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TO ALL MEMBERS

NEW IFAC CODE OF ETHICS

Background

The International Ethics Standards Board for Accountants issued its revised *Code of Ethics for Professional Accountants* (IFAC Code) during July 2009. The revised IFAC Code is aimed at strengthening the independence requirements of the previous IFAC Code and also presents the requirements in clearer, more precise language.

Key Changes to the IFAC Code

The following are the significant changes made to the IFAC Code*:*

Public Interest Entities **–** The IFAC Code has introduced a new definition of "public interest entities" and the code now broadens many of the independence requirements for such entities, as discussed below. "Public Interest Entities" or PIEs include the following:

1) All listed entities; and

2) Any entity: (a) defined by regulation or legislation as a PIE or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

Key Audit Partner - The IFAC Code has introduced this new term and has adopted certain requirements for partner rotation and cooling off that will apply to "key audit partners." A "key audit partner" includes:

1) the lead audit engagement partner on the audit of the group financial statements; and

2) the engagement quality control reviewer (EQCR) on the audit of the group financial statements; and

3) other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the group financial statements. The term "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions and other audit partners at the group level. It generally will not include IRM partners or tax partners.

Partner Rotation – The new Code extends the partner rotation requirements to all "key audit partners" of PIEs. The rotation requirements are the same as they have been for LAEPs and EQCRs – that is, rotation is required after seven years, with a two year timeout.

Cooling-Off Period – The IFAC Code now requires a cooling-off period for all key audit partners of PIEs. Such partners must not join an audit client which is a PIE unless they have had a one year period during which they were not a member of the audit engagement team.

Partner Compensation – The Code now prohibits certain audit partners from being evaluated on, or compensated for, selling non-assurance services to their audit clients.

Non-Assurance Services Changes – The Code has tightened the restrictions on providing certain non-assurance services (also commonly referred to as "non-audit services") to an audit client. The most significant areas of change include the following:

1) The Code contains a new section on ***Management Responsibilities***, which describes certain activities that may not be assumed or performed by the audit firm.

2) The Code contains new provisions relating to threats that are created by certain ***Tax Services*** and provides guidance regarding the following four (4) types of tax services:

- Tax Return Preparation – these services are generally permitted for all audit clients provided that management takes responsibility for decisions and judgments.

- Tax calculations for the purpose of preparing the accounting entries – these services are prohibited for PIEs except in emergency situations, and permitted for other audit clients for routine tax situations if safeguards can be effectively applied.

- Tax planning and other tax advisory services – these services are prohibited where the effectiveness of the tax advice depends on a particular accounting treatment or presentation, there is reasonable doubt about the appropriateness of the accounting treatment or presentation, and the effect on the financial statements of the tax advice is material.

- Assistance in the resolution of tax disputes – this is prohibited for all audit clients if it involves representation before a tax court or public tribunal on a matter which is material to the financial statements.

3) For many of the ***Other Non-Assurance Services*** that are currently restricted by the IFAC Code, the new IFAC Code requirements now have more specific prohibitions – that are often applicable only to PIEs - as opposed to allowing the application of threats & safeguards. The key changes to other non-assurance services are as follows:

- IT Design or Implementation services are prohibited for all PIEs.

- Valuation Services are prohibited for PIEs if they have a material effect, separately or in the aggregate, on the financial statements.

- Internal Audit services to PIEs are prohibited if they relate to: a) significant internal controls over financial reporting, or b) financial systems that generate information material to the financial statements, or c) amounts or disclosures that are material to the financial statements.

Relative Size of Fees **–** The new Code introduced a requirement in situations where total fees from an audit client that is a PIE exceed 15% of the total fees of the member firm for two consecutive years, that the matter be discussed with the audit committee and a pre-issuance or post-issuance review be performed by a professional accountant who is not part of the member firm performing the audit.

Effective Date and Transition

The effective date of the new IFAC Code is January 1, 2011. There are transition provisions for certain of the provisions. For example, for newly prohibited non-assurance services engagements that are in progress on the effective date and that were permitted under the old IFAC Code, such engagements can continue to be performed up until July 1, 2011.

Also, for entities that will be treated as PIEs for the first time under the new definition, and for certain individuals subject to the partner rotation requirements, implementation of the new provisions will not be required until January 2012. Certain other transition provisions also apply.

All members – whether in practice or otherwise - are advised to familiarise themselves with the details of the revised IFAC Code, and to ensure compliance with these requirements within the stipulated timelines.

By order of Council

Duncan Majinda
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