

## GLOBAL DIFFERENCES

### I – Structure and Approach

**IFAC** – The IFAC Code is presented in three parts:

Part A establishes the fundamental principles of professional ethics and provides a conceptual framework for complying with those principles. The framework requires the professional accountant to:

- (a) Identify threats to compliance with the fundamental principles;
- (b) Evaluate the significance of the threats identified; and
- (c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.

Parts B and C describe how the conceptual framework should be applied in specific situations. Under section 290 (Independence) of Part B, audits and reviews performed for Public Interest Entities are subject to rules that preclude certain services, interests, or relationships, e.g., prohibit the performance of internal audit services (290.200-.201) or require an audit team member to wait at least 12 months before joining an audit client in a key financial position (290.139-.141).

The IFAC Code is primarily a principle-based code, which requires professional accountants to apply the Conceptual Framework in all instances, e.g., *Conflicts of Interests* (section 220), *Gifts and Hospitality* (section 260), *Audit Partner Rotation* (section 290.150), and *Fees - Relative Size* (section 290.221). Professional accountants use considerable judgment in applying the framework.

**AICPA** – The AICPA Code consists of two sections—(1) the principles and (2) the rules. The principles provide the framework for the rules, which govern the performance of professional services by members.

The AICPA Code is primarily a rules-based code. In the absence of a specific independence rule, members must apply the *Conceptual Framework for AICPA Independence Rules* (i.e., a threats and safeguards analysis based on the IFAC Code). If a matter involves other rules in the Code (e.g., commissions and referral fees or confidential client information), members are encouraged (but not required) to apply the conceptual framework approach; this guidance currently resides outside of the Code. <sup>1</sup>

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<sup>1</sup> *Guide for Complying with Rules 102–505*, November 10, 2008.

## II - Principles versus Rules

**IFAC** – Professional accountants are required to apply the conceptual framework to comply with the fundamental principles of the IFAC Code.

**AICPA** – AICPA members are required to comply with rules, not the principles, of the Code. Therefore, based on the current structure of the AICPA Code, principles may not be enforced. Certain principles in the IFAC Code (i.e., Section 140, *Confidentiality*, and Section 150, *Professional Behavior*) are addressed by rules in the AICPA Code (Rule 301, *Confidential Client Information*, and Rule 501, *Acts Discreditable*).

## III – Independence Rules

**IFAC** - **Bifurcates independence into two sections; section 290 applies to financial statement audits and reviews and section 291 addresses all other assurance (i.e. attest) services. (Section 291 is generally less strict than section 290 because it does not impose prohibitions or other requirements on public interest entities.)**

**AICPA** - **Rule 101 (independence) applies to all attest services (except ET 101.13, which provides modified rules for a narrow group of engagements to issue restricted-use reports).**

## IV - Listed Entities / Related Entities

**IFAC** – When an audit client is a listed entity, the term “audit client” includes all “related entities,” which may subject additional entities (e.g., subsidiaries, material parent companies and material equity investees of the audit client) to independence requirements.

**AICPA** – Requires members to apply SEC rules (where applicable), which generally meet or exceed IFAC requirements. If SEC rules do not apply to a listed entity, i.e., the client is listed on a non-US exchange, it is possible (though unlikely) that the rules governing audits of the listed entity are less strict than IFAC.

## V – Public Interest Entities (PIEs)

**IFAC** - **Imposes additional requirements (including prohibitions) for maintaining independence of Public Interest Entities (PIEs), e.g. audit partner rotation, significant client fees, and certain nonaudit services such as bookkeeping, valuation, and internal audit services.**

**AICPA** – **Does not include specific requirements for PIEs although the conceptual framework advises members to consider whether an entity is a PIE when determining safeguards that would mitigate threats to independence.**

**Members must comply with SEC rules when they perform services for PIEs that are (for example) SEC registrants or insured depository institutions; these rules generally meet or exceed IFAC requirements.**

**Note 1: The AICPA's proposed definition of PIE is consistent with the IFAC definition and captures all listed entities and other entities for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.**

## **SPECIFIC DIFFERENCES**

### **VI – Loan from Financial Institution Attest Client (Independence)**

**IFAC – Prohibits audit team members, their immediate family, and the firm from having a loan from a financial institution audit client that was *not* made under normal lending procedures, terms, and conditions (section 290.118-.122)**

**AICPA – Prohibits covered members (including the firm) from obtaining a loan (other than four types of loans that are specifically permitted, e.g. automobile or passbook loans) from a financial institution attest client under any circumstances.**

### **VII – Employment with an Attest Client (Independence)**

**IFAC – Under certain circumstances, firms may temporarily lend staff to an audit client (section 290.42).**

**AICPA – Staff may not work under the supervision of the attest client – even temporarily (ET 101-1.C).**

### **VIII - Nonattest Services (Independence)**

**IFAC – Professional accountants should evaluate threats created by the performance of nonattest services, including representing a client in tax court or serving as an expert witness. IFAC provides an emergency provision which allows a firm to provide prohibited bookkeeping / payroll services under certain conditions (section 290.174).**

**AICPA – Representing a client in tax court or serving as an expert witness are considered to impair independence. The Code does not provide an emergency provision for performing prohibited nonattest services.**

### **IX – Compensation and Evaluation Policies (Independence)**

**IFAC – *Compensation and Evaluation Policies* (section 290.229-.230) prohibits a key audit partner from being evaluated or compensated based on that partner's success in selling non-assurance services to the partner's audit client.**

**AICPA** – The AICPA Code addresses partner compensation or evaluation in the *Conceptual Framework for AICPA Independence Standards* (i.e. as a possible safeguard) but does not prohibit this practice.

## **X - Contingent Fees (Independence / Other)**

**IFAC** – Contingent fees are addressed in two sections of the IFAC Code (i.e., sections 240 and 290). When assessing threats created by contingent fee arrangements for non-assurance services, accountant may consider materiality of the fee to the firm or the client's financial statements (290.228).

**AICPA** – Not addressed under rule 101 (independence); members performing nonattest services for audit and review clients (except for tax services meeting certain criteria) may not enter into contingent fee arrangements with the client regardless of materiality.

**ATTACHMENT 2**  
**AICPA and IFAC Independence Rules Comparison**

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IFAC Code Section 290 (Proposed Clarified Version)	AICPA Code Rule 101 (As of April 30, 2009)	IFAC Code Includes Add'l Requirements or Prohibitions	AICPA Code Includes Add'l Requirements or Prohibitions	Explanation/ Other Comments
290.1 - .5 <i>Objective and Structure of Section</i>	Introduction to AICPA Code  ET§101 <i>Independence</i>		√	<b><u>IFAC bifurcates its independence requirements into two sections; §290 applies to financial statement audits and reviews; section 291 addresses all other assurance (i.e. attest) services. AICPA independence rules apply to all attest services (except ET 101.13, which provides modified rules for a narrow group of engagements to issue restricted-use reports).</u></b>
290.6 - .12 <i>A Conceptual Approach to Independence</i>	ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>			
290.13 - .24 <i>Networks and Network Firms</i>	ET§92.28 <i>Network</i>  ET§92.29 <i>Network Firm</i>  ET§101.19 <i>Networks and Network Firms</i>			When AICPA rules become effective (periods after 12/15/10), the standards will be comparable.
290.25 - .26 <i>Public Interest Entities (PIEs)</i>	ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>			IFAC imposes additional requirements on audits of PIEs: audit partner rotation, significant client fees, certain employment

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	ET§101.02 <i>Interpretation of Rule 101</i>  ET§101.05 <i>Performance of Nonattest Services</i>			(i.e. one year cooling off period), bookkeeping, payroll, valuations, internal audit, and certain tax and recruitment services.  The AICPA Code requires members to comply with all applicable standards of independence that would apply to the member's engagement (e.g., SEC and PCAOB). Provided the audit / review of a PIE is subject to SEC rules, the AICPA Code meets or exceeds IFAC.
290.27 <i>Related Entities</i>	ET§101.10 <i>Effect on independence of financial interests in nonclients having investor or investee relationships with a covered member's client</i>  ET§191.196-97 <i>Member's Loan From a Nonclient Subsidiary or Parent of an Attest Client</i>  ET§191.212-13 <i>Member Has Significant Influence Over an Entity That Has Significant Influence Over a Client</i>  ET§191.220-21			Under IFAC, audit clients that are listed entities include related entities. When the audit client is not a listed entity, the audit client includes those related entities, over which the client has direct or indirect control.  The AICPA Code requires members to comply with all applicable standards of independence that would apply to the member's engagement (e.g., SEC and PCAOB) . Provided the attest client is listed on a US exchange (i.e. subject to SEC rules), the AICPA Code meets or exceeds IFAC.

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	<i>Member Is Connected With an Entity That Has a Loan to or From a Client</i>			
290.28 <i>Those Charged with Governance</i>	ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>			IFAC Code encourages communication with those charged with governance. The AICPA Conceptual Framework recognizes such communication as a possible safeguard. In addition, U.S. GAAS requires communication under certain circumstances.
290.29 <i>Documentation</i>	ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>  ET§101.05 <i>Performance of Nonattest Services</i>			IFAC documentation requirements are broader than those in the AICPA Code. However, members must also meet documentation standards in the audit and review standards (GAAS, SSARS), which should mitigate any differences.
290.30 - .32 <i>Engagement Period</i>	ET§92.24 <i>Period of the professional engagement</i>		√	Both Codes may permit the performance of new attest services when prohibited nonattest services were performed during the audit period but before the period of the professional engagement. However, the conditions that allow this under the AICPA Code are more narrow than under IFAC.
290.33 <i>Other Considerations</i>	ET§101.17 <i>Financial Relationships</i>		√	IFAC addresses inadvertent violations of section 290, which is not addressed as broadly under the AICPA Code, i.e. AICPA rule is limited to unsolicited financial interests such as gifts or inheritances.

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				*A PEEC Task Force is developing broad-based guidance on inadvertent violations.
290.100 - .101 <i>Application of the Conceptual Framework Approach to Independence</i>	ET§101.02 <i>Interpretation of Rule 101 (Other Considerations)</i>			
290.102 - .111 <i>Financial Interests</i>	ET§92.06 <i>Covered Member</i>  ET§92.10 <i>Firm</i>  ET§101.02 <i>Interpretation of Rule 101</i>  ET§101.17 <i>Financial Relationships</i>		√	Under IFAC, a firm's retirement plan may have a direct or material indirect financial interest in an audit client if safeguards mitigate the threat to independence (§290.107). AICPA rules do not permit a firm to hold these interests.
290.112 <i>Financial Interests</i>  - <i>Financial interest in entity in which audit client also invests</i>	ET§101.10 <i>Effect on Independence of Financial Interests in Nonclients having Investor and Investee Relationships with a Covered Member's Client</i>		√	AICPA rules apply to covered members; IFAC rules apply to the audit team, their immediate families, and the firm.
290.113 <i>Financial Interests</i>  - <i>Financial interest in entity when director, officer or controlling owner of audit client has known</i>	ET§92.16 <i>Joint Closely Held Financial Interest</i>  ET§101.02 <i>Interpretation of Rule 101</i>		√	AICPA rules apply to covered members; IFAC rules apply to the audit team, their immediate families, and the firm.  For joint closely held financial interests, determination of independence under IFAC

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<i>financial interest in entity</i>				is more subjective.
290.114 <i>Financial Interests</i> - <i>Serving as trustee of trust that invests in an audit client</i>	ET§101.02 <i>Interpretation of Rule 101</i>		√	AICPA rules apply to covered members; IFAC rules apply to the audit team, their immediate families, and the firm.  Criteria for avoiding impairment when serving as a trustee of a trust differ under the IFAC and AICPA Codes.
290.115 <i>Financial Interests</i>  - <i>Financial interests of other individuals</i>	ET§101.02 <i>Interpretation of Rule 101</i>  ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>			
290.116 - .117 <i>Financial Interests</i>  - <i>Financial interest obtained by inheritance, gift, or as result of merger / acquisition of/by client</i>	ET§101.17 <i>Financial Relationships</i>			Similar requirements although IFAC also applies provision to certain violations resulting from a client merger or acquisition.  * A PEEC task force is considering adopting provisions that are similar to IFAC.
290.118 - .122 <i>Loans and Guarantees</i>	ET§101.02 <i>Interpretation of Rule 101</i>  ET§101.07 <i>Loans from Financial Institution Clients and Related Terminology</i>		√	AICPA rules apply to covered members; IFAC rules apply to the audit team, their immediate families, and the firm.  IFAC allows an audit team member (or member of his or her immediate family) or the firm to obtain a loan from a financial

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	ET§191.140-141 <i>Member's Depository Relationship with Client Financial Institution</i>			institution audit client under normal terms and conditions.  AICPA rules only permit certain types of loans (e.g. auto, passbook) to be obtained from a financial institution attest client.
290.123 <i>Loans and Guarantees</i>  <i>- Deposit or brokerage account with audit client</i>	ET§191.140-.141 <i>Member's Depository Relationship With Client Financial Institution</i>		✓	AICPA rules apply to covered members; IFAC rules apply to the audit team, their immediate families, and the firm.  IFAC requires that the account be held under normal commercial terms. AICPA imposes additional requirements on deposit and brokerage accounts, i.e., amounts should be insured or immaterial and firms should conclude that the likelihood of the financial institution experiencing financial difficulties is remote.
290.124 - .126 <i>Business Relationships</i>	ET§92.16 <i>Joint Closely Held Investment</i>  ET§101.02 <i>Interpretation of Rule 101</i>  ET§101-14 <i>Cooperative Arrangements</i>		✓	AICPA rules apply to covered members; IFAC rules apply to the audit team, their immediate families, and the firm.
290.127 - .133 <i>Family and Personal Relationships</i>	ET§101.02 <i>Interpretation of Rule 101</i>		✓	IFAC permits more subjectivity under certain circumstances; also allows inadvertent violations if certain criteria are

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- <i>Employment</i>				met (§290.133).
290.134 - 138 <i>Employment with an Audit Client</i>	ET§101.02 <i>Interpretation of Rule 101</i>  ET§101.04 <i>Employment or association with attest clients</i>		√	Individual in the firm becomes an employee (or board member) of the audit client: IFAC rule applies to partners and audit team members; AICPA applies to all partners and other professionals in the firm.  IFAC allows firms to determine whether to remove a professional from the attest team when he/she is considering employment with the client (§290.138); removal is required under AICPA rules.
290.139 – .141 <i>Employment with an Audit Client - Public Interest Entity</i>	ET§101.02 <i>Interpretation of Rule 101</i>  ET§101.04 <i>Employment or association with attest clients</i>			Provided a PIE's attest engagement is subject to SEC rules, the AICPA Code meets or exceeds IFAC.
290.142 - .145 <i>Temporary Staff Assignments</i>	ET§101.02 <i>Interpretation of Rule 101</i>		√	AICPA does not permit staff to work for an attest client, even temporarily.
290.143 <i>Recent Service with an Audit Client</i>	ET§101.02 <i>Interpretation of Rule 101</i>			
290.146 - .149 <i>Serving as a Director or Officer of an Audit Client</i>	ET§101.02 <i>Interpretation of Rule 101</i>  ET§101.06 <i>Honorary directorships and trusteeships of not-for-profit</i>			

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	<i>organization</i>			
290.150 <i>Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client</i>	ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>	✓		The IFAC Code requires the evaluation of threats and, where necessary, application of safeguards. The AICPA Code does not specifically require an evaluation; however, members may address such circumstances under the Conceptual Framework for AICPA Independence Standards, which would provide a result that is similar to the IFAC Code.
290.151 - .155 <i>Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client - Public Interest Entities</i>	ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>			Provided a PIE's attest engagement is subject to SEC rules, the AICPA Code meets or exceeds IFAC.
290.156 - .161 <i>Provision of Non-assurance Services to Audit Clients</i>	ET§101.05 <i>Performance of Nonattest Services</i>		✓	AICPA documentation requirement is more prescriptive than the IFAC (general) documentation requirement (§290.29).
290.162 - .166 <i>Management Responsibilities</i>				
290.167 - .171, .174 <i>Preparing Accounting Records and Financial Statements</i>			✓	AICPA Code does not include an "emergency" provision for performing prohibited bookkeeping / payroll services.

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290.172 - .174 <i>Preparing Accounting Records and Financial Statements</i> <b>- Public Interest Entities</b>				Provided a PIE's attest engagement is subject to SEC rules, the AICPA Code meets or exceeds IFAC.
290.175 - .179 <i>Valuation Services</i>				
290.180 <i>Valuation Services</i> <b>- Public Interest Entities</b>				Provided a PIE's attest engagement is subject to SEC rules, the AICPA Code meets or exceeds IFAC.
290.181 - .184 <i>Taxation Services</i>				The IFAC Code provides more detailed guidance on i) tax calculations for the purpose of preparing the accounting entries; and ii) tax planning and other tax advisory services. The AICPA Code provides more detailed guidance on electronic tax filings and payments.
290.185 - .191 <i>Taxation Services</i> <b>- Public Interest Entities</b>				Provided a PIE's attest engagement is subject to SEC/PCAOB rules, the AICPA Code meets or exceeds IFAC.
290.192 - .194 <i>Taxation Services</i> <b>- Assistance in the Resolution of Tax Disputes</b>				IFAC prohibits tax representation in a public tribunal or court if amounts involved are material to the financial statements (§290.193). AICPA prohibits this service regardless of materiality.
290.195 - .199 <i>Internal Audit Services</i>				

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290.200 - .201 <i>Internal Audit Services</i> <b>Public Interest Entities</b>				Provided a PIE's attest engagement is subject to SEC rules, the AICPA Code meets or exceeds IFAC.
290.202 - .206 <i>IT Systems Services</i>				
290.207 <i>IT Systems Services</i> <b>- Public Interest Entities</b>				Provided a PIE's attest engagement is subject to SEC rules, the AICPA Code meets or exceeds IFAC.
290.208 - .209 <i>Litigation Support Services</i>				√ (As always) the IFAC Code requires the evaluation of threats and where necessary, the application of safeguards; AICPA Code prohibits expert witness services.
290.210 - .214 <i>Legal Services</i>				The IFAC Code provides detailed guidance on legal services; the AICPA Code does not specifically address legal services other than through the general guidance in Int. 101-3.
290.215 <i>Recruiting Services</i>				
290.216 <i>Recruiting Services</i> <b>- Public Interest Entities</b>				Provided a PIE's attest engagement is subject to SEC rules, the AICPA Code meets or exceeds IFAC.
290.217 - .220 <i>Corporate Finance Services</i>				
290.221 - .222 <i>Fees - Relative Size</i>		ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>	√	

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				under the Conceptual Framework for AICPA Independence Standards, which would provide a result that is similar to the IFAC Code.
290.223 <i>Fees - Relative Size</i> <b>- Public Interest Entities</b>				<p>Provided a PIE's attest engagement is subject to SEC rules, the AICPA Code meets or exceeds IFAC.</p> <p>Note: the SEC restrictions are set forth in a "no action letter" rather than a formal rule.</p>
290.224 <i>Overdue Fees</i>	ET§191.103-04 <i>Unpaid Fees</i>			
290.225 - .228 <i>Contingent Fees</i>			✓	<p>IFAC considers materiality (e.g., to the firm or the client's financial statements) when assessing threats created by contingent fee arrangements for non-assurance engagements (290.228).</p> <p>AICPA Code addresses contingent fees separately from independence, i.e. ET§302.01, <i>Contingent fees</i>, although the result is essentially the same. However, AICPA does not consider materiality of the fee to the client's financial statements.</p>
290.229 - .230 <i>Compensation and Evaluation Policies</i>	ET § 100.01 <i>Conceptual Framework for AICPA Independence Standards</i>	✓		Under 290.230, a key audit partner shall not be evaluated or compensated based on that partner's success in selling non-assurance services to the partner's audit client.

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				AICPA has no comparable rule although the Conceptual Framework for AICPA Independence Standards includes as a possible safeguard, "policies that preclude audit partners from being directly compensated for selling nonattest services to the audit client."
290.231 <i>Gifts and Hospitality</i>	ET §191.228-29 <i>Acceptance or Offering of Gifts and Entertainment to or From an Attest Client</i>			
290.232 <i>Actual or Threatened Litigation</i>	ET§101.08 <i>The effect of actual or threatened litigation on independence</i>		✓	AICPA rule applies more broadly than IFAC, i.e. to all covered members in the firm.
290.500 - .504 <i>Reports that Include a Restriction on Use and Distribution</i>	ET§101.13 <i>Modified application of rule 101 for certain engagements to issue restricted-use reports under the Statements on Standards for Attestation Engagements</i>		✓	AICPA rule does not apply to audits, reviews, or examinations under the SASs, SSAEs or SSARs. IFAC rule applies to audit/review engagements that meet certain criteria.
290.505 <i>Reports that Include a Restriction on Use and Distribution</i> <b>- Public Interest Entities</b>				
290.506 <i>Reports that Include a Restriction on Use and Distribution</i>				

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- <b>Related Entities</b>				
290.507 <i>Reports that Include a Restriction on Use and Distribution</i> - <b>Networks and Network Firms</b>				
290.508 - .512 <i>Reports that Include a Restriction on Use and Distribution</i> - <b>Financial Interests, Loans and Guarantees, Close Business Relationships and Family and Personal Relationships</b>				
290.513 <i>Reports that Include a Restriction on Use and Distribution</i> - <b>Employment with an Audit Client</b>				
290.514 <i>Reports that Include a Restriction on Use and Distribution</i> - <b>Provision of Non-Assurance Services</b>				
N/A	ET§101.12			* ET 101.12 has not been compared to the

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	<i>The effect on independence of relationships with entities included in the governmental financial statements</i>			IFAC Code.
N/A	ET§101.16 <i>The effect of alternative practice structures on the applicability of independence rules</i>			* ET§101.16 has not been compared to the IFAC Code.
N/A	ET§191.188-89 <i>Indemnification Clauses in Engagement Letters</i>		√	
Total Instances: AICPA or IFAC imposes additional requirements / restrictions		3	21	