

ANNEX A

RELEVANT EXTRACTS FROM ETHICAL STANDARDS 1 (REVISED)

(Revised April 2008)

INTEGRITY, OBJECTIVITY AND INDEPENDENCE

1. APB Ethical Standard 1 includes, inter alia, the following requirements:
 - 6 *“Auditors shall conduct the audit of the financial statements of an entity with integrity, objectivity and independence”*
 - 15 *“The audit firm shall establish policies and procedures, appropriately documented and communicated, designed to ensure that, in relation to each audit engagement, the audit firm, and all those who are in a position to influence the conduct and outcome of the audit, act with integrity, objectivity and independence”*
 - 17 *“Compliance with the requirements regarding the auditor’s integrity, objectivity and independence is a responsibility of both the audit firm and of individual partners and professional staff...”*
 - 18 *“The leadership of the audit firm shall take responsibility for establishing a control environment within the firm that places adherence to ethical principles and compliance with APB Ethical Standards above commercial considerations”*
 - 48 *“At the end of the audit process, when forming an opinion but before issuing the report on the financial statements, the audit engagement partner shall reach an overall conclusion that any threats to objectivity and independence have been properly addressed in accordance with APB Ethical Standards. If the audit engagement partner cannot make such a conclusion, he or she shall not report and the audit firm shall resign as auditor”*
 - 56 *“The audit engagement partner shall ensure that those charged with governance of the audited entity are appropriately informed on a timely basis*

of all significant facts and matters that bear upon the auditor's objectivity and independence"

59 *"In the case of listed companies, the audit engagement partner shall ensure that the audit committee is provided with: (a) a written disclosure of relationships that bear on the auditor's objectivity and independence, any safeguards that are in place and details of non-audit services provided to the audited entity and the fees charged in relation thereto..."*

64 *"The audit engagement partner shall ensure that his or her consideration of the auditor's objectivity and independence is appropriately documented on a timely basis"*

2. In addition APB Ethical Standard 1 includes, inter alia, the following guidance:

13 *"The need for independence arises because, in most cases, users of the financial statements and other third parties do not have all the information necessary for judging whether the auditor is, in fact, objective. Although the auditor may be satisfied that the auditor's objectivity is not impaired by a particular situation, a third party may reach a different conclusion. For example, if a third party were aware that the auditor had certain financial, employment, business or personal relationships with the audited entity, that individual might reasonably conclude that the auditor could be subject to undue influence from the directors or would not be impartial or unbiased. Public confidence in the auditor's objectivity could therefore suffer as a result of this perception, irrespective of whether there is any actual impairment.*

14 *"Accordingly, in evaluating the likely consequences of such situations and relationships, the test to be applied is not whether the auditor considers that the auditor's objectivity is impaired but whether it is probable that a reasonable and informed third party would conclude that the auditor's objectivity either is impaired or is likely to be impaired..."*

RELEVANT EXTRACTS FROM ETHICAL STANDARDS 2 (REVISED)

(Revised April 2008)

FINANCIAL, BUSINESS, EMPLOYMENT AND PERSONAL RELATIONSHIPS

1. APB Ethical Standard 2 includes, inter alia, the following requirements:

42 *“Where a former partner in the audit firm joins the audited entity, the audit firm shall take action as quickly as possible – and, in any event, before any further work is done by the audit firm in connection with the audit – to ensure that no significant connections remain between the firm and the individual”*

43 *“Ensuring that no significant connections remain between the firm and the individual requires that:*

[...]

The individual does not participate or appear to participate in the audit firm’s business or professional activities”

48 *“Where a partner leaves the firm and is appointed as a director (including as a non-executive director) or to a key management position with an audited entity, having acted as audit engagement partner (or as an engagement quality control reviewer, key partner involved in the audit or a partner in the chain of command) at any time in the two years prior to this appointment, the firm shall resign as auditor”*

RELEVANT EXTRACTS FROM THE GLOSSARY OF TERMS

(Revised December 2008)

1. The APB Ethical Standards Glossary of Terms defines the chain of command as follows:

“All persons who have a direct supervisory, management or other oversight responsibility over either any audit partner of the audit team or over the conduct of audit work in the audit firm. This includes all partners, principals and shareholders who may prepare, review or directly influence the performance appraisal of any audit partner of the audit team as a result of their involvement with the audit engagement [...]”.

2. The APB Ethical Standards Glossary of Terms defines a key management position as:

“Any position at the audit client which involves the responsibility for fundamental management decisions at the audit client (e.g. as a CEO or CFO) including an ability to influence the accounting policies and the preparation of the financial statements of the audit client. A key management position also arises where there are contractual and factual arrangements which in substance allow an individual to participate in exercising such a management function in a different way (e.g. via a consulting contract)”.

RELEVANT EXTRACTS FROM APB ETHICAL STANDARD 1 (REVISED)

(Revised December 2010, Updated December 2011)

INTEGRITY, OBJECTIVITY AND INDEPENDENCE

1. APB Ethical Standard 1 includes, inter alia, the following requirements:

- 6** *“Auditors shall conduct the audit of the financial statements of an entity with integrity, objectivity and independence”*
- 16** *“The audit firm shall establish policies and procedures, appropriately documented and communicated, designed to ensure that, in relation to each audit engagement, the audit firm, and all those who are in a position to influence the conduct and outcome of the audit, act with integrity, objectivity and independence”*
- 18** *“Compliance with the requirements regarding the auditor’s integrity, objectivity and independence is a responsibility of both the audit firm and of individual partners and professional staff...”*
- 19** *“The leadership of the audit firm shall take responsibility for establishing a control environment within the firm that places adherence to ethical principles and compliance with APB Ethical Standards above commercial considerations”*
- 39** *“[...] At the end of the audit process, when forming an opinion on the financial statements but before issuing the report, the audit engagement partner draws an overall conclusion as to whether all threats to objectivity and independence have been properly addressed on an individual and cumulative basis in accordance with APB Ethical Standards. If, at any time, the auditor is invited to accept an engagement to provide non-audit services, the audit engagement partner considers the impact this may have on the auditor’s objectivity and independence.”*
- 63** *“The audit engagement partner shall ensure that those charged with governance of the audited entity are appropriately informed on a timely basis*

of all significant facts and matters that bear upon the auditor's objectivity and independence"

67 *"In the case of listed companies, the audit engagement partner shall ensure that the audit committee is provided with: (a) a written disclosure of relationships (including the provision of non-audit services) that bear on the auditor's objectivity and independence, the threats to auditor independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable the auditor's objectivity and independence to be assessed; (b) details of non-audit services provided and the fees charged in relation thereto [...]"*

72 *"The audit engagement partner shall ensure that his or her consideration of the auditor's objectivity and independence is appropriately documented on a timely basis"*

2. In addition APB Ethical Standard 1 includes, inter alia, the following guidance:

14 *"The need for independence arises because, in most cases, users of the financial statements and other third parties do not have all the information necessary for judging whether the auditor is, in fact, objective. Although the auditor may be satisfied that the auditor's objectivity is not impaired by a particular situation, a third party may reach a different conclusion. For example, if a third party were aware that the auditor had certain financial, employment, business or personal relationships with the audited entity, that individual might reasonably conclude that the auditor could be subject to undue influence from the directors or would not be impartial or unbiased. Public confidence in the auditor's objectivity could therefore suffer as a result of this perception, irrespective of whether there is any actual impairment."*

15 *"Accordingly, in evaluating the likely consequences of such situations and relationships, the test to be applied is not whether the auditor considers that the auditor's objectivity is impaired but whether it is probable that a reasonable and informed third party would conclude that the auditor's objectivity either is impaired or is likely to be impaired. [...]"*

RELEVANT EXTRACTS FROM APB ETHICAL STANDARD 2 (REVISED)

(Revised December 2010)

FINANCIAL, BUSINESS, EMPLOYMENT AND PERSONAL RELATIONSHIPS

1. APB Ethical Standard 2 includes, inter alia, the following requirements:

43 *“Where a former partner in the audit firm joins the audited entity, the audit firm shall take action as quickly as possible - and, in any event, before any further work is done by the audit firm in connection with the audit - to ensure that no significant connections remain between the firm and the individual.”*

44 *“Ensuring that no significant connections remain between the firm and the individual requires that:*

[...]

the individual does not participate or appear to participate in the audit firm’s business or professional activities.”

49 *“Where a partner leaves the firm and is appointed as a director (including as a non-executive director) or to a key management position with an audited entity, having acted as audit engagement partner (or as an engagement quality control reviewer, key partner involved in the audit or a partner in the chain of command) at any time in the two years prior to this appointment, the firm shall resign as auditor. [...].”*

RELEVANT EXTRACTS FROM APB ETHICAL STANDARDS

GLOSSARY OF TERMS

(Revised December 2010)

1. The APB Ethical Standards Glossary of Terms defines the chain of command as follows:

“All persons who have a direct supervisory, management or other oversight responsibility over either any audit partner of the audit team or over the conduct of audit work in the audit firm. This includes all partners, principals and shareholders who may prepare, review or directly influence the performance appraisal of any audit partner of the audit team as a result of their involvement with the audit engagement. It does not include any non-executive individuals on a supervisory or equivalent board.”

2. The APB Ethical Standards Glossary of Terms defines a key management position as:

“Any position at the audited entity which involves the responsibility for fundamental management decisions at the audited entity (e.g. as a CEO or CFO), including an ability to influence the accounting policies and the preparation of the financial statements of the audited entity. A key management position also arises where there are contractual and factual arrangements which in substance allow an individual to participate in exercising such a management function in a different way (e.g. via a consulting contract)”.

ANNEX B

RELEVANT EXTRACTS FROM THE INTERNATIONAL STANDARD ON QUALITY CONTROL (UK AND IRELAND) 1 (ISQC 1)

(October 2009)

(Effective of engagements relating to financial periods ending on or after 15
December 2010)

1. ISQC (UK and Ireland) 1 includes, inter alia, the following requirements:
 - 20 *“The Firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. (ref: Para A7-A10)”*
 - 21 *“The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements...maintain independence where required by relevant ethical requirements...”*
 - 26 *“The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:... (b) can comply with the relevant ethical requirements...”*

ANNEX C

RELEVANT EXTRACTS FROM ICAEW'S CODE OF ETHICS

(Effective from 1 September 2006)

1. The Code includes, inter alia, the following requirements:

- 1.4** *“Professional accountants are expected to follow the guidance contained in the fundamental principles in all of their professional and business activities whether carried out with or without reward and in other circumstances where to fail to do so would bring discredit to the profession.”*
- 1.6** *“Professional accountants should be guided not merely by the terms but also by the spirit of this Code...”*
- 100.4** *“A professional accountant is required to comply with the following fundamental principles:*
- (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... act diligently and in accordance with applicable technical and professional standards when providing professional services”*
- 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).”*

100.10 *“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 threat – which may occur as a result of the financial or other interests of a professional accountant or of an immediate or close family member;*

(c) *Advocacy threat – which may occur when a professional accountant promotes a position or opinion to the point that subsequent objectivity may be compromised;*

(d) *Familiarity threat - which may occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others; and*

(e) *Intimidation threat – which may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.*

120.1 *“The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment 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”*
- 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”*
- 300.5** *“A professional accountant in business often holds a senior position within an organisation. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A professional accountant in business is expected, therefore, to encourage an ethics-based culture in an employing organisation that emphasises the importance that senior management places on ethical behaviour.”*
- 300.6A** *“Professional accountants are required to comply with the following fundamental principles:*
- (a)** *Integrity - Professional accountants should be straightforward and honest in all professional and business relationships;*
 - (b)** *Objectivity - Professional accountants should not allow bias, conflict of interest or undue influence of others to override professional or business judgements;*
 - (c)** *Professional Competence and Due Care - Professional accountants have 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. Professional accountants should act diligently and in accordance with applicable technical and professional standards when providing professional services.”

2. Paragraph 1.16 of the ICAEW Code of Ethics makes it clear that professional accountants who are in doubt as to their ethical position may seek advice from ICAEW’s Technical Advisory Services and from The Support Members Scheme.

RELEVANT EXTRACTS FROM ICAEW'S CODE OF ETHICS
(Effective from January 2011)

3. The Code includes, inter alia, the following requirements:
- 1.4** *“Professional accountants shall follow the guidance contained in the fundamental principles in all of their professional and business activities whether carried out with or without reward and in other circumstances where to fail to do so would bring discredit to the profession”*

 - 1.6** *“Professional accountants shall be guided not merely by the terms but also by the spirit of the Code...”*

 - 100.5** *“A professional accountant shall comply with the following fundamental principles:*
 - (b)** *Objectivity – to not allow bias, conflict of interest or undue influence of others to override professional or business judgments*

 - (c)** *Professional Competence and Due Care – to maintain professional knowledge and skill at the level required...and act diligently and in accordance with applicable technical and professional standards”*

 - 100.8** *“A professional accountant shall 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.”*

 - 100.9** *“A professional accountant shall take qualitative as well as quantitative factors into account when evaluating the significance of a threat. When applying the conceptual framework, a professional accountant may encounter situations in which threats cannot be eliminated or reduced to an acceptable level either because the threat is too significant or because appropriate safeguards are not available or cannot be applied. In such situations, the professional accountant shall decline*

or discontinue the specific professional service involved or, where necessary, resign from the... employing organisation...

100.12 *“Threats may be created by a broad range of relationships and circumstances. When a relationship or circumstance creates a threat, such a threat could compromise, or could be perceived to compromise, a professional accountant’s compliance with the fundamental principles ... threats fall into one or more of the following categories:*

(a) *Self interest threat – the threat that a financial or other interest will inappropriately influence the professional accountant’s judgment or behaviour.*

(c) *Advocacy threat – the threat that a professional accountant will promote a client’s or employer’s position to the point that the professional accountant’s objectivity is compromised.*

(d) *Familiarity threat - the threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work; and*

(e) *Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant.”*

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

120.2 *“A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. A professional accountant shall not perform a professional*

service if a circumstance or relationship biases or unduly influences the accountant's professional judgment with respect to that service"

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"*

300.5 *"A professional accountant in business may hold a senior position within an organisation. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A professional accountant in business is expected, therefore, to encourage an ethics-based culture in an employing organisation that emphasises the importance that senior management places on ethical behaviour."*

300.6 *"A professional accountant in business shall not knowingly engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the fundamental principles"*

4. Paragraph 1.19 of the ICAEW Code of Ethics makes it clear that professional accountants who are in doubt as to their ethical position may seek advice from ICAEW's Technical Advisory Services and from The Support Members Scheme.