

**THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF
PRINCE EDWARD ISLAND
RULES OF PROFESSIONAL CONDUCT**

(The chartered accountant's responsibilities to those he or she serves, to the public and to his or her colleagues)

FOREWORD

The Foreword 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 addressing 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 hallmark of a profession that there is a voluntary assumption, by those who comprise it -- the members -- 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 of 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, the profession's 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 application of the rules of professional conduct to students and firms is discussed later in this Foreword.

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, including the use of methods of advertising or other communication which do not uphold professional good taste.

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 [Ordre] 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 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.
- Members and students not engaged in the practice of public accounting must observe these rules except where the wording of any rule makes it clear that it relates specifically to the practice of public accounting or there is a specific exception made in a particular rule.
- The term “professional services” also applies to members and students who are not engaged in the practice of public accounting. In this context, it includes those of a 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 proprietary interest in a 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 Prince Edward Island 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.

Principles governing the responsibilities of firms

Firms of chartered accountants, being comprised of members of the profession, have a responsibility which they share with their individual members to provide services that maintain the profession's reputation for competence and integrity. It is clear that the manner in which firms conduct their affairs and provide services has an importance that goes well beyond the establishment of their individual reputations; it affects the public perception of the chartered accountancy profession as a whole.

This broader responsibility requires that firms be accountable to the profession and the public in respect of ethical conduct and professional competence. The accountability of firms is formalized by bringing them within the authority of the rules of professional conduct in a manner that is similar to that for members but which also appropriately recognizes that the responsibility of firms as business organizations differs in important respects from that of the individual members carrying on professional engagements on their behalf.

The responsibility of firms to the profession is fulfilled in the first instance by establishing, maintaining and upholding appropriate policies and procedures designed to ensure that their members provide professional services in a manner that complies with the standards of conduct and competence prescribed in these rules.

The accountability of firms is based on the recognition that the services they provide are carried out by members of the profession who, through their individual and collective actions and through the exercise of professional judgment, are expected at all times to comply with these rules and to adhere to the generally accepted standards of practice of the profession. Depending on the circumstances and the particular standard of competence or conduct, therefore, a firm's accountability for a failure to comply with the rules may be shared with a member or members of the firm. It is acknowledged in this regard that a firm cannot be held accountable for the conduct of its members who do not comply with these rules, where the firm has done all that it could be reasonably expected to have done to ensure that such members do comply with the rules.

A firm will be held accountable, as an organization, for its professional conduct and standards in those instances where:

- the firm has policies and/or procedures which are inconsistent with the rules; or
- the breach of any rule by any member of the firm is found to be related to the absence of quality control procedures or to the existence of quality control procedures that are inadequate for the type of practice in which it is engaged; or
- the firm is identified with conduct or the provision of professional services that is in breach of the rules and it is unclear which member(s) within the firm are responsible for such breach; or
- the conduct that breaches the rules was authorized, initiated, implemented or condoned by the firm prior to or at the time it takes place; or
- the conduct that breaches the rules is condoned or concealed by the firm after it learns of it; or
- the firm did not take appropriate action in response to becoming aware of any conduct that breaches the rules; or
- there are repeated instances of breaches of the rules by member(s) of the firm.

In keeping with the principle that firms have a responsibility to maintain the good reputation of the profession, it is only appropriate in these circumstances that the firm and the individual member(s) be the subject of investigation and disciplinary sanction.

The inclusion of firms within the authority of the rules does not presume that an investigation against a firm automatically calls into question the character, competence or conduct of all of the members of the firm. Indeed, there is an obligation on the part of those given responsibility for the enforcement of the profession's standards to ensure that any investigation of a firm be restricted to those who should properly be the subject of the investigation and resulting disciplinary sanction. This involves recognizing that firms may have many partners and/or offices and/or a number of departments or units within the offices, whether or not they are geographically distinct. In some circumstances, therefore, accountability for a failure to comply with the rules will rest solely with the individual partners of a firm who had knowledge of the matter that is the reason for making charges against the firm. In other circumstances, the accountability will rest with identifiable departments or units within a firm, or with a firm's executive committee, management committee or equivalent group.

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 bylaws of the Institute.

100 GENERAL**101 COMPLIANCE WITH BYLAWS, REGULATIONS AND RULES**

Members and students and, where applicable, professional corporations, shall comply with the bylaws, 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 Council or officers of the Institute under the bylaws.

102.1 CONVICTION OF CRIMINAL OR SIMILAR OFFENCES

- (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 reliance on their membership in or association with the Institute; or
 - (d) discharged absolutely or upon condition 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.

102.2 REPORTING DISCIPLINARY SUSPENSION, EXPULSION OR RESTRICTION OF RIGHT TO PRACTISE

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 practice is restricted by that institute,

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

103 FALSE OR MISLEADING APPLICATIONS

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 re-admission 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.

104 REQUIREMENT TO REPLY IN WRITING

A member or student shall promptly reply in writing to any letter from the Institute in which a written reply is specifically required.

200 STANDARDS OF CONDUCT AFFECTING THE PUBLIC INTEREST

201.1 MAINTENANCE OF REPUTATION OF PROFESSION

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 MAINTENANCE OF REPUTATION OF PROFESSION

Notwithstanding any other provisions of the bylaws 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 the bylaws with respect to the offence set out in Rule 102 is filed with the discipline or appeal committee, 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 MAINTENANCE OF REPUTATION OF PROFESSION

Notwithstanding any other provisions of the bylaws 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 discipline or appeal committee, 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.

201.4 ADVOCACY SERVICES

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.

202 INTEGRITY AND DUE CARE

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

203.1 PROFESSIONAL COMPETENCE

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.

203.2 CO-OPERATION WITH PRACTICE INSPECTIONS AND CONDUCT INVESTIGATIONS

A member or student shall co-operate with officers, servants or agents of the Institute who have been appointed to arrange or conduct:

- (a) a practice inspection; or
- (b) an investigation on behalf of the professional conduct committee.

204 INDEPENDENCE**204.1 ASSURANCE AND SPECIFIED AUDITING PROCEDURES ENGAGEMENTS**

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 judgment 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 judgment or objectivity of the member, firm or a member of the firm.

204.2 IDENTIFICATION OF THREATS AND SAFEGUARDS

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.

204.3 DOCUMENTATION

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 judgment, the safeguards eliminate the threat or reduce it to an acceptable level.

204.4 SPECIFIC PROHIBITIONS, ASSURANCE AND SPECIFIED AUDITING PROCEDURES ENGAGEMENTS

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 firm engaged in the practice of public accounting or any related function, 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 judgment 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 the extent of the interest.
- (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 listed entity 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 listed entity audit client

- (16) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity, 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 listed entity, 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 listed entity.

Long association of senior personnel with a listed entity audit client

- (20)(a) A member shall not continue as the lead engagement partner or the engagement quality control reviewer on an audit engagement of a listed entity for more than five years in

total, and shall not thereafter resume or assume either such role until a further five years have elapsed.

- (b) A member, who is an audit partner on an audit engagement of a listed entity, 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 listed entity 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 listed entity until a further two years have elapsed.

Audit committee approval of services to a listed entity audit client

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

- (24) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity audit client

- (25) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity audit client

- (26) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity audit client

- (27) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity audit client

- (28) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity audit client

- (29) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity audit client

- (31) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity audit client

- (32) A member or firm shall not perform an audit engagement for a listed entity 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 listed 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, provides any of the services listed in paragraph 33(a)(i) to (iv) to a related entity of the listed entity.

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 listed entity audit client

- (35) A member or firm shall not perform an audit engagement for a listed entity 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 listed entity or a related entity earns or receives compensation based on the audit partner procuring any engagement that is not an assurance engagement from the listed entity 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.

204.5 MEMBERS MUST DISCLOSE PROHIBITED INTERESTS AND RELATIONSHIPS

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.

204.6 MEMBERS TO ENSURE COMPLIANCE BY FIRMS

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.

204.7 INDEPENDENCE: INSOLVENCY ENGAGEMENTS

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 judgment or objectivity of the member, firm or member of the firm or which, in the view of a reasonable observer, would impair the professional judgment or objectivity of the member, firm or member of the firm.

204.8 DISCLOSURE OF IMPAIRED INDEPENDENCE

A member or firm engaged in the practice of public accounting or any related function, 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 judgment 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.

DEFINITIONS

For the purposes of Rules 204.1 to 204.8 and the related Council 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.

affiliate means an entity that has control over a client, or over which the client has control, or which is under common control with a client, including the client's parent company and any subsidiaries.

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 "Standards for Assurance Engagements," Section 5025 of 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 affiliates, and the reference to an assurance client, a client or an entity that is an audit client shall be read as including all affiliates 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 "Audit of Financial Statements — an Introduction," Section 5090 of 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 judgments 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, 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 Council.

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.

listed entity means an entity whose shares, debt or other securities are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body, 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 listed

entity 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 listed entity thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the 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.

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.

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 includes:

- (a) an affiliate, as defined;
- (b) an entity over which a client has significant influence, unless the entity is not material to the client; and
- (c) an entity that has significant influence over a client, unless the client is not material to the entity.

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 contemplated either in “Auditor Review of Interim Financial Statements,” Section 7050 or “General Review Standards,” Section 8100 of the *CICA Handbook – Assurance*.

specified auditing procedures engagement means an engagement contemplated in “Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other Than Financial Statements,” Section 9100 of 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.

EFFECTIVE DATE AND TRANSITIONAL PROVISIONS

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

- (a) for an assurance engagement in respect of 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; and
- (ii) 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.

205 FALSE OR MISLEADING DOCUMENTS AND ORAL REPRESENTATIONS

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.

206 COMPLIANCE WITH PROFESSIONAL STANDARDS

206.1 PRACTICE OF PUBLIC ACCOUNTING

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.

206.2 PREPARATION OF FINANCIAL STATEMENTS

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.

206.3 SERVICE ON AUDIT COMMITTEES AND BOARDS OF DIRECTORS

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.

207 UNAUTHORIZED BENEFITS

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 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.

208.1 CONFIDENTIALITY OF INFORMATION

A member or student shall not disclose or use 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 Council, the professional conduct committee or any subcommittee thereof, the discipline committee, the appeal committee, or the 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 CONFIDENTIALITY OF INFORMATION

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 CONFIDENTIALITY OF INFORMATION

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.

209 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 or 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

For purposes of Rules 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.

210.1 CONFLICT OF INTEREST

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 CONFLICT OF INTEREST

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 CONFLICT OF INTEREST

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 CONFLICT OF INTEREST

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.

211.1 DUTY TO REPORT BREACH OF RULES OF PROFESSIONAL CONDUCT

A member shall promptly report to the professional conduct 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 council, 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 DUTY TO REPORT BREACH OF RULES OF PROFESSIONAL CONDUCT

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 Institute 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.

212.1 HANDLING OF TRUST FUNDS AND OTHER PROPERTY

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 the trust, money held in trust shall be kept in a separate trust bank account or accounts.

212.2 HANDLING PROPERTY OF OTHERS

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

213 UNLAWFUL ACTIVITY

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

214 FEE QUOTATIONS

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

215.1 CONTINGENCY FEES AND SERVICES WITHOUT FEES

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 CONTINGENCY FEES AND SERVICES WITHOUT FEES

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 CONTINGENCY FEES AND SERVICES WITHOUT FEES

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.

216 PAYMENT OR RECEIPT OF COMMISSIONS

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.

217.1 ADVERTISING AND PROMOTION

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
- (b) which contravenes professional good taste or brings disrepute on the profession, or
- (c) which makes unfavourable reflections on the competence or integrity of the profession or any member or firm, or
- (d) which includes a statement the contents of which the member or firm cannot substantiate.

217.2 SOLICITATION

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.

217.3 ENDORSEMENTS

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;
 - (ii) does not contravene professional good taste or bring disrepute on the profession;
 - (iii) does not make unfavourable reflections on the competence or integrity of the profession or any member or firm, and
 - (iv) does not include a statement the contents of which the member or firm cannot substantiate; 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.

218 RETENTION OF DOCUMENTATION AND WORKING PAPERS

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 ENGAGED IN PUBLIC ACCOUNTING**301.1 AND 301.2 REPEALED DECEMBER 4, 2003****302.1 COMMUNICATION WITH PREDECESSOR**

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 COMMUNICATION WITH PREDECESSOR

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

302.3 COMMUNICATION WITH PREDECESSOR

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.

303.1 CO-OPERATION WITH SUCCESSOR

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 CO-OPERATION WITH SUCCESSOR

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.

304 JOINT ENGAGEMENTS

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.

305.1 COMMUNICATION OF SPECIAL ENGAGEMENTS TO INCUMBENT

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 both

- (a) the client makes an unsolicited request, evidenced in writing, that such notification not be given; and
- (b) the CICA Handbook does not recommend in respect of the engagement that the member notify or contact the duly appointed auditor or accountant.

305.2 APPLICATION

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.

306.1 RESPONSIBILITIES ON ACCEPTING ENGAGEMENTS

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.

306.2 RESPONSIBILITIES ON REFERRED ENGAGEMENTS

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 AND CONDUCT OF A PROFESSIONAL PRACTICE**401 PRACTICE NAMES**

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 Council.

402 REPEALED DECEMBER 4, 2003

403 REPEALED DECEMBER 4, 2003

404.1 USE OF DESCRIPTIVE STYLES

The practice of public accounting shall be carried on under the descriptive style of either "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.

404.2 OPERATION OF MEMBERS' OFFICES

- (a) Each office in Prince Edward Island 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 is a public accountant and 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 Council.

404.3 PROPRIETARY INTEREST WITH NON-MEMBERS

Notwithstanding Rule 404.1 any office in Prince Edward Island 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 members 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.

405 ASSOCIATION WITH FIRMS

A member shall not associate in any way with any firm practising as chartered accountants in Prince Edward Island unless:

- (a) all partners resident in Prince Edward Island are members,
- (b) at least one partner is a member, and

(c) all of 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.

406 MEMBER RESPONSIBLE FOR A NON-MEMBER IN PRACTICE OF PUBLIC ACCOUNTING

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.

407 RELATED BUSINESS OR PRACTICE, AND 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)".

408 ASSOCIATION WITH NON-MEMBER IN PUBLIC PRACTICE

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, bylaws, 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 or presentation or communication is used which implies that the non-member is a member.

409 OFFICE BY REPRESENTATION

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.

410 PRACTICE OF PUBLIC ACCOUNTING IN CORPORATE FORM

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 of 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 be associated with a professional corporation engaged in the practice of public accounting in a province other than Prince Edward Island if the corporation is recognized and approved for such practice by the provincial institute in the province concerned and the corporation does not engage in the practice of public accounting in Prince Edward Island.

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.

411 - 419 RESERVED FOR FUTURE USE

420 REPEALED DECEMBER 4, 2003

421 REPEALED DECEMBER 4, 2003