b) Relevant parties
The professional accountant should consider affected parties ranging from individuals, organisations to society. The parties to be considered include, but are not limited to, employees, employers, shareholders, consumers/clients, investors, government and the community at large.*

(c) Ethical issues involved.
The professional accountant should consider the professional, organisational and personal ethical issues of the matter.*

(d) Fundamental principles related to the matter in question.
The professional accountant should refer to the guidance contained in this Code in order to establish which fundamental principles are affected by the situation.*

(e) Established internal procedures
The professional accountant should refer to the employing organisation's internal procedures and also consider which parties should be involved in the ethical conflict resolution process, in what role and at what stage. For example, the professional accountant* needs to consider when it would be*

* See Definitions

appropriate to refer to external sources for help, such as the Institute (see paragraphs 1.16 to 1.19 of this Code for sources of advice and guidance).
Professional accountants may find it useful to discuss the ethical conflict issue within the organisation with the following parties:*

- *Immediate superior;*
- *The next level of management;*
- *A corporate governance body, for example, the audit committee*;*
- *Other departments in the organisation which include, but are not limited to, legal, audit and human resources departments.*

(f) Alternative courses of action
In considering courses of action, the professional accountant should consider the following:*

- *The organisation's policies, procedures and guidelines;*
- *Applicable laws and regulations;*
- *Universal values and principles adopted by society;*
- *Long term and short term consequences;*
- *Symbolic consequences;*
- *Private and public consequences.*

When evaluating the suggested course of action, a professional accountant should test the adequacy of the suggested course of action by considering the following:*

- *Have all consequences associated with the course of action been discussed and evaluated?*
- *Is there any reason why the suggested course of action should not stand the test of time?*
- *Would a similar course of action be undertaken in a similar situation?*
- *Would the suggested course of action stand scrutiny from peers, family and friends?*

* See Definitions