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Proposal of Professional Ethics Division: Proposed interpretation 102-7, other considerations: meeting the objectives of the fundamental principles, and proposed framework for meeting the objectives of the fundamental principles; Proposed interpretation 102-7, other considerations: meeting the objectives of the fundamental principles, and proposed framework for meeting the objectives of the fundamental principles; Exposure draft (American Institute of Certified Public Accountants), 2007, May 15

American Institute of Certified Public Accountants. Professional Ethics Executive Committee

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# EXPOSURE DRAFT

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## PROPOSAL OF PROFESSIONAL ETHICS DIVISION

### PROPOSED INTERPRETATION 102-7, *OTHER CONSIDERATIONS: MEETING THE OBJECTIVES OF THE FUNDAMENTAL PRINCIPLES*, AND PROPOSED *FRAMEWORK FOR MEETING THE OBJECTIVES OF THE FUNDAMENTAL PRINCIPLES*

May 15, 2007

Prepared by the AICPA Professional Ethics Executive Committee for comments from persons interested in independence, behavioral, and technical standards matters.

Comments should be received by August 15, 2007, and addressed to  
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AICPA, 1211 Avenue of the Americas, 19<sup>th</sup> Floor,  
New York, NY 10036 or via the Internet at [lsnyder@aicpa.org](mailto:lsnyder@aicpa.org).

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May 15, 2007

This Exposure Draft contains an important proposal for review and comment by the AICPA's membership and other interested parties regarding pronouncements for possible adoption by the Professional Ethics Executive Committee (the PEEC, or the Committee). The text and an explanation of the proposed pronouncements are included in this Exposure Draft.

After the exposure period is concluded and the Committee has evaluated the comments, the Committee may decide to publish one or more of the proposed pronouncements. Once published, the pronouncements become effective on the last day of the month in which they are published in the *Journal of Accountancy*, except as may otherwise be stated in the pronouncements.

Your comments are an important part of the standard-setting process. Please take this opportunity to comment. Responses must be received at the AICPA by August 15, 2007. All written replies to this exposure draft will become part of the public record of the AICPA.

All comments received will be considered by the Committee at an open meeting that will be announced in the *CPA Letter* and posted to the division's Web site.

Please send comments to Lisa A. Snyder, Director, AICPA Professional Ethics Division, AICPA, 1211 Avenue of the Americas, 19<sup>th</sup> Floor, New York, NY 10036 or via the Internet to [lsnyder@aicpa.org](mailto:lsnyder@aicpa.org). Comments submitted via electronic mail are encouraged and would be appreciated.

Sincerely,

Bruce P. Webb  
*Chair*  
*AICPA Professional Ethics*  
*Executive Committee*

Lisa A. Snyder  
*Director*  
*AICPA Professional*  
*Ethics Division*

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**Proposed Interpretation 102-7, *Other Considerations: Meeting the Objectives of the Fundamental Principles, and Framework for Meeting the Objectives of the Fundamental Principles***

[Explanation]

The AICPA Professional Ethics Executive Committee (the PEEC, or the Committee) is exposing for comment a new Interpretation 102-7, *Other Considerations: Meeting the Objectives of the Fundamental Principles*, under Rule 102, *Integrity and Objectivity* [ET sec. 102.01], of the AICPA Code of Professional Conduct (the Code), and is also exposing for comment the *Framework for Meeting the Objectives of the Fundamental Principles* (the proposed *Framework*), which is related to that revision.

**Background**

On January 20, 2006, the PEEC adopted its *Conceptual Framework for AICPA Independence Standards* (the *Independence Conceptual Framework*) (AICPA, *Professional Standards*, vol. 2, ET sec. 100.01), and a related revision to “Other Considerations” of Interpretation 101-1, “Interpretation of Rule 101” (AICPA, *Professional Standards*, vol. 2, ET sec. 101.02) under Rule 101, *Independence*, of the Code. The *Independence Conceptual Framework* became effective for all independence decisions made in the absence of an independence interpretation or ruling that addresses a particular circumstance on or after April 30, 2007.

Subsequent to adopting the *Independence Conceptual Framework*, the Committee commenced a project to develop a framework that would assist all members, including members who are not in public practice, with meeting the objectives of the fundamental principles that are set out in ET sections 51–57 of the Code.

The fundamental principles are:

- Article I – Responsibilities*
- Article II – The Public Interest*
- Article III – Integrity*
- Article IV – Objectivity and Independence*
- Article V – Due Care*
- Article VI – Scope and Nature of Services*

These fundamental principles provide the framework for the rules in the Code, which govern the performance of professional services by members. Accordingly, the proposed *Framework* applies to *all* members—members in public practice as well as those not in public practice (including members in business and industry, government, and education).

The proposed *Framework* is consistent with, and incorporates many similar threats and safeguards as those described in, the *Independence Conceptual Framework*. However, unlike the *Independence Conceptual Framework*, the applicability of the proposed *Framework* is not limited to members who provide professional services to attest clients, but is applicable to all members in the performance of professional services.

In developing the proposed *Framework*, the Committee also considered the framework approach adopted by the International Federation of Accountants (IFAC) in its *Code of Ethics for Professional Accountants*. Specifically, the IFAC Code sets forth fundamental principles of professional ethics for accountants and provides a conceptual framework for applying those principles. The PEEC believes the proposed *Framework* is consistent with the conceptual framework approach set forth in the IFAC Code and therefore will assist the Committee with its efforts to harmonize the AICPA's ethics standards with international ethics standards.

## **Framework Approach**

The Committee recognizes that specific threats to meeting the objectives of the fundamental principles may arise when providing professional services to clients and employers. Because it is impossible to address in the Code every situation that creates such threats and specify the appropriate safeguards to mitigate or eliminate those threats, the proposed *Framework* provides guidance to members when faced with making decisions on ethical matters *that are not explicitly addressed by the Code*. Under no circumstances, however, may the proposed *Framework* be used to justify noncompliance with the prohibitions or requirements contained in the rules, interpretations, and rulings in the Code.

In cases where a member identifies a threat that is not clearly insignificant (that is, it is more than trivial and inconsequential), the member is required to apply safeguards to eliminate the threat or reduce it to an acceptable level. If a threat cannot be sufficiently mitigated through the application of safeguards, or if a member is unable to implement appropriate safeguards, the member should decline or discontinue the specific professional service.

Because the nature of the threats and safeguards may differ for members in public practice and members not in public practice, the proposed *Framework* provides specific examples relevant to members in public practice and members who are not in public practice. In addition, the proposed *Framework* contains guidance on ethical conflict resolution that is relevant to all members.

## **Proposed Interpretation 102-7**

Once adopted, the Committee intends to incorporate the proposed *Framework* into the Code as an enforceable standard. Proposed Interpretation 102-7 would provide guidance and notice to members that when making decisions on ethical matters that are not explicitly addressed by the Code, members should refer to the proposed *Framework*. Accordingly, a member who fails to refer to the guidance in the proposed *Framework* when faced with such circumstances may be considered in violation of this Interpretation.

## **Effective Date**

In order to provide members with sufficient time to develop policies and procedures to implement the *Framework* and educate relevant personnel, the Committee is proposing a one year delay in the effective date of the *Framework*. Thus, the *Framework* would be effective one year after the last day of the month in which it is published in the Journal of Accountancy.

## **Requests for Specific Comments**

While the Committee welcomes comments on all aspects of this proposal, it specifically requests feedback on the following issue:

The Committee is proposing that the *Framework* be placed in ET section 80 of the Code, which comes after the sections containing the *Principles of Professional Conduct* and prior to the sections containing the definitions, *Independence Conceptual Framework*, rules, related ethics interpretations and rulings. Do you agree that this is an appropriate placement for the *Framework*? Is there a different location in the Code that would be more intuitive to members and increase the likelihood of compliance? If so, please advise what section of the Code would be more appropriate.



**PROPOSED INTERPRETATION 102-7, *OTHER CONSIDERATIONS: MEETING THE OBJECTIVES OF THE FUNDAMENTAL PRINCIPLES*, UNDER RULE 102**

*[Text of Proposed Interpretation 102-7]*

**Interpretation 102-7, Other Considerations: Meeting the Objectives of the Fundamental Principles**

A member's provision of professional services may give rise to specific threats to meeting the objectives of the fundamental principles set forth in ET sections 51–57. In making decisions on ethical matters that are not explicitly addressed by the Code of Professional Conduct, members should refer to the *Framework for Meeting the Objectives of the Fundamental Principles* [see ET section 80]. Where the threats to a member's ability to meeting the objectives of the fundamental principles are not clearly insignificant, safeguards should be applied to eliminate the threats or reduce them to an acceptable level.

**PROPOSED *FRAMEWORK FOR MEETING THE OBJECTIVES OF THE FUNDAMENTAL PRINCIPLES***

*[Text of Proposed Framework]*

**ET Section 80, Framework for Meeting the Objectives of the Fundamental Principles**

**Introduction**

**.01** To meet the objectives of the fundamental principles set out in ET sections 51–57, members may need to make decisions on ethical matters that are not explicitly addressed by the Code of Professional Conduct (the Code). This section sets forth a framework that members should use to assist them in meeting the objectives of the fundamental principles in those situations. Under no circumstances, however, may this framework be used to justify noncompliance with the prohibitions or requirements contained in the rules, interpretations, and rulings in the Code.

**Framework Approach**

**.02** The circumstances in which members provide professional services may give rise to specific threats to meeting the objectives of the fundamental principles. The nature of engagements and work assignments will often differ and different threats may exist, requiring the application of different safeguards. It is impossible to define in the Code every situation that creates such threats and specify the appropriate safeguards to mitigate or eliminate those threats.

**.03** This framework requires a member to identify, evaluate, and address threats to meeting the objectives of the fundamental principles when making decisions on ethical matters that are not

explicitly addressed by the Code. If an identified threat is not clearly insignificant (that is, it is more than trivial and inconsequential), the member should apply safeguards to eliminate the threat or reduce it to an acceptable level to enable the member to meet the objectives of the fundamental principles.

**.04** A member should take qualitative as well as quantitative factors into account when considering the significance of a threat. Some threats can be sufficiently mitigated or eliminated through the application of safeguards while other threats cannot. If a threat cannot be sufficiently mitigated through the application of safeguards, or if a member is unable to implement appropriate safeguards, the member should decline or discontinue the specific professional service. Depending on the facts and circumstances, the member also should consider whether it is appropriate to resign from the client or the employing organization.

## **Threats and Safeguards**

### *Threats*

**.05** Threats to a member's ability to meet the objectives of the fundamental principles may potentially arise in a broad range of circumstances. Many threats fall into the following categories, which are similar to those described in the *Conceptual Framework for AICPA Independence Standards* [ET section 100.01]:

- a. Self-review threat—The threat that a member will fail to appropriately evaluate work, or act on identified deficiencies in that work, because the member, or others within the member's firm or employer's organization, originally performed the work
- b. Advocacy threat—The threat that a member who promotes a client or employer's position or opinion may do so to the point that his or her objectivity is compromised
- c. Adverse interest threat—The threat created by actions or interests of a member that are in opposition to the interests of a client or employer
- d. Familiarity threat—The threat that a member will become too sympathetic to the interests of a client or employer because of a close or longstanding relationship with the client or employer, or the threat that a member will place undue reliance on work performed for the client or employer by an individual or entity (other than the member, member's firm, or an individual within the employer's organization) because the individual or entity is familiar to the member, including by reputation
- e. Undue influence threat—The threat created when a client or the employer attempt to coerce the member or exercise excessive influence over the member
- f. Financial self-interest threat—The threat created by the potential benefit to a member of the member's financial interest in, or other financial relationship with, a client or employer (or as a result of such a financial interest or relationship on the part of the member's immediate family or close relative)

**.06** In addition, the following threat may arise for members in public practice:

- g. Management participation threat—The threat created by taking on the role of management or otherwise acting in a management capacity on behalf of a client.

**.07** A member may find that specific circumstances give rise to these and other threats to meeting the objectives of the fundamental principles. In professional or business relationships, all members should be alert for such circumstances and, upon identifying such a threat, evaluate and address it under this framework if the circumstances are not explicitly addressed by the Code.

### *Safeguards*

**.08** Safeguards are controls that eliminate threats or reduce them to an acceptable level. Safeguards range from partial to complete prohibitions of the threatening circumstance, to procedures that counteract the potential influence of a threat. To be effective, safeguards should eliminate the threat or reduce to an acceptable level the threat's potential to compromise the member's ability to meet the objectives of the fundamental principles. The effectiveness of safeguards depends on many factors, including:

- a. The facts and circumstances of a particular situation
- b. The proper identification of threats
- c. Whether the safeguard is suitably designed to meet its objectives
- d. The party or parties that will be subject to the safeguard
- e. How the safeguard is applied
- f. The consistency with which the safeguard is applied
- g. Who applies the safeguard

**.09** Safeguards fall into two broad categories:

- a. Safeguards created by the profession, legislation, or regulation
- b. Safeguards in the work environment.

**.10** The nature of the safeguards to be applied requires judgment and will vary depending on the circumstances. In exercising professional judgment, a member should consider what a reasonable and informed third party would be likely to conclude is unacceptable, weighing all of the relevant information, including the significance of the threat and the effectiveness of the safeguards applied.

**.11** Specific examples of threats and safeguards relevant to members in public practice, and those not in public practice, are provided below. The examples are not intended to be all-inclusive as different circumstances can create threats to meeting the objectives of the fundamental principles and it is impossible to identify every situation that creates a threat. Likewise, threats may be sufficiently mitigated through the application of other safeguards not specifically identified herein.

## Members in Public Practice

.12 This section provides examples of threats and safeguards that may be relevant to members in public practice. Members providing professional services to attest clients also should refer to the *Conceptual Framework for AICPA Independence Standards* (ET section 100.01) for specific guidance on relevant threats to a member's independence and examples of potential safeguards to eliminate those threats or reduce them to an acceptable level.

### *Threats*

.13 Examples of circumstances that may create *self-review threats* include, but are not limited to:

- a. Discovery by the member, during a re-evaluation of the member's work, of a significant error made by the member
- b. Reporting on the operation of financial systems after being involved in their design or implementation
- c. Preparing the original data used to generate records that will be subject to review as part of a subsequent engagement
- d. Performing a service for a client that directly affects the subject matter of an engagement
- e. Reviewing the results of a nonattest service that was performed by the member's firm

.14 Examples of circumstances that may create *advocacy threats* include, but are not limited to:

- a. Promoting a client's securities as part of a public or private financing
- b. Advocating on behalf of a client in litigation or disputes with third parties<sup>1</sup>
- c. Representing a client in U.S. Tax Court

.15 Circumstances that may create *adverse interest threats* include, but are not limited to, commencing, or the expressed intention to commence, litigation by either the client or the member against the other.

.16 Examples of circumstances that may create *familiarity threats* include, but are not limited to:

- a. A member of the engagement team having a close or immediate family relationship with a director or officer of the client
- b. A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert significant influence over the preparation of the client's accounting records or financial statements
- c. A former partner of the firm being associated with the client as a director or officer, or as an employee in a position to exert significant influence over the subject matter of the engagement
- d. Senior personnel of the firm having a long association with the client through prolonged service to the client
- e. A member of the engagement team having recently been a director or officer of the client or employed by the client in a position to exercise significant influence over the subject matter of the engagement

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<sup>1</sup> This threat does not arise from testifying as a fact witness.

**.17** Examples of circumstances that may create *undue influence threats* include, but are not limited to:

- a. Threats by a client of dismissal or replacement
- b. Pressure by the client to inappropriately reduce the extent of work performed to reduce fees
- c. Gifts or preferential treatment from a client

**.18** Examples of circumstances that may create *financial self-interest threats* include, but are not limited to:

- a. Having a financial interest in a client or a joint closely held investment with a client
- b. Having a loan to or from a client or any of its directors or officers
- c. Dependence on total fees from a client
- d. Having a joint business relationship with a client
- e. Concern about the possibility of losing a client
- f. Potential employment with a client
- g. Performing an engagement for a contingent fee

**.19** Examples of circumstances that may create *management participation threats* include, but are not limited to:

- a. Serving as an officer or director of the client
- b. Establishing and maintaining internal controls for the client
- c. Hiring or terminating the client's employees, or supervising them in the conduct of their day-to-day responsibilities

### *Safeguards*

**.20** Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:

- a. Safeguards created by the profession, legislation, or regulation
- b. Safeguards in the work environment

**.21** Examples of safeguards created by the profession, legislation, or regulation include, but are not limited to:

- a. Education, training, and experience requirements for entry into the profession
- b. Continuing education requirements
- c. Corporate governance regulations
- d. Professional standards
- e. Professional or regulatory monitoring and disciplinary procedures
- f. External review by a professional or regulatory body of the reports, returns, communications or information produced by a member
- g. Competency and experience requirements for professional licensure

**.22** Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the profession, legislation, regulation, or firm, include, but are not limited to:

- a. Effective, well publicized complaint systems operated by the firm, the profession, or a regulator, which enable colleagues, clients, and members of the public to draw attention to unprofessional or unethical behavior
- b. An explicitly stated duty to report breaches of ethical requirements

.23 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards include safeguards implemented by the firm and safeguards implemented by the client.

.24 Examples of safeguards implemented by the firm include, but are not limited to:

- a. Leadership of the firm that stresses the importance of compliance with the fundamental principles
- b. Leadership of the firm that establishes the expectation that members of an engagement team will act in the public interest
- c. Policies and procedures to implement and monitor quality control of engagements
- d. Policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of those threats, and the identification and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level
- e. For firms that perform attest engagements, documented independence policies regarding the identification of threats to independence, the evaluation of the significance of those threats, and the evaluation and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level
- f. Internal policies and procedures requiring compliance with the fundamental principles
- g. Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients
- h. Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client
- i. Using different partners and engagement teams with separate reporting lines for the provision of non-attest services to an attest client
- j. Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement
- k. Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures
- l. Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system
- m. Advising partners and professional staff of the attest clients from which they must be independent
- n. A disciplinary mechanism to promote compliance with policies and procedures
- o. Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them
- p. Involving an additional member to review the work done or otherwise advise as necessary
- q. Consulting an independent third party, such as a committee of independent directors, a professional regulatory body, or another member
- r. Discussing ethical issues with those charged with governance of the client

- s. Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged
- t. Involving another firm to perform or re-perform part of the engagement
- u. Rotating senior attest engagement team personnel

**.25** Depending on the nature of the engagement, a member in public practice may also be able to rely on safeguards that the client has implemented; however, it is not possible to rely solely on such safeguards to eliminate threats or reduce them to an acceptable level.

**.26** Examples of safeguards implemented by the client that would operate in combination with other safeguards include, but are not limited to:

- a. The client appoints a firm in public practice to perform an engagement and persons other than client management ratify or approve the appointment
- b. The client has employees with suitable skill, knowledge, and/or experience and the authority to make managerial decisions in connection with the performance of professional services by the member
- c. The client has implemented internal procedures that ensure objective choices in commissioning non-attest services engagements
- d. The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services
- e. A tone at the top that emphasizes and demonstrates the client's commitment to fair financial reporting
- f. Policies and procedures that are designed to achieve fair financial reporting

### **Members not in Public Practice**

**.27** This section provides examples of threats and safeguards that may be relevant to members not in public practice (including members in business and industry, government, and education).

**.28** Investors, creditors, employers, and other sectors of the business community, as well as governments and the public at large, might rely on the work of members not in public practice. Members not in public practice may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employer and third parties might rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

**.29** A member not in public practice may be a salaried employee, a partner, director (whether executive or non-executive), an owner-manager, a volunteer, or consultant working for one or more employers. The legal form of the relationship with the employer, if any, has no bearing on the ethical responsibilities incumbent on the member.

**.30** A member not in public practice has a responsibility to further the legitimate aims of his or her employer. This Code does not seek to hinder a member from properly fulfilling that responsibility, but considers circumstances in which conflicts may be created with the fundamental principles.

**.31** A member not in public practice may hold a senior position within an organization. The more senior the position, the greater will be the ability and opportunity to influence events, practices, and attitudes. A member not in public practice is expected, therefore, to encourage an ethics-based culture in the employer's organization that emphasizes the importance that senior management places on ethical behavior.

### *Threats*

**.32** Circumstances that may create *self-review threats* include, but are not limited to, the member reviewing and justifying decisions made or data prepared by the member or by others within the employer's organization.

**.33** Circumstances that may create *advocacy threats* include, but are not limited to, the member promoting the employer's position by subordinating his or her judgment to that of the employer. However, furthering the legitimate goals and objectives of the member's employer would not create an advocacy threat provided any representations made are neither false nor misleading and the member maintains objectivity and does not subordinate his or her judgment to others.

**.34** Examples of circumstances that may create *familiarity threats* include, but are not limited to:

- a. A member in a position to influence financial or non-financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence
- b. Close association with business contacts who can influence business decisions

**.35** Examples of circumstances that may create *undue influence threats* include, but are not limited to:

- a. Threat of dismissal or replacement of the member or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported
- b. A dominant personality attempting to influence the member's decision making process, for example, with regard to the awarding of contracts or the application of an accounting principle
- c. Acceptance of a gift or preferential treatment

**.36** Examples of circumstances that may create *financial self-interest threats* include, but are not limited to:

- a. Financial interests, loans, or guarantees
- b. Incentive compensation arrangements
- c. Inappropriate personal use of corporate assets
- d. Concern over employment security
- e. Products or services provided to the employer by an entity that is owned by the member

### *Safeguards*

**.37** Safeguards that may eliminate or reduce to an acceptable level the threats faced by members not in public practice fall into two broad categories:

- a. Safeguards created by the profession, legislation, or regulation
- b. Safeguards in the work environment.



**.38** Examples of safeguards created by the profession, legislation, or regulation include, but are not limited to:

- a. Education, training, and experience requirements for entry into the profession
- b. Continuing education requirements
- c. Corporate governance regulations
- d. Professional standards
- e. Professional or regulatory monitoring and disciplinary procedures
- f. External review by a professional or regulatory body of the reports, returns, communications, or information produced by a member
- g. Competency and experience requirements for professional licensure

**.39** Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the profession, legislation, regulation, or the employer, include, but are not limited to:

- a. Effective, well publicized complaint systems operated by the employer, the profession, or a regulator, which enable colleagues, the employer, and members of the public to report unprofessional or unethical behavior
- b. An explicitly stated duty to report breaches of ethical requirements

**.40** Examples of safeguards in the work environment include, but are not limited to:

- a. The employer's system of corporate oversight or other oversight structures
- b. The employer's ethics and conduct programs
- c. Recruitment procedures of the employer that emphasize the importance of employing qualified staff
- d. Strong internal controls
- e. Appropriate disciplinary processes
- f. Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner
- g. Policies and procedures to implement and monitor the quality of employee performance
- h. Timely communication of the employer's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures
- i. Policies and procedures to empower and encourage employees to communicate to senior individuals within the employer's organization any ethical issues that concern them without fear of retribution
- j. Consultation with another appropriate member

### **Ethical Conflict Resolution —All Members**

**.41** An ethical conflict arises when a member encounters obstacles to following an appropriate course of action due to internal or external pressures or conflicts within the professional standards. For example, a member may have encountered a fraud, the reporting of which could breach the member's responsibility to maintain client confidentiality. After evaluating the threats and, where necessary, relevant safeguards, members—both in public practice and not in public practice—may be required to resolve an ethical conflict in order to meet the objectives of the fundamental principles.

**.42** When resolving an ethical conflict, a member should consider the following matters:

- a. Relevant facts and circumstances
- b. Ethical issues involved
- c. Established internal procedures
- d. Alternative courses of action

**.43** Having considered these matters, a member should select a course of action that will enable him or her to meet the objectives of the fundamental principles. The member should also weigh the consequences of each possible course of action. If the conflict remains unresolved after pursuing a course of action, the member should consult with appropriate persons within the firm or the employer's organization for help in reaching a resolution. If a conflict cannot be resolved, the member may also wish to obtain advice from an appropriate professional body or legal counsel. The member is encouraged to document the substance of the issue and details of any discussions held or decisions made, concerning that issue.

**.44** If, after exhausting all reasonable possibilities, the ethical conflict remains unresolved, the member should refuse to remain associated with the matter creating the conflict. The member may determine that, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the client, the firm, or the employing organization.

