

The Institute of Chartered Accountants of Newfoundland
RULES OF PROFESSIONAL CONDUCT
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RULES OF PROFESSIONAL CONDUCT

FORWARD

The Forward to the rules of professional conduct (or rules) sets out the philosophy that underlies the rules governing the chartered accountant's responsibilities to those to whom professional services are provided, to the public and to colleagues, in respect of

- characteristics of a profession;
- fundamental principles governing conduct;
- ethical conflict resolution;
- fiduciary duty;
- personal character and ethical conduct;
- application of the rules;
- principles governing the responsibilities of firms; and
- interpretation of the rules.

The rules of professional conduct , comprehensive in their scope, practical in application and addressed to high ethical standards, serve not only as a guide to the profession itself but as a source of assurance of the profession's concern for the public it serves. It is a mark of a profession that there is a voluntary assumption, by those who comprise it – the professional community – of ethical principles which are aimed, first and foremost, at protection of the public and, second, at achieving orderly and courteous conduct within the profession. It is to these purposes that the Institute's rules are directed.

* * *

Characteristics of a profession

The rules of professional conduct presume the existence of a profession. Since the word "profession" has lost some of its earlier precision, through widespread application, it is worthwhile reviewing the characteristics which mark a calling as professional in the traditional sense. Much has been written on the subject and court cases have revolved around it. The weight of the authorities, however, identifies the following distinguishing elements:

- there is mastery by the practitioners of a particular intellectual skill, acquired by lengthy training and education;
- the traditional foundation of the calling rests in public practice – the application of the acquired skill to the affairs of others for a fee;

- the calling centres on the provision of personal services rather than entrepreneurial dealing in goods;
- there is an outlook, in the practice of the calling, which is essentially objective;
- there is acceptance by the practitioners of a responsibility to subordinate personal interests to those of the public good;
- there exists a developed and independent society or institute, comprising the members of the calling, which sets and maintains standards of qualification, attests to the competence of the individual practitioner and safeguards and develops the skills and standards of the calling;
- there is a specialized code of ethical conduct, laid down and enforced by that society or institute, designed principally for the protection of the public;
- there is a belief, on the part of those engaged in the calling, in the virtue of interchange of views, and in a duty to contribute to the development of their calling, adding to its knowledge and sharing advances in knowledge and technique with their fellow members.

By these criteria chartered accountancy is a profession. It is essential to recognize that a profession does not cease to be a profession because a proportion of its members enter salaried private employment. These members continue to belong to the profession and to be subject to the rules of professional conduct. It should also be recognized that some members of the profession might acquire the required skills outside public practice.

Fundamental principles governing conduct

The rules of professional conduct, as a whole, flow from the special obligations embraced by the chartered accountant. The reliance of the public, generally, and the business community, in particular, on sound and fair financial reporting and competent advice on business affairs – and the economic importance of that reporting and advice – impose these special obligations on the profession. They also establish, firmly, its social usefulness.

To protect the public and to maintain the reputation of the profession, the rules apply, as appropriate, to members of the profession, students and firms of Chartered Accountants.

The rules of professional conduct are derived from five fundamental principles of ethics - statements of accepted conduct whose soundness is, for the most part, self-evident and are as follows:

Professional Behaviour

Members conduct themselves at all times in a manner which will maintain the good reputation of the profession and its ability to serve the public interest.

In doing so, members are expected to avoid any action that would discredit the profession.

While there are business considerations involved in the creation and development of a professional practice, a member's practice should be based primarily upon a reputation for professional excellence. A member is expected to act in relation to other professional colleagues with the courtesy and consideration he or she would expect to be accorded by them.

Integrity and Due Care

Members perform professional services with integrity and due care.

Members are expected to be straightforward, honest and fair dealing in all professional relationships. They are also expected to act diligently and in accordance with applicable technical and professional standards when providing professional services. Diligence includes the responsibility to act, in respect of an engagement, carefully, thoroughly, and on a timely basis. Members are required to ensure that those performing professional services under their authority have adequate training and supervision.

Professional Competence

Members maintain their professional skills and competence by keeping informed of, and complying with, developments in their professional standards.

The public expects the accounting profession to maintain a high level of competence. This underscores the need for maintaining individual professional skill and competence by keeping abreast of and complying with developments in the professional standards and pertinent legislation in all functions where a member practices, or is relied upon because of his or her calling.

Confidentiality

Members have a duty of confidentiality in respect of information acquired as a result of professional, employment and business relationships and they will not disclose to any third party, without proper and specific authority, any such information, nor will they exploit such information to their personal advantage or the advantage of a third party.

The principle of confidentiality includes the need to maintain the confidentiality of information within a member's firm or employing organization.

The disclosure of confidential information by a member may be required or appropriate where such disclosure is:

- Permitted or authorized by the client or employer;
- Required by law; or
- Permitted or required by a professional right or duty, when not prohibited by law.

Objectivity

Members do not allow their professional or business judgment to be compromised by bias, conflict of interest or the undue influence of others.

The public expects that members will bring objectivity and sound professional judgment to their professional services. It thus becomes essential that a member will not subordinate professional judgment to external influences or the will of others.

The public interest in the objectivity of a member engaged to perform an assurance engagement or a specified auditing procedure, requires that the member be, and be seen to be, free of influences which would impair the member's objectivity. Accordingly, the rules specifically require a member who engages to perform an assurance or specified auditing procedures engagement to be independent. The ethical standard of independence requires the member to be and remain free of any influence, interest or relationship, in respect of the client's affairs, which impairs the member's professional judgment or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgment or objectivity.

As well, the rules specifically require that a member, before accepting or continuing an engagement, determine whether there is any restriction, influence, interest or relationship which, in respect of the proposed engagement, would cause a reasonable observer to conclude that there is or will be a conflict of interest. If there were to be such a conflict, the member is required to decline or discontinue the particular engagement unless there are accepted conflict management techniques which, with the informed consent of the affected client or clients, permit the member to accept or continue the engagement.

With respect to both independence and conflicts of interest, the profession employs the criterion of whether a reasonable observer would conclude that a specified situation or circumstance posed an unacceptable threat to a member's

objectivity and professional judgment. Only then can public confidence in the objectivity and integrity of the member be sustained, and it is upon this public confidence that the reputation and usefulness of the profession rest. The reasonable observer should be regarded as a hypothetical individual who has knowledge of the facts which the member knew or ought to have known, and applies judgment objectively with integrity and due care.

Ethical conflict resolution

Circumstances may arise where a member encounters and is required to resolve a conflict in the application of the fundamental principles or compliance with the rules derived therefrom.

When initiating a process for the resolution of an ethical conflict, a member should consider, either individually or together with others, as part of the resolution process, the following:

- Relevant facts;
- Ethical issues involved;
- Fundamental principles and rules applicable to the matter in question;
- Established internal procedures; and
- Alternative courses of action.

Having considered these issues, the member should determine the appropriate course of action that is consistent with the fundamental principles and rules identified as being pertinent. The member should also weigh the consequences of each possible course of action. If the matter remains unresolved, the member should consult with other appropriate persons within the firm or employing organization for help in obtaining resolution.

Where a matter involves a conflict with, or within, an organization, a member should also consider consulting with those charged with governance of the organization, such as the board of directors or the audit committee.

It would be in the best interests of the member to document the substance of the issue and details of any discussions held or decisions taken, concerning that issue.

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

If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, the member should, where ethically possible, 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 particular engagement team or assignment, or to resign altogether from the engagement, the firm or the employing organization in a manner consistent with the rules of professional conduct.

Fiduciary duty

Members have duties to their clients that arise from the nature of the relationships with the clients. Members have a professional duty to act with integrity and due care and a contractual duty to provide services as defined by the terms of the engagement. In certain cases, the relationship between a member and a client could also be one that the courts describe as a fiduciary relationship that gives rise to fiduciary duties.

The concepts of fiduciary relationship and fiduciary duty are derived from the law of trusts. The obligations of a fiduciary can be onerous and the implications of being in breach of a fiduciary duty can be significant.

In determining whether a fiduciary relationship does exist, a court will look at all of the factors but, in a professional engagement situation, will particularly focus on the purpose and nature of the service being provided; the extent of the reliance which the client places on the member; any lack of sophistication of the client; the vulnerability of the client to the influence of the member; and, the discretionary authority, if any, granted by the client to the member. The court will also consider the extent of the disclosure to the client of the member's interest in the matter and whether the member has put himself or herself in a position of conflict or has an opportunity to receive a benefit unknown to the client.

Courts have held that, absent other circumstances, an auditor is not a fiduciary in the typical financial statement audit engagement (in keeping with the standard statutory purpose). However, when a member of the audit firm provides non-audit advisory services to the audit client and when the criteria for a fiduciary relationship exist, the audit firm may be found to be a fiduciary. A service provider is more likely to be found to be a fiduciary in professional engagements such as forensic or investigative accounting and investment advisory services.

Members must also note that a member who is an employee may, depending on the particular facts and circumstances, have a fiduciary relationship with his or her employer.

If there is any question as to whether a fiduciary relationship exists, legal advice should be obtained.

The specific duties that a court might find applicable to a fiduciary will vary depending on the particular facts and circumstances. In general, a fiduciary relationship requires the fiduciary to act in the utmost good faith on behalf of the client. As such, a fiduciary must not place himself or herself in a position where his or her interests conflict with that of the client; nor can a fiduciary profit from his or her position at the expense of the client. A fiduciary must use information obtained in confidence from a client only for the benefit of the client and must not use it for personal advantage or the benefit of another person. A fiduciary cannot act at the same time both for and against the same client and must make available to a client all of the information that is relevant to the client's affairs, unless these requirements are modified with the client's agreement. Other duties may be found to pertain but are less likely to apply to public accountants.

It is important for members to recognize that not all fiduciary relationships give rise to all fiduciary duties. The terms of the engagement, including explicit provisions for the disclosure of potential conflicts and/or the use of institutional mechanisms to maintain confidentiality are fundamentally important to the nature of the relationship and the duties that a court will find to apply in a particular case.

The responsibilities owed to an existing client are more comprehensive than the responsibilities owed to a former client. The responsibility owed to a former client is generally limited to the duty of confidentiality.

Some, but not all, fiduciary duties are also professional obligations under the rules of professional conduct. The existence of professional obligations that are similar to fiduciary duties is not in and of itself determinative as to whether a fiduciary relationship exists between a member and his or her client. The rules of professional conduct require that members maintain confidentiality, refrain from taking undisclosed profits and avoid conflicts of interest in all client relationships. While the law recognizes that only certain professional engagements give rise to fiduciary duties, members must be aware that they are subject to the rules of professional conduct in all engagements.

Personal character and ethical conduct

The rules of professional conduct which follow are based on the principles expressed above in this Foreword. These principles have emerged out of the collective experience of the profession as it has sought, down the years, to demonstrate its sense of responsibility to the public it serves. By their commitment to honourable conduct, members of the Institute, throughout its history, have given particular meaning and worth to the designation "chartered

accountant". They have done so by recognizing that rules of professional conduct, which are enforceable by sanctions, do not by their nature state the most that is expected of members, but simply the least-- the rules thus define a minimum level of acceptable conduct. Ethical conduct in its highest sense, however, is a product of personal character -- an acknowledgement by the individual that the standard to be observed goes beyond that of simply conforming to the letter of a list of prohibitions.

Application of the Rules of Professional Conduct

- The rules of professional conduct apply to all members irrespective of the type of professional services being provided. Some rules have particular relevance to members engaged in the practice of public accounting. The rules and the guidance in this Foreword also apply, as appropriate, to students and, as discussed below, to firms.
- The term "professional services" also applies to members who are not engaged in the practice of public accounting. In this context, it includes those of the member's activities where the public or his or her associates are entitled to rely on membership in the Institute as giving the member particular competence and requiring due care, integrity and an objective state of mind.
- Members are responsible to the Institute for compliance with these rules by others who are either under their supervision or share with them a proprietary interest in their firm or other enterprise. In this regard, a member must not permit others to carry out on his or her behalf acts which if carried out by the member would place him or her in violation of the rules.
- Members and students who reside outside of Newfoundland and Labrador continue to be subject to the rules of professional conduct in the province or provinces of membership. They may also be subject to the rules of the organized accounting profession in the jurisdiction in which they reside. Should the rules in two or more jurisdictions conflict, a member will, where possible, observe the higher or stronger of the conflicting rules and, where that is not possible, he or she will consider the ethical conflict guidance set out above.

Interpretation of the Rules of Professional Conduct

In interpreting the rules, they are to be read in light of the Foreword to the rules and the definitions in and provisions of the by-laws of the Institute.

Definitions

The definitions in and the provisions of the By-laws and the Chartered Accountants Act, 2008 govern these Rules, where applicable. For purposes of these Rules the following additional definitions are applicable:

- (1) "Professional Misconduct" means
 - (a) conduct that contravenes the Act, the regulations or the bylaws
 - (b) conduct that contravenes these rules of professional conduct or practice standards
 - (c) conduct that displays a lack of competence
 - (d) the failure or refusal to abide by the terms of a settlement,
 - (e) the failure or refusal to comply with an order of, a condition imposed by or an undertaking provided to a court, a governing body, or a body established by the Chartered Accountants Act, 2008, any former Act or the governing body under the Chartered Accountants Act, 2008 or a former Act regardless of where the conduct occurred.

- (2) "Conduct unbecoming" means conduct, including conduct in the chartered accountant's personal or private capacity, that is inimical to the best interests of the public or which tends to harm the standing of the accounting profession generally, regardless of where the conduct occurred.

100 GENERAL**Compliance with By-laws, Regulations and Rules**

101 Members and students and, where applicable, professional corporations shall comply with the by-laws, regulations and rules of professional conduct of the Institute as they may be from time to time and with any order or resolution of the Board or officers of the Institute under the by-laws.

Conviction of Criminal or Similar Offences

102.1 (1) A member or student who has been:

- (a) convicted of an offence of fraud, theft, forgery or tax evasion, or is convicted of an offence of conspiring or attempting to commit such offences; or
- (b) found guilty of violating the provisions of any securities legislation; or
- (c) convicted of any criminal or similar offence for conduct in or relating to their professional capacity, or for conduct in circumstances where there was a reliance on their membership in or association with the Institute; or
- (d) discharged absolutely or upon conviction after pleading guilty to or being found guilty of an offence described in (a), (b) or (c) above

shall promptly inform the Institute of the fact of the conviction, finding of guilt or discharge, as the case may be, when the right of appeal has been exhausted or expired.

(2) This rule of professional conduct applies in respect of an event which occurs after the third day of June 1991.

Reporting Disciplinary Suspension, Expulsion or Restriction of Right to Practise

102.2 When, through the disciplinary process of another provincial institute,

(a) a member is suspended or expelled from membership in that institute; or

(b) a member's right to practise is restricted by that institute,

the member shall promptly inform the Institute of the fact of the suspension, expulsion, or practice restriction.

False or Misleading Applications

- 103 A member or student or any person who applies to become a member or student shall not sign or associate himself or herself with any letter, report, statement or representation relating to his or her application for admission or readmission to membership, or relating to his or her application for registration or re-registration as a student, which he or she knew, or should have known, was false or misleading.

Requirement to Co-operate

- 104.1 A member or student shall co-operate with the regulatory processes of the Institute.
- 104.2 A member, student or firm shall
- (a) reply in writing to any communication from the Institute in which a written reply is specifically required;
 - (b) produce documents when required to do so by the Institute
 - (c) attend in person in the manner requested when required to do so by the Institute in relation to the matters referred to in Rule 104.1.

Hindrance, Inappropriate Influence and Intimidation

- 105.1 A member, student or firm shall not, directly or indirectly hinder any regulatory process of the Institute or otherwise attempt to exert inappropriate influence or pressure on the outcome of a regulatory matter of the Institute.
- 105.2 A member, student or firm shall not threaten or intimidate a complainant, witness, or any other person related to a regulatory matter of the Institute nor shall a member, student or firm threaten or intimidate officers, staff, volunteers or agents of the Institute acting on behalf of the Institute.

200 STANDARDS OF CONDUCT AFFECTING THE PUBLIC INTEREST

Maintenance of Reputation of Profession

- 201.1 A member or student shall conduct himself or herself at all times in a manner which will maintain the good reputation of the profession and its ability to serve the public interest.

201.2 Notwithstanding any other provisions of the by-laws or these rules of professional conduct, in the event a member or student is charged under Rule 201.1 on account of an offence referred to in Rule 102, when a certificate of conviction or certified copy of the original information or indictment as provided for in Section 29 of the Chartered Accountants Act, 2008 with respect to the offence set out in Rule 102 is filed with the Registrar, there is a rebuttable presumption the member or student charged failed to maintain the good reputation of the profession and its ability to serve the public interest.

201.3 Notwithstanding any other provisions of the by-laws or these rules of professional conduct, where a member is charged under Rule 201.1 on account of being suspended or expelled or having a restriction placed on the member's right to practise through the disciplinary process of another provincial institute and a certified copy of the other provincial institute's disciplinary decision and order is filed with the Registrar, there is a rebuttable presumption that the member charged failed to maintain the good reputation of the profession and its ability to serve the public interest.

Advocacy Services

201.4 A member who engages to serve as an advocate for a client shall ensure that:

- (a) the service is not an assurance or specified auditing procedures engagement;
- (b) the advocacy role of the member is apparent in the circumstances;
- (c) the position of the client is supportable; and
- (d) the position of the client can be argued or supported by the member without the member failing to comply with the objectivity standards required for other services which the member has engaged to provide.

Integrity and Due Care

202.1 A member or student shall perform his or her professional services with integrity and due care.

Objectivity

202.2 A member or student shall perform professional services with an objective state of mind.

Sustaining of Professional Competence

203.1 A member shall sustain his or her professional competence by keeping informed of, and complying with, developments in professional standards in all functions in which the member practises or is relied upon because of his or her calling.

Independence

Definitions

For the purposes of Rules 204.1 to 204.8 and the related Board Interpretations:

“accounting role” means a position in which a person may or does exercise more than minimal influence over:

- (a) the contents of the financial statements; or
- (b) anyone who prepares the financial statements.

“assurance client” means an entity in respect of which a member or firm has been engaged to perform an assurance engagement.

“assurance engagement” means an assurance engagement as contemplated in the *CICA Handbook – Assurance*.

“audit client” means an entity in respect of which a member or firm has been engaged to perform an audit of the financial statements. In the application of Rule 204.4(1) to (12) “audit client” includes its related entities, and the reference to an assurance client, a client or an entity that is an audit client shall be read as including all related entities of the assurance client, client or entity as the case may be.

“audit committee” means the audit committee of the entity, or if there is no audit committee another governance body which has the duties and responsibilities normally granted to an audit committee.

“audit engagement” means an engagement to audit financial statements as contemplated in the *CICA Handbook – Assurance*.

“audit partner” means a person who is a partner in a firm or a person who has equivalent responsibility, other than a specialist or technical partner or equivalent who consults with others on the engagement team regarding technical or industry-specific issues, transactions or events, who is a member of the audit engagement team having responsibility for decision-making on significant auditing, accounting, and reporting matters that affect the financial statements, or who maintains regular contact with management and the audit committee, and includes the following:

- (a) the lead engagement partner;
- (b) the engagement quality control reviewer;

- (c) another partner who, during the engagement period, provides more than ten hours of assurance services in connection with the annual financial statements or interim financial information of the client; and
- (d) a subsidiary entity engagement partner.

“clearly insignificant” means trivial and inconsequential.

“close family” means a parent, non-dependent child or sibling.

“direct financial interest” means a financial interest:

- (a) owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others);
- (b) beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control;
- (c) owned through an investment club or by a private mutual fund in which the individual participates in the investment decisions.

“engagement quality control reviewer”, often referred to as reviewing, concurring or second partner, means the audit partner who, prior to issuance of the audit report, evaluates the significant judgements made by the lead engagement partner and other persons on an engagement team, the conclusions reached in formulating the audit report and other significant matters that have come to the partner’s attention.

“engagement team” means:

- (a) each member of the firm participating in the assurance engagement;
- (b) all other members of the firm who can directly influence the outcome of the assurance engagement, including:
 - (i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of, the assurance engagement partner in connection with the performance of the assurance engagement. For the purposes of an audit engagement this includes those at all successively senior levels above the lead engagement partner through to the firm’s chief executive officer;
 - (ii) those who provide consultation regarding technical or industry-specific issues, transactions or events for the assurance engagement; and

- (iii) those who provide quality control for the assurance engagement; and
- (c) in the case of an audit client, all persons in a network firm who can directly influence the outcome of the audit engagement.

“financial interest” includes a direct or indirect ownership interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

“financial reporting oversight role” means a position in which a person may or does exercise influence over:

- (a) the contents of the financial statements; or
- (b) anyone who prepares the financial statements.

“firm” means a sole practitioner, partnership, professional corporation or association of members who carries or carry on the practice of public accounting, or carries or carry on related activities as defined by the Board.

“fund manager” means, with respect to a mutual fund, an entity that is responsible for investing the mutual fund’s assets, managing its portfolio trading and providing it with administrative and other services, pursuant to a management contract.

“immediate family” means a spouse (or equivalent) or dependant.

“indirect financial interest” means a financial interest beneficially owned through a collective investment vehicle such as a mutual fund, estate, trust or other intermediary over which the beneficial owner has no control.

“lead engagement partner” means the audit partner having primary responsibility for an audit or review engagement.

“market capitalization” in respect of a particular fiscal year means the average market price of all outstanding listed securities and publicly traded debt of the entity measured at the end of each of the first, second and third quarters of the prior fiscal year and the year-end of the second prior fiscal year.

“member of a firm” or **“member of the firm”**, as the case may be, means a person, whether or not a member of a provincial Institute or Ordre, who is:

- (a) a sole practitioner;

- (b) a partner, professional employee or student of the firm;
- (c) an individual engaged under contract by the firm to provide services that might otherwise be provided by a partner or professional employee of a firm;
- (d) an individual who provides to the firm services which are referred to in Rule 204.1 and includes any corporate or other entity through which the individual contracts to provide such services; or
- (e) a retired partner of the firm who retains a close association with the firm.

“**mutual fund**” means a mutual fund that is a reporting issuer under the applicable Canadian provincial or territorial securities legislation.

“**mutual fund complex**” means:

- (a) a mutual fund that has the same fund manager as a client;
- (b) a mutual fund that has a fund manager that is controlled by the fund manager of a client; and
- (c) a mutual fund that has a fund manager that is under common control with the fund manager of a client.

“**network firm**” means an entity under common control, ownership or management with a firm, or any entity that a reasonable observer who has knowledge of the facts would conclude to be part of a firm nationally or internationally. A network firm does not include an entity that constitutes a related business or practice, as defined, in Canada.

“**office**” means a distinct sub-group of a firm, whether organized on geographical or practice lines.

“**related entity**” means:

- (a) in the case of a client that is a reporting issuer, an entity that has control over the client, or over which the client has control, or that is under common control with the client, including the client's parent company and any subsidiaries;
- (b) in the case of a client that is not a reporting issuer:
 - (i) an entity over which the client has control;
 - (ii) an entity that has control over the client provided the client is material to such entity; and

- (iii) an entity that is under common control with the client provided that such entity and the client are both material to the controlling entity;
- (c) in any case, an entity over which a client has significant influence, unless the entity is not material to the client; and
- (d) in any case, an entity that has significant influence over a client, unless the client is not material to the entity.

“reporting issuer” means an entity that is deemed to be a reporting issuer under the applicable Canadian provincial or territorial securities legislation other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a reporting issuer thenceforward unless and until the entity ceases to have its shares, units or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.

In the case of a period in which an entity makes a public offering:

- (a) the term “market capitalization” shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured using the closing price on the day of the public offering; and
- (b) the term “total assets” shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document.

In the case of a reporting issuer that does not have listed securities or publicly traded debt, the definition of reporting issuer shall be read without reference to market capitalization.

“review client” means an entity in respect of which a member or firm conducts a review engagement. In the application of Rule 204.4(1) to (12) “review client” includes its affiliates, and the reference to an assurance client, a client or an entity that is a review client shall be read as including all affiliates of the assurance client, client or entity, as the case may be.

“review engagement” means an engagement to review financial statements as contemplated in the *CICA Handbook – Assurance*.

“specified auditing procedures engagement” means an engagement to perform specified auditing procedures as contemplated in the *CICA Handbook – Assurance*.

“subsidiary entity engagement partner” means the lead engagement partner for an audit engagement related to the annual financial statements or interim financial information of an entity that is a subsidiary or joint venture of an audit client and whose assets or revenues constitute 20% or more of the assets or revenues of the audit client’s respective consolidated assets or revenues.

“total assets” in respect of a particular fiscal year means the amount of total assets presented on the third quarter of the prior fiscal year’s financial statements prepared in accordance with generally accepted accounting principles that are filed with a relevant securities regulator or stock exchange. In the case of an entity that is not required to file quarterly financial statements, total assets in respect of a particular fiscal year means the amount of total assets presented on the annual financial statements of the second previous fiscal year prepared in accordance with generally accepted accounting principles that are filed with a relevant securities regulator or stock exchange.

Effective Date and Transitional Provisions

Rules 204.1 to 204.8 shall take effect, no later than:

- (a) for an assurance engagement in respect to a particular reporting period of a client, for the first reporting period commencing after December 31, 2003; and
- (b) for any other assurance engagement and an engagement to issue a report of the results of applying specified auditing procedures where the engagement is commenced after December 31, 2003,

subject to the following transitional provisions, as may be applicable.

1. Provision of non-assurance services

The non-assurance services referred to in 204.4(22) to (33) do not include a service that has not been completed before January 1, 2004 where:

- (i) There exists on December 31, 2003 a binding contract for the member or firm to provide the service;
- (ii) The provision of the service is completed before January 1, 2005; and
- (iii) The provision of the service by the member or firm would not have contravened the provisions of Rule 204.1 as it read prior to January 1, 2004.

2. **Prior approval of audit and non-audit services**

Rule 204.4 (21) shall not apply to a professional service that has not been completed before January 1, 2004 where:

- (i) There exists on December 31, 2003 a binding contract for the member or firm to provide such service; or
- (ii) A binding contract for the member or firm to provide such service is entered into between January 1, 2004 and the earlier of the date of the first annual meeting of the reporting issuer client after July 1, 2004 and July 1, 2005; and
- (iii) The provision of the service is completed before December 31, 2005.

3. **Employment relationships**

The reference to employment in Rule 204.4(16) shall not apply to an employment relationship entered into by a person before January 1, 2004.

4. **Compensation of audit partners**

Rule 204.4(35) shall not apply to the compensation of an audit partner in respect of the fiscal period of the audit partner's firm that includes December 31, 2003.

5. **Audit partner rotation**

Notwithstanding the requirements of 204.4(20):

- (i) A lead engagement partner may continue in that role for a particular client up to and including the second fiscal year of the client commencing after December 31, 2003, notwithstanding that such partner has completed five or more years in that role, or in the role of engagement quality control reviewer, before that second fiscal year;

- (ii) An engagement quality control reviewer may continue in that role for a particular client up to and including the third fiscal year of the client commencing after December 31, 2003, notwithstanding that such partner has completed five or more years in that role, or in the role of lead engagement partner, before that third fiscal year;
- (iii) A partner referred to in Rule 204.4(20)(b) may continue in the particular role for up to seven years after December 31, 2003 notwithstanding that such partner has completed seven or more years in that role before the fiscal year of the particular client commencing after December 31, 2003;
- (iv) A member may commence the role of lead engagement partner for a particular client prior to the end of the client's second fiscal year commencing after December 31, 2003, and may continue in that role for five years, notwithstanding the number of years, if any, that the member was previously the engagement quality control reviewer for the particular client.

6. **Auditors of mutual funds and other non-listed reporting issuers**

The provisions of these rules as they relate to auditors of mutual funds and other non-listed reporting issuers shall take effect no later than the first reporting period commencing after December 31, 2005, subject to the transitional provisions applicable to Rules 204.1 to 204.8 for the changes that took effect for the first reporting period commencing after December 31, 2003, except that, in the application to a reporting issuer that would not have been a reporting issuer if the definition of reporting issuer as it read on January 1, 2004 were to apply, the references in these transitional provisions to 2003, 2004, and 2005, as they apply to the rules affecting the reporting issuer, shall be read as 2005, 2006 and 2007 respectively.

Assurance and Specified Auditing Procedures Engagements

204.1 A member or firm who engages or participates in an engagement:

- (a) to issue a written communication under the terms of an assurance engagement; or
- (b) to issue a report on the results of applying specified auditing procedures;

shall be and remain independent such that the member, firm and members of the firm shall be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgement or objectivity of the member, firm or a member of the firm or which, in the view of a reasonable observer, would impair the

professional judgement or objectivity of the member, firm or a member of the firm.

Identification of Threats and Safeguards

204.2 A member or firm who is required to be independent pursuant to Rule 204.1 shall, in respect of the particular engagement, identify threats to independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant, identify and apply safeguards to reduce the threats to an acceptable level. Where safeguards are not available to reduce the threat or threats to an acceptable level, the member or firm shall eliminate the activity, interest or relationship creating the threat or threats, or refuse to accept or continue the engagement.

Documentation

204.3 A member or firm who, in accordance with Rule 204.2, has identified a threat that is not clearly insignificant, shall document a decision to accept or continue the particular engagement. The documentation shall include the following information:

- (a) a description of the nature of the engagement;
- (b) the threat identified;
- (c) the safeguard or safeguards identified and applied to eliminate the threat or reduce it to an acceptable level; and
- (d) an explanation of how, in the member's or firm's professional judgement, the safeguards eliminate the threat or reduce it to an acceptable level.

Specific Prohibitions, Assurance & Specified Auditing Procedures Engagements

204.4 In addition to complying with Rules 204.1, 204.2, 204.3, 204.5 and 204.6 a member or firm shall comply with the following specific prohibitions:

Financial interests

- (1) (a) A member or student shall not participate on the engagement team for an assurance client if the member or student, or the immediate family of the member or student, holds a direct financial interest or a material indirect financial interest in the client.

(b) A member or student shall not participate on the engagement team for an assurance client if the member or student, or the immediate family of the member or student, holds, as trustee, a direct financial interest or a material indirect financial interest in the client.
- (2) A member or firm shall not perform an audit or review engagement for an entity if the member, firm or a network firm, has a direct financial interest or a material indirect financial interest in the entity.
- (3) A member or firm shall not perform an audit or review engagement for an entity if a pension or other retirement plan of the firm or network firm has a direct financial interest or a material indirect financial interest in the entity.
- (4) A member who is a partner of a firm and who holds, or whose immediate family holds, a direct financial interest or a material indirect financial interest in an audit or review client shall not practice in the same office as the lead engagement partner for the client.
- (5) A member who is a partner or managerial employee of a firm and who holds, or whose immediate family holds, a direct financial interest or a material indirect financial interest in an audit or review client shall not provide a non-assurance service to the client, unless the non-assurance service is clearly insignificant.
- (6) (a) A member or firm shall not perform an audit or review engagement for an entity (the first entity) if the firm or a network firm has a financial interest in a second entity, and the member or firm knows that the first entity or a director, officer or controlling owner of the first entity also has a financial interest in the second entity, unless the respective financial interests of

the firm or network firm and the first entity, the director, officer or controlling owner of the first entity are immaterial and the first entity cannot exercise significant influence over the second entity.

- (b) A member or student shall not participate on an engagement team for an audit or review client if the member or student has a financial interest in an entity and the member or student knows that the client or a director, officer or controlling owner of the client also has a financial interest in the entity, unless the respective financial interests of the member or student and the client, the director, officer or controlling owner of the client are immaterial and the client cannot exercise significant influence over the entity.
- (7) (a) A member or firm shall not perform an audit or review engagement for an entity if a partner or professional employee of the firm owns, or such person's immediate family owns, more than 0.1% of the securities of the entity or controls the entity.
- (b) A member who is a partner or professional employee of a firm shall not own more than 0.1% of the securities of, or control, an audit or review client of the firm.
- (8) A member or student shall not participate on the engagement team of an audit or review client if the member or student knows that his or her close family owns more than 0.1% of the securities of the client or controls the client.
- (9) A member or firm shall not perform an assurance engagement for an entity that is not an audit or review client if the member or firm holds:
 - (i) a direct financial interest or a material indirect financial interest in the entity; or
 - (ii) a material financial interest in another entity that has a controlling interest in the first entity.

Loans and guarantees

- (10) (a) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan from or has a loan guaranteed by the client, except when the client is a bank or similar financial institution and the loan or guarantee is immaterial to the firm, the network firm, and the client, and the loan or guarantee is made under normal commercial terms and conditions and is in good standing.

- (b) A member or firm shall not perform an assurance engagement for a client that is not a bank or similar financial institution if the firm, or a network firm in the case of an audit or review client, has a loan to the client.
 - (c) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, guarantees a loan of the client.
- (11) (a) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan from or has a loan guaranteed by:
- (i) an officer or director of the assurance client; or
 - (ii) a shareholder of the assurance client who owns more than 10% of the equity securities of the client.
- (b) A member or firm shall not perform an assurance engagement for a client if the firm, or a network firm in the case of an audit or review client, has a loan to or guarantees a loan of:
- (i) an officer or director of the assurance client; or
 - (ii) a shareholder of the assurance client who owns more than 10% of the equity securities of the client.
- (12) (a) A member or student who has a loan from or has a loan guaranteed by:
- (i) an assurance client, except a client that is a bank or similar financial institution where the loan or guarantee is made under normal commercial terms and conditions and the loan is in good standing,
 - (ii) an officer or director of the client, or
 - (iii) a shareholder of the client who owns more than 10% of the equity securities of the client,
- shall not participate on the engagement team for the client.
- (b) A member or student who has a loan to or guarantees the borrowing of:
- (i) an assurance client that is not bank or similar financial institution;
 - (ii) an officer or director of the client; or
 - (iii) a shareholder of the client who owns more than 10% of the equity securities of the client
- shall not participate on the engagement team for the client.

Close business relationships

- (13) (a) A member or firm shall not perform an audit or review engagement for an entity if the firm, or a network firm, has a close business relationship with the entity or its management unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm or network firm and the entity or its management, as the case may be.
- (b) A member or firm shall not perform an assurance engagement that is not an audit or review engagement if the firm has a close business relationship with the assurance client or its management unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the firm and the client or its management, as the case may be.
- (c) A member or student who has a close business relationship with an assurance client or its management shall not participate on the engagement team for the client unless the close business relationship is limited to a financial interest that is immaterial and the relationship is clearly insignificant to the member and the client or its management, as the case may be.

Family and personal relationships

- (14) A member or student shall not participate on the engagement team for an assurance client if the member's or student's immediate family is a director or officer of the client or an employee of the client in a position to exert direct and significant influence over the subject matter of the engagement, or was in such a position during any period covered by the engagement.
- (15) A member or student shall not participate on the engagement team for an audit client that is a reporting issuer if the member's or student's close family is in an accounting role or a financial reporting oversight role at the client, or was in such a position during any period covered by the engagement.

Employment with a reporting issuer audit client

- (16) A member or firm shall not perform an audit engagement for a reporting issuer if a person who participated in an audit capacity in an audit of the financial statements of the entity performed by the member or firm has accepted employment in a financial reporting oversight role with respect to the entity until a period of one year

has elapsed from the date that the financial statements were filed with the relevant securities regulator or stock exchange.

Recent service with an assurance client

- (17) A member or student shall not participate on an engagement team for an assurance client if the member or student served as an officer or director of the client or was an employee thereof in a position to exert direct and significant influence over the subject matter of the engagement during the period covered by the assurance report.

Serving as an officer or director of an assurance client

- (18) A member or firm shall not perform an assurance engagement for an entity if a member of the firm serves as an officer or director for the entity.

Serving as an officer or director of an audit or review client

- (19) (a) A member or firm shall not perform an audit or review engagement for an entity if a member of a network firm serves as an officer or a director of the entity other than, in the case of an entity that is not a reporting issuer, serving as company secretary and the practice is specifically permitted under local law, professional rules or practice, and the duties and functions undertaken are limited to those of a routine and formal administrative nature.
- (b) A member or firm shall not perform an audit engagement for a reporting issuer, or a related entity, if a member of the firm or a network firm serves as an officer or a director of a related entity of the reporting issuer.

Long association of senior personnel with a reporting issuer audit client

- (20) (a) (i) A member shall not continue as the lead engagement partner or the engagement quality control reviewer on an audit engagement of a reporting issuer for more than seven years in total, and shall not thereafter resume or assume either such role until a further five years have elapsed.
- (ii) In the case of an audit engagement of a reporting issuer that is a mutual fund, the lead engagement partner and the engagement quality control reviewer shall not thereafter resume or assume either such role with the reporting issuer

or another mutual fund that is in the same mutual fund complex as the reporting issuer until a further five years have elapsed.

- (b) (i) A member, who is an audit partner on an audit engagement of a reporting issuer, other than an audit partner referred to in rule 204.4(20)(a), who, during the engagement period, provides more than ten hours of assurance services in connection with the annual financial statements or the interim financial information of the reporting issuer or who is a subsidiary engagement partner with respect to the entity shall not continue in such role or roles for more than seven years in total and shall not thereafter perform the role of audit partner of the reporting issuer until a further two years have elapsed.
- (ii) In the case of an audit engagement of a reporting issuer that is a mutual fund, the audit partner shall not thereafter perform the role of audit partner of the reporting issuer or another mutual fund that is in the same mutual fund complex as the reporting issuer until a further two years have elapsed.

Audit committee approval of services to a reporting issuer audit client

- (21) A member or firm shall not provide a professional service to an audit client that is a reporting issuer, or to a subsidiary thereof, without the prior approval of the reporting issuer's audit committee.

Performance of management functions for an assurance client

- (22) (a) A member or firm shall not perform an assurance engagement for an entity if, during the engagement period, a member of the firm makes a management decision or performs a management function for the entity, including:
- (i) authorizing, approving, executing or consummating a transaction;
 - (ii) having or exercising authority on behalf of the entity;
 - (iii) determining which recommendation of the member or firm will be implemented; or
 - (iv) reporting in a management role to those charged with governance of the entity.

- (b) A member or firm shall not perform an audit or review engagement for an entity, if a member of a network firm, during either the period covered by the financial statements subject to audit or review or the engagement period, makes a management decision or performs a management function for the entity including any of the services listed in paragraph 22(a)(i) to (iv);
- (c) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm, makes a management decision or performs a management function for the entity, or a related entity, including any of the services listed in paragraph 22(a)(i) to (iv).

Preparation of journal entries and source documents

- (23) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm:
 - (i) prepares or changes a journal entry, determines or changes an account code or a classification for a transaction or prepares or changes another accounting record without obtaining the approval of management of the entity; or
 - (ii) prepares a source document or originating data, or makes a change to such a document or data.

Preparation of accounting records and financial statements for a reporting issuer audit client

- (24) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, firm, a network firm or a member of the firm or a network firm provides accounting or bookkeeping services related to the accounting records or financial statements to be audited including:
 - (i) maintaining or preparing the entity's, or related entity's, accounting records;
 - (ii) preparing the financial statements or preparing financial statements which form the basis of the financial statements on which the audit report is provided; or

- (iii) preparing or originating source data underlying such financial statements,

unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during the audit of such financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the accounting or bookkeeping services will be subject to audit procedures.

Provision of valuation services to a reporting issuer audit client

- (25) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or a network firm, provides a valuation service to the client or the related entity, unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the valuation service will be subject to audit procedures.

Provision of actuarial services to a reporting issuer audit client

- (26) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an actuarial service to the client or a related entity, unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the actuarial service will be subject to audit procedures.

Provision of internal audit services to a reporting issuer audit client

- (27) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an internal audit service to the client or a related entity, that relates to the client's, or the related entity's,

internal accounting controls, financial systems or financial statements unless it is reasonable to conclude that the results of that service will not be subject to audit procedures during the audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the internal audit service will be subject to audit procedures.

Provision of IT system services to a reporting issuer audit client

- (28) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm provides financial information systems design or implementation services and the services involve:
- (i) directly or indirectly operating, or supervising the operation of, the entity's or a related entity's information system, or managing the entity's or a related entity's local area network; or
 - (ii) designing or implementing a hardware or software system that aggregates source data underlying the financial statements or generates information that is significant to the entity's or a related entity's financial statements or other financial information systems taken as a whole;

unless it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the financial statements. In determining whether such a conclusion is reasonable, there is a rebuttable presumption that the results of the financial information systems design and implementation services will be subject to audit procedures.

Provision of expert services to a reporting issuer audit client

- (29) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides an expert opinion or other expert service for the entity or a related entity, or for a legal representative thereof, for the purpose of advocating the entity's or related entity's, interest in a civil, criminal, regulatory, administrative or legislative proceeding or investigation.

Provision of legal services to an audit or review client

- (30) A member or firm shall not perform an audit or review engagement for an entity if, during either the period covered by the financial statements subject to audit or review or the engagement period, the member, the firm, a network firm or a member of the firm or network firm provides a legal service to the entity in the resolution of a dispute or litigation in circumstances where the matters in dispute or subject to litigation are material in relation to such financial statements.

Provision of legal services to a reporting issuer audit client

- (31) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides a legal service to the entity or a related entity.

Human resource services for a reporting issuer audit client

- (32) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, the member, the firm, a network firm or a member of the firm or network firm, provides any of the following services to the entity or a related entity:
- (i) searching for or seeking out prospective candidates for management, executive or director positions;
 - (ii) engaging in psychological testing, or other formal testing or evaluation programs;
 - (iii) undertaking reference checks of prospective candidates for an executive or director position;
 - (iv) acting as a negotiator or mediator on the entity's behalf with respect to employees or future employees with respect to any condition of employment, including position, status or title, compensation or fringe benefits; or
 - (v) recommending or advising the entity or a related entity to hire a specific candidate for a specific job.

Provision of corporate finance and similar activities to an assurance client

- (33) (a) A member or firm shall not perform an assurance engagement for an entity if, during the engagement period, the firm, or a member of the firm, provides any of the following services to the entity:
- (i) promoting, dealing in or underwriting the entity's securities;
 - (ii) making investment decisions on behalf of the entity or otherwise having discretionary authority over the entity's investments;
 - (iii) executing a transaction to buy or sell the entity's investments; or
 - (iv) having custody of assets of the entity, including taking temporary possession of securities purchased by the entity.
- (b) A firm shall not perform an audit or review engagement for an entity if a network firm, during either the period covered by the financial statements subject to audit or review or the engagement period, provides any of the services listed in paragraph 33(a)(i) to (iv) to the entity.
- (c) A firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or review or the engagement period, a member of the firm or a network firm, provides any of the services listed in paragraph 33(a)(i) to (iv) to a related entity of the reporting issuer.

Pricing

- (34) A member or firm shall not provide an assurance service for a fee that the member or firm knows is significantly lower than that charged by the predecessor member or firm, or contained in other proposals for the engagement, unless the member or firm can demonstrate:
- (i) that qualified members of the firm have been assigned to the engagement and will devote the appropriate time to it; and
 - (ii) that all applicable assurance standards, guidelines and quality control procedures have been followed.

Compensation of audit partners of a reporting issuer audit client

- (35) A member or firm shall not perform an audit engagement for a reporting issuer if, during either the period covered by the financial statements subject to audit or the engagement period, an audit partner who is on the engagement team for the reporting issuer or a related entity earns or receives compensation based on the audit partner procuring any engagement that is not an assurance engagement from the reporting issuer or a related entity, unless the member firm or the firm has fewer than five audit clients that are listed entities and fewer than ten partners.

Gifts and hospitality

- (36) A member or student who participates on an engagement team for an assurance client and the member's or student's firm shall not accept a gift or hospitality, including a product or service discount, from the client or a related entity, unless the gift or hospitality is clearly insignificant to the member, student or firm, as the case may be.

Members Must Disclose Prohibited Interests and Relationships

204.5 A member or student who has a relationship or interest, or who has provided a professional service, that is precluded by this Rule shall advise in writing a designated partner of the firm of the interest, relationship or service.

A member or student who has been assigned to an engagement team for an assurance client shall advise, in writing, a designated partner of the firm of any interest, relationship or activity that would preclude the person from being on the engagement team.

Members to Ensure Compliance by Persons Associated with a Firm

204.6 A member who is a partner or proprietor of a firm, or a member whose professional corporation is a partner or proprietor of a firm, shall ensure that the firm complies with Rules 204.1, 204.2, 204.4 and 204.7 and that members of the firm do not have a relationship or interest, do not perform a service and remain free of any influence that would preclude the firm from performing the engagement pursuant to Rules 204.1, 204.2, 204.4, or 204.7.

Independence: Insolvency Engagements

204.7 A member or firm who engages or participates in an engagement to act in any aspect of insolvency practice, including as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager, shall be and remain independent such that the member, firm and members of the firm shall be and shall remain free of any influence, interest or relationship which, in respect of the engagement, impairs the professional judgement or objectivity of the member, firm or member of the firm or which, in the view of a reasonable observer, would impair the professional judgement or objectivity of the member, firm or member of the firm.

Disclosure of Impaired Independence

204.8 A member or firm engaged in the practice of public accounting or any related business or practice, who provides a service not subject to the requirements of Rules 204.1 to 204.7, shall disclose any activity, interest or relationship which, in respect of the engagement, would be seen by a reasonable observer to impair the member's or firm's independence such that the professional judgement or objectivity of the member, firm or member of the firm would appear to be impaired, and such disclosure shall be made in the member's or firm's written report or other written communication accompanying financial statements or financial or other information and the disclosure shall indicate the nature of the activity or relationship and the nature and extent of the interest.

False or Misleading Documents and Oral Representation

205 A member or student shall not

- (a) sign or associate himself or herself with any letter, report, statement, representation or financial statement which he or she knows, or should know, is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility, nor
- (b) make or associate himself or herself with any oral report, statement or representation which he or she knows, or should know, is false or misleading.

Compliance with Professional Standards

- 206.1 A member or firm engaged in the practice of public accounting shall perform professional services in accordance with generally accepted standards of practice of the profession.
- .2 A member who has responsibility for the preparation or approval of the general purpose financial statements of an entity shall ensure those financial statements are presented fairly in accordance with generally accepted accounting principles or such other accounting principles as may be required in the circumstances.
 - .3 A member who, as a member of an entity's audit committee or board of directors, is required to participate in the review or approval of the entity's general purpose financial statements by such committee or board, shall carry out that responsibility with the care and diligence of a competent Chartered Accountant, enhanced by the skills and knowledge derived from the member's own career.

Unauthorized Benefits

- 207 A member or student shall not, in connection with any transaction involving a client or an employer, hold, receive, bargain for, become entitled to or acquire, directly or indirectly, any fee, remuneration or benefit for personal advantage or for the advantage of a third party without the client's or employer's knowledge and consent.

Confidentiality of Information

- 208.1 A member or student shall not disclose any confidential information concerning the affairs of any client, former client, employer or former employer except:

- (a) when properly acting in the course of his or her duties;
- (b) when such information should properly be disclosed for purposes of Rule 211 or Rule 302;
- (c) when such information is required to be disclosed by order of lawful authority or, in the proper exercise of their duties, by the Board, the complaints authorization committee or any subcommittee thereof, the disciplinary panel, or the office practice inspection committee; or
- (d) when justified in order to defend himself or herself or his or her associates or employees, as the case may be, against any lawsuit or other legal proceeding or against alleged professional misconduct or in any legal proceeding for recovery of unpaid professional fees and disbursements, but only to the extent necessary for such purpose; or
- (e) when the client, former client, employer or former employer has consented to such disclosure.

- 208.2 A member or student shall not use confidential information of any client, former client, employer or former employer obtained in the course of professional work for such client or employer;

- (a) for personal advantage,
- (b) for the advantage of a third party, or
- (c) to the disadvantage of such client or employer

without the knowledge and consent of the client, former client, employer or former employer.

208.3 A member engaged to perform a particular service may contract for the services of a person not employed by the member to assist in the performance of that service, provided the member first obtains the written agreement of that person to carefully and faithfully preserve the confidentiality of any information acquired for the purposes of the engagement and not to make use of such information other than as shall be required in the performance of such services.

Borrowing from Clients

209.1 A member, student or firm shall not, directly or indirectly, borrow from or obtain a loan guarantee from a client unless either

- (a) the loan or guarantee has been made under normal commercial terms and conditions, and
 - (i) the client is a bank or similar financial institution whose business includes lending money to the public; or
 - (ii) the client is a person or entity, a significant portion of whose business is the private lending of money;

or

- (b)
 - (i) in the case of a member or student, the client is a family member or an entity over which a family member exercises significant influence; or
 - (ii) in the case of a firm, the client is a family member of a partner or shareholder of the firm or an entity over which a family member of a partner or shareholder of the firm exercises significant influence.

209.2 Rule 209.1 does not apply to:

- (a) the financing of a bona fide business venture between a member, student or firm and a client that is not an assurance client;
- (b) amounts received from a client as a retainer or as a deposit on account of future services to be provided by the member, student or firm; or
- (c) a loan received from a member's or student's employer.

209.3 For purposes of Rule 209.1, a client includes a person or entity who has, within the previous two years, engaged the member or firm to provide a service and who relies on membership in the Institute as giving the member or firm particular competence to provide that service.

Conflict of Interest

- 210.1 A member engaged in the practice of public accounting or in a related business or practice shall, before accepting any professional engagement, determine whether there is any restriction, influence, interest or relationship which, in respect of the proposed engagement, would cause a reasonable observer to conclude that there will be a conflict as contemplated by Rule 210.2.
- 210.2 Subject to the provisions of Rule 210.3, a member or student shall not accept, commence or continue any engagement to provide professional services to any client in circumstances where a reasonable observer would conclude that the member or student:
- (a) is in a position or has placed any other person in a position where any of their interests conflicts with the interest of a client; or
 - (b) is in a position where the duty owed to one client creates a professional or legal conflict with the duty owed by the member, student or firm to another client.
- 210.3 Where the acceptance of a proposed engagement would result in a conflict under Rule 210.2 or where a previously unidentified conflict under Rule 210.2 arises or is discovered in the course of an existing engagement or engagements, the member must decline the proposed engagement, or withdraw from all existing engagements that are affected, unless:
- (a)
 - (i) the member is able to rely upon conflict management techniques that are generally accepted and the use of such techniques will not breach the terms of an engagement with or duty to another client;
 - (ii) the member informs all affected clients of the existence of the conflict and the techniques that will be used to manage it; and
 - (iii) the member obtains the consent of all affected clients to accept or continue the engagement or engagements; or
 - (b) the affected clients have knowledge of the conflict and their consent for the member to accept or continue the engagement is implied by their conduct, in keeping with common commercial practice.

210.4 For purposes of Rule 210, a client includes any person or entity for whom the member or student, or any other person engaged in the practice of public accounting or a related business or practice in association with the member or student, provides or is engaged to provide a professional service.

Duty to Report Breach of Rules of Professional Conduct

211.1 A member shall promptly report to the complaints authorization committee any information concerning an apparent breach of these rules of professional conduct or any information raising doubt as to the competence, reputation or integrity of a member, student or applicant, unless such disclosure would result in:

- (a) the breach of a statutory duty not to disclose, or
- (b) the reporting of information by a member exempted from this rule for the purpose and to the extent specified by the Board, or
- (c) the loss of solicitor-client privilege, or
- (d) the reporting of a matter that has already been reported, or
- (e) the reporting of a trivial matter

211.2 A member who is required to report under Rule 211.1 and who is engaged, or is in consultation with a view to being engaged, with respect to a civil or criminal investigation need not report to the complaints authorization committee any information obtained in the course of such engagement or consultation concerning an apparent breach of these rules of professional conduct or any information raising doubt as to the competence, reputation or integrity of a member, student or applicant until such time as:

- (a) the client has consented to the release of the information, or
- (b) the member becomes aware that the information is known to third parties other than legal advisors, or
- (c) it becomes apparent to the member that the information will not become known to third parties other than legal advisors

Handling of Funds and Other Property in Trust

212.1 A member or student who receives, handles or holds money or other property as a trustee, receiver or receiver-manager, guardian, administrator-manager or liquidator shall do so in accordance with the terms of the engagement, including the terms of any applicable trust, and the law relating thereto and shall maintain such records as are necessary to account properly for the money or other property; unless otherwise provided for by the terms of a trust, money held in trust shall be kept in a separate trust bank account or accounts.

Handling of Property of Others

212.2 A member or student in the course of providing professional services shall handle with due care any property entrusted to him or her.

Unlawful Activity

- 213 A member or student shall not knowingly lend himself or herself, or his or her name or services to any unlawful activity.

Fee Quotations

- 214 A member or firm shall not quote a fee for any professional engagement unless adequate information has been obtained about the engagement.

Contingent Fees

- 215.1 A member engaged in the practice of public accounting or in a related business or practice shall not offer or engage to perform a professional service for a fee payable only where there is a specified determination or result of the service, or for a fee the amount of which is to be fixed, whether as a percentage or otherwise, by reference to the determination or result of the service, where the service is:

- (a) one in respect of which professional standards or rules of conduct require that the member be and remain free of any influence, interest or relationship which, in respect of the engagement, impairs the member's professional judgement or objectivity or which, in the view of a reasonable observer, would impair the member's professional judgement or objectivity; or
- (b) a compilation engagement.

- 215.2 Rule 215.1 does not apply to a professional service for a fee fixed by a court or other public authority or to a professional service in respect of any aspect of insolvency practice, including acting as a trustee in bankruptcy, a liquidator, a receiver or a receiver-manager.

- 215.3 Other than in respect of an engagement described in Rule 215.1, a member engaged in the practice of public accounting or in a related business or practice may offer or engage to perform a professional service for a fee payable only where there is a specified determination or result of the service, or for a fee the amount of which is to be fixed, whether as a percentage or otherwise, by reference to the determination or result of the service, provided:

- (a) the fee arrangement does not constitute an influence, interest or relationship which impairs or, in the view of a reasonable observer, would impair the professional judgement or objectivity of the member or a partner of the member in respect of an engagement described in Rule 215.1(a); or

- (b) the fee arrangement is not one which influences, or in the view of a reasonable observer would influence, the result of a compilation engagement performed by the member or a partner of the member for the same client; and
- (c) the client has agreed in writing to the basis for determining the fee before the completion of the engagement.

Payment or Receipt of Commissions

- 216 Other than in relation to the sale and purchase by a member of an accounting practice, a member engaged in the practice of public accounting or a student while employed by a member engaged in the practice of public accounting shall not directly or indirectly pay to any person who is not an employee of the member or who is not a public accountant a commission or other compensation to obtain a client, nor shall the member or student accept directly or indirectly from any person who is not a public accountant a commission or other compensation for a referral to a client of products or services of others.

Advertising and Promotion

- 217.1 A member or firm may advertise or seek publicity for the member's or firm's services, achievements or products and may seek to obtain new engagements and clients by various means, but shall not do so, directly or indirectly, in any manner
- (a) which the member or firm knows, or should know, is false or misleading, or which includes a statement the contents of which the member or firm cannot substantiate;
 - (b) which makes unfavourable reflections on the competence or integrity of the profession or any member or firm, or
 - (c) which otherwise brings disrepute on the profession.

Solicitation

- 217.2 Notwithstanding Rule 217.1, a member or firm shall not, either directly or through a party acting on behalf of and with the knowledge of the member, solicit, in a manner that is persistent, coercive or harassing, any professional engagement.

Endorsements

- 217.3 A member or firm may advertise or endorse any product or service of another person or entity that the member or firm uses or otherwise has

an association with, provided the member or firm has sufficient knowledge or expertise to make an informed and considered assessment of the product or service. However, in doing so,

- (a) the member or firm must act with integrity and due care;
- (b) the member or firm must be satisfied that the endorsement
 - (i) is not false or misleading or does not include a statement the contents of which the member or firm cannot substantiate,
 - (ii) does not make unfavourable reflections on the competence or integrity of the profession or any member or firm, and
 - (iii) does not otherwise bring disrepute on the profession, and
- (c) when associating the CA designation with an endorsement, the member or firm must conduct sufficient appropriate procedures to support the assertions made about the product or service.

Retention of Documentation and Working Papers

- 218 A member shall retain for a reasonable period of time such working papers, records or other documentation which reasonably evidence the nature and extent of the work done in respect of any professional engagement.

300 RELATIONS WITH FELLOW MEMBERS AND WITH NON- MEMBERS ENGAGED IN PUBLIC ACCOUNTING

301.1 and 301.2 Repealed July 2003.

Communication with Predecessor

302.1 A member shall not accept an engagement with respect to the practice of public accounting or the public practice of a function not inconsistent with public accounting, where the member is replacing another member or public accountant, without first communicating with such person and enquiring whether there are any circumstances the member should take into account which might influence the member's decision whether or not to accept the engagement.

302.2 The incumbent member shall respond promptly to the communication referred to in Rule 302.1.

302.3 A member responding to a communication pursuant to Rule 302.2 shall inform the possible successor if suspected fraud or other illegal activity by the client was a factor in the member's resignation or if, in the member's view, fraud or other illegal activity by the client may have been a factor in the client's decision to appoint a successor.

Cooperation with Successor

303.1 A member shall upon written request of the client supply on a timely basis reasonable information to the member's successor about the work done or being assumed.

303.2 A member who is a predecessor on an engagement shall co-operate with the successor, recognizing the client's interests are paramount, and shall transfer promptly to the client or, on the client's instructions, to the successor, all books, documents, and other property belonging to the client which are in the member's possession.

Joint Engagements

304 A member who accepts any engagement jointly with another member shall accept joint and several responsibility for any portion of the work to be performed by either; no member shall proceed in any matter within the terms of such joint engagement without due notice to the other member.

Communication of Special Engagements to Incumbent

305.1 A member engaged in the practice of public accounting shall, before commencing any engagement for a client of another member who is the duly appointed auditor or accountant, first notify such auditor or accountant of the engagement, unless

the client makes an unsolicited request, evidenced in writing, that such notification not be given; and

305.2 Rule 305.1 applies only where the services to be provided under the terms of the engagement are included in the practice of public accounting.

Responsibilities on Accepting Engagements

306.1 A member who accepts an engagement, whether by referral or otherwise, from a client of a member who has a continuing relationship with that client shall not take any action which would tend to impair the position of the other member in the ongoing work with the client.

Responsibilities on Referred Engagements

306.2 A member who receives an engagement for services by referral from another member shall not provide or offer to provide any additional services to the referring member's client without the consent of the referring member; the interest of the client being of overriding concern, the referring member shall not unreasonably withhold such consent.

400 ORGANIZATION & CONDUCT OF A PROFESSIONAL PRACTICE**Practice Names**

401 A member or, where permitted, an incorporated professional, shall engage in the practice of public accounting, or in the public practice of any function not inconsistent therewith, only under a name or style which:

- (a) is not misleading,
- (b) is not self-laudatory,
- (c) does not contravene professional good taste, and
- (d) has been approved in a manner specified by the Board.

402 – 403 Repealed July 2003

Use of Descriptive Styles

404.1 The practice of public accounting shall be carried on under the descriptive style of "chartered accountant(s)" or "public accountant(s)", unless it forms part of the firm name. Regardless of the functions actually performed, the use of either "chartered accountant(s)" or "public accountant(s)" as part of the firm name or as a descriptive style, in offering services to the public, shall be regarded as carrying on the practice of public accounting for the purposes of these rules of professional conduct.

Operation of Members' Offices

- 404.2 (a) Each office in Newfoundland and Labrador of any member or firm of members engaged in the practice of public accounting shall be under the personal charge and management of a member who shall normally be accessible to meet the needs of clients during such times as the office is open to the public.
- (b) A member shall not operate a part-time office except in accordance with such terms and conditions established by the Board.

Proprietary Interest with Non-members

404.3 Notwithstanding Rule 404.1 each office in Newfoundland and Labrador of any firm engaged in the practice of public accounting and composed of one or more members sharing proprietary interest with other public accountants who are not professional colleagues shall not practise under

the style of “chartered accountants” and shall be under the personal charge and management of a member or other public accountant who shall normally be accessible to meet the needs of clients during such times as the office is open to the public.

Association with Firms

- 405 A member shall not associate in any way with any firm practising as chartered accountants in Newfoundland and Labrador unless:
- (a) all partners resident in Newfoundland and Labrador are members,
 - (b) at least one partner is a member, and
 - (c) all the partners are professional colleagues or professional corporations provided each such corporation is recognized and approved for the practice of public accounting by the provincial institute in the province concerned.

Member Responsible for a Non-member in Practice of Public Accounting

- 406 A member engaged in the practice of public accounting who is associated in such practice with a non-member shall be responsible to the Institute for any failure of such non-member, in respect of such practice, to abide by the rules of professional conduct of the Institute, and in the application of this rule, the rules of professional conduct are deemed to apply as if such non-member were a member.

Related Business or Practice & Member Responsible for Non-member in such Business or Practice

- 407.1 The rules of professional conduct, except Rule 404.1, shall apply to a member carrying on a related business or practice as if it were the practice of public accounting.
- 407.2 A member engaged in a practice of public accounting to which another business or practice is related, or engaged in such related business or practice, shall be responsible to the Institute for any failure of a non-member who is associated with such related business or practice and who is under the member’s management or supervision or with whom the member shares proprietary or other interest in such related business or practice to comply with the rules of professional conduct. In the application of this rule, the rules of professional conduct are deemed to apply as if such related business or practice were the practice of public accounting and such non-member were a member.

407.3 A member may associate with a related business or practice as a proprietor, as a partner, or as a director, officer or shareholder of a corporation and may associate with a non-member for this purpose.

407.4 A related business or practice shall not be designated "chartered accountant(s)" or "public accountant(s)".

Association of Member with Non-member in Public Practice

408 A member shall not associate in any way with a non-member in a practice of public accounting, or in a related business or practice, unless:

- (1) such association maintains the good reputation of the profession and its ability to serve the public interest; and
- (2) such business or practice establishes and maintains policies, procedures and arrangements suitable for ensuring:
 - (a) that every such non-member is knowledgeable of and complies with
 - (i) the Institute's governing legislation, by-laws, regulations and rules of professional conduct; and
 - (ii) the ethical and other regulations applicable to members of a recognized professional organization or regulated body of which the non-member is a member; and
 - (b) that no style of presentation or communication is used which implies that the non-member is a member.

Office by Representation

409 A member engaged in the practice of public accounting shall not hold out or imply that the member has an office in any place where the member is in fact only represented by another public accountant or a firm of public accountants and, conversely, a member engaged in the practice of public accounting who only represents a public accountant or a firm of public accountants, shall not hold out or imply that the member maintains an office for such public accountant or such firm.

Practice of Public Accounting in Corporate Form

410 A member shall not associate in any way with any corporation engaged in Canada in the practice of public accounting, except to the extent permitted in clauses (1), (2), and (3) of this rule:

- (1) A member or the member's public accounting firm may engage to provide to the corporation any of the services included in the definition of "practice of public accounting".

- (2) A member, other than a member engaged in the practice of public accounting, may associate with a corporation which provides taxation services involving advice, counsel or interpretation provided such services are only a small part of the corporation's activities.
- (3) A member may associate with a professional corporation or incorporated professional engaged in the practice of public accounting in a province other than Newfoundland and Labrador if the corporation or incorporated professional is recognized and approved for such practice by the provincial institute in the province concerned and the corporation or incorporated professional does not engage in the practice of public accounting in Newfoundland and Labrador.

Without limiting the generality of the foregoing, a corporation shall be deemed to be engaged in the practice of public accounting even though the corporation provides a service included in the definition of "practice of public accounting" only to another member or members engaged in the practice of public accounting or to a public accountant.