

## Section 290

### Independence—Audit and Review Engagements

#### Objective and Structure of this Section

- 290.1 This section addresses the independence requirements for audit and review engagements. Audit and review engagements are assurance engagements in which the professional accountant in public practice expresses a conclusion on financial statements or other historical financial information. Independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 291.
- 290.2 Throughout this section, the term(s):
- “financial statements” also encompasses other historical financial information when such information is the subject matter information of the engagement;
  - “audit team”, “audit engagement”, “audit client” and “audit report” also encompass review teams, review engagements, review clients and review reports;
  - “firm” also encompasses network firm; and
  - “entities of significant public interest” includes listed entities.
- 290.3 In the case of audit engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of **audit teams**,\* firms and **network firms**\* be independent of audit clients.
- 290.4 The objective of this section is to assist firms and members of audit teams in:
- (a) Identifying threats to independence;
  - (b) Evaluating whether these threats are clearly insignificant; and
  - (c) In cases when the threats are not clearly insignificant, identifying and applying safeguards to eliminate the threats or reduce them to an acceptable level.
- Professional judgment should be used to determine the appropriate safeguards to eliminate threats or to reduce them to an acceptable level. If appropriate safeguards are not available the audit engagement should be declined or terminated. In certain circumstances, such as may be the case with a legislative audit office or government audit organization established by legislation or regulation, the professional accountant may be legally restricted from declining or terminating the audit engagement. In such circumstances, the professional accountant should take other actions, such as reporting to the appropriate authorities.
- 290.5 This section is not prescriptive as to the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending

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\* See Definitions.

upon the size, structure and organization of a firm. Firms should have policies and procedures, appropriately documented and communicated, to assign responsibility for identifying and evaluating threats to independence and applying appropriate safeguards to eliminate threats or reduce them to an acceptable level.

- 290.6 This section (paragraphs 290.100 onwards) concludes with some examples of how the conceptual approach to independence is to be applied to specific circumstances and relationships. The examples are not intended to be all-inclusive.

### **A Conceptual Approach to Independence**

- 290.7 Independence requires:

#### *Independence of Mind*

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

#### *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.

- 290.8 Many different circumstances, or combination of circumstances, may be relevant in assessing independence. Accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of the audit engagement may differ and, consequently, different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms and members of audit teams to identify, evaluate and address threats to independence rather than merely comply with a set of specific rules which may be arbitrary, is therefore, in the public interest.
- 290.9 In deciding whether it is appropriate to accept or continue an engagement, or whether a particular individual should be a member of the audit team, a firm should, therefore, evaluate the relevant circumstances, the nature of the audit engagement and the threats to independence, as well as the nature of the safeguards required. The evaluation should be supported by information obtained before accepting the engagement and while it is being performed.
- 290.10 A legislative audit office or government audit organization established by legislation or regulation when making this evaluation should take into account the organizational structure of the audit office. The threats to independence may be affected by the office or organization's position relative to the government and the audit client.

## **Networks and Network Firms**

- 290.11 An entity that belongs to a network might be a firm, which is defined in this Code as a sole practitioner, partnership or corporation of professional accountants and an entity that controls or is controlled by such parties, or the entity might be another type of entity, such as a consulting practice or a professional law practice. The independence requirements in this section that apply to a network firm apply to any entity that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm. If a firm is considered to be a network firm, the firm is required to be independent of the financial statement audit clients of the other firms within the network.
- 290.12 To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends upon the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is considered to be a network.
- 290.13 The judgment as to whether the larger structure is a network should be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment should be applied consistently throughout the network
- 290.14 Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is considered to be a network. However, the sharing of immaterial costs would not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product would not in itself create a network.
- 290.15 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is considered to be a network. This could be achieved by contract or other means.
- 290.16 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is considered to be a network. For this purpose common quality control policies and procedures would be those designed, implemented and monitored across the larger structure.
- 290.17 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is considered to be a network. Sharing a common

business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not considered to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.

- 290.18 Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is considered to be a network. A common brand name includes common initials or a common name. A firm is considered to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an assurance report.
- 290.19 Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, a firm should carefully consider how it describes any such memberships in order to avoid the perception that it belongs to a network.
- 290.20 If a firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm, or an element of the name, even though it is no longer connected to the firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not network firms. Those entities should carefully consider how to disclose that they are not network firms when presenting themselves to outside parties.
- 290.21 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is considered to be a network. Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records;
  - Partners and staff;
  - Technical departments to consult on technical or industry specific issues, transactions or events for assurance engagements;
  - Audit methodology or audit manuals; and
  - Training courses and facilities.
- 290.22 The determination of whether the professional resources shared are significant, and therefore the firms are network firms, should be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be considered to be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared

pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

### **Entities of Significant Public Interest and their Related Entities**

- 290.23 Entities of significant public interest are listed entities and certain other entities which because of their business, size or number of employees have a large number and wide range of stakeholders. In some countries, the scope of all entities considered to be of significant public interest for independence purposes is defined by statute or regulation. In such cases that definition should be used in applying the requirements in this section. In the absence of such a definition, member bodies should determine the types of entity that are of significant public interest and thus, subject to the additional requirements referred to below. Entities of significant public interest will always include listed entities, will normally include banks, governments, insurance companies and other regulated financial institutions, and may, depending on their size, include pension funds, government-agencies, government-owned entities and not-for-profit entities.
- 290.24 Entities of significant public interest have a large number and wide range of stakeholders, including in many instances governmental agencies or similar bodies who provide regulatory oversight. These stakeholders typically have little or no direct contact with management and usually are less familiar with the management, operation, and finances of the business than stakeholders of other entities. Accordingly, the requirement to maintain independence in appearance is greater in an audit of an entity of significant public interest.
- 290.25 As a result of the greater importance to maintain independence in appearance for entities of significant public interest the evaluation of the significance of threats to independence and the safeguards necessary to reduce them to an acceptable level takes into account the extent of the public interest. Consequently, in connection with an audit client that is an entity of significant public interest, certain provisions of this section require firms, members of the audit team, and others who are covered by this section to comply with more restrictive safeguards, including in certain situations to refrain from activities or relationships which may be permissible with an audit client that is not an entity of significant public interest.
- 290.26 In the case of an audit client that is a listed entity references to an audit client in this section should be taken to include its related entities. In the case of other entities of significant public interest that are audit clients, references to “audit client” will generally include its related entities. However, in certain circumstances, having regard to the nature and structure of the client’s organization it may not be necessary to apply the more restrictive requirements referred to above to all related entities in order to maintain independence from the audit client, for example, this might be the case in an audit of a government-owned entity.

## **Those Charged with Governance**

290.27 **Those charged with governance\*** have an important corporate governance role when they are independent of client management and can assist the Board of Directors (or equivalent) in satisfying themselves that a firm is independent in carrying out its audit role. Regular communication between the firm and those charged with governance regarding relationships and other matters that might, in the firm's opinion, reasonably be thought to bear on independence is encouraged, even when not required by applicable auditing standards. Such communication enables those charged with governance to consider the judgments made by the firm in identifying and evaluating threats to independence and the appropriateness of the safeguards applied to eliminate the threats or reduce them to an acceptable level. Such communication can be particularly helpful with respect to intimidation and familiarity threats.

## **Documentation**

290.28 When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the audit engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level. While such documentation is an important aspect of addressing independence, inadequate documentation or failure to document would not, in itself, compromise independence.

## **Engagement Period**

290.29 The engagement period includes the period covered by the financial statements on which the firm will express an opinion. The members of the audit team and the firm should be independent of the audit client during the period of the audit engagement. The period of the engagement starts when the audit team begins to perform audit services and ends when the audit report is issued, except when the engagement is of a recurring nature. If the engagement is expected to recur, the engagement period ends with the notification by either party that the professional relationship has terminated or the issuance of the final audit report, whichever is later.

290.30 When an entity becomes an audit client the firm should consider whether any threats to independence may be created by previous financial or business relationships with the client or previous services provides to the client.

The significance of any threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards may include:

- Obtaining the client's acknowledgement of responsibility for the results of the non-assurance service;

- Precluding personnel who provided the non-assurance service from being members of the audit team; or
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

### Other Considerations

- 290.31 For audit clients that are not entities of significant public interest, when the audit team knows or has reason to believe that a **related entity**\* of the client is relevant to the evaluation of the firm's independence of the client, the audit team should consider that related entity when evaluating independence and applying appropriate safeguards.
- 290.32 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to the client provided the firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 290.33 Throughout this section, reference is made to significant and clearly insignificant threats in the evaluation of independence. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is deemed to be both trivial and inconsequential.

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\* See Definitions.

## APPLICATION OF FRAMEWORK TO SPECIFIC SITUATIONS

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## Introduction

290.100 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all inclusive. In practice, the firm and the members of the audit team will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 200.12 through 200.15 can be applied to satisfactorily address the threats to independence.

## Financial Interests

290.101 A financial interest in an audit client may create a self-interest threat. In evaluating the significance of any threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest. This includes an evaluation of the role of the person holding the financial interest, the materiality of the financial interest and whether the financial interest is direct or indirect.

290.102 When evaluating the type of financial interest, consideration should be given to the fact that financial interests range from those where the individual has no control over the investment vehicle or the financial interest held (e.g., a mutual fund, unit trust or similar intermediary vehicle) to those where the individual has control over the financial interest (e.g., as a trustee) or is able to influence investment decisions. In evaluating the significance of any threat to independence, it is important to consider the nature of the financial interest held and the degree of control or influence that can be exercised over the intermediary and its investment strategy. When control exists, the financial interest should be considered direct. Conversely, when the holder of the financial interest has no ability to exercise such control, the financial interest should be considered indirect.

290.103 If a member of the audit team, his or her immediate family member, a firm has a **direct financial interest**\* or a material **indirect financial interest**\* in the audit client, the self-interest threat created would be so significant no safeguards could eliminate or reduce the threat to an acceptable level. Therefore, a member of the audit team, his or her immediate family member, or a firm should not have a direct financial interest or a material indirect financial interest in the client.

290.104 When a member of the audit team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the audit client, a self-interest threat may be created. In evaluating the significance of any threat, consideration should be given to the nature of the relationship between the member of the audit team and the close family member and the materiality of the financial interest. The significance of any threat should be evaluated and, if the threat is other than clearly

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\* See Definitions.

insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest such that the remaining interest is no longer material;
- Involving a professional accountant to perform an additional review of the work done by the relevant member of the audit team; or
- Removing the individual from the audit team.

290.105 If a member of the audit team, his or her immediate family member, or a firm has a material financial interest in an entity that has a controlling interest in the audit client, and the client is material to the entity, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Therefore, a member of the audit team, his or her immediate family member or a firm, should not have such a financial interest.

290.106 If a retirement benefit plan of a firm has a financial interest in an audit client, a self-interest threat may be created. Accordingly, the significance of any such threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

290.107 If other partners, or their immediate family members, in the **office**<sup>\*</sup> in which the **engagement partner**<sup>\*</sup> practices in connection with the audit engagement hold a direct financial interest or a material indirect financial interest in that audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Therefore, such partners or their immediate family members should not hold any such financial interests in such a client.

290.108 The office in which the engagement partner practices in connection with the audit engagement is not necessarily the office to which that partner is assigned. Accordingly, when the engagement partner is located in a different office from that of the other members of the audit team, judgment should be used to determine in which office the partner practices in connection with that engagement.

290.109 If other partners and managerial employees who provide non-assurance services to the audit client, except those whose involvement is clearly insignificant, or their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such personnel or their immediate family members should not hold any such financial interests in such an audit client.

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\* See Definitions.

- 290.110 Notwithstanding paragraphs 290.107 and 290.109, a financial interest in an audit client that is held by an immediate family member of (a) a partner located in the office in which the engagement partner practices in connection with the audit engagement, or (b) a partner or managerial employee who provides non-assurance services to the audit client, is not considered to create an unacceptable threat provided it is received as a result of his or her employment rights (e.g., pension rights or share options) and, where necessary, appropriate safeguards are applied to eliminate any threat to independence or reduce it to an acceptable level. However if the immediate family member has the right to dispose of the financial interest or, in the case of a financial interest such as a stock option, the right to exercise the option, the financial interest should be disposed of as soon as practicable.
- 290.111 A self-interest threat may be created if the firm or a member of the audit team, or his or her immediate family member, has a financial interest in an entity and an audit client, or a director, officer or controlling owner thereof also has a financial interest in that entity. Independence is not compromised with respect to the audit client if the respective interests are both immaterial and the audit client cannot exercise significant influence over the entity. If an interest is material to any party, and the client can exercise significant influence over the entity, no safeguards are available to reduce the threat to an acceptable level and the firm, should either dispose of the interest or decline the audit engagement. Any individual with such a material interest should, prior to becoming a member of the audit team, either:
- (a) Dispose of the interest; or
  - (b) Dispose of a sufficient amount of the interest so that the remaining interest is no longer material.
- 290.112 When a firm or a member of the audit team, or his or immediate family member, holds a direct financial interest or a material indirect financial interest in the audit client as a trustee, a self-interest threat may be created by the possible influence of the trust over the audit client. Accordingly, such an interest should only be held when:
- The member of the audit team, the immediate family member of the member of the audit team, and the firm are not beneficiaries of the trust;
  - The interest held by the trust in the audit client is not material to the trust;
  - The trust is not able to exercise significant influence over the audit client; and
  - The member of the audit team, the immediate family member, or the firm does not have significant influence over any investment decision involving a financial interest in the audit client.

Similarly a self-interest threat may be created when a partner in the office in which the engagement partner practices in connection with the audit, other partners and managerial employees who provide non-assurance services to the audit client, except those whose involvement is clearly insignificant, or their immediate family members

hold a direct financial interest or a material indirect financial interest in the audit client as trustee. Accordingly such an interest should only be held under the conditions noted above.

290.113 Consideration should be given by the audit team as to whether a self-interest threat may be created by any known financial interests in the audit client of other individuals. Such individuals would include:

- Partners and professional employees of the firm, other than those referred to above, and their immediate family members; and
- Individuals who have a close personal relationship with a member of the audit team.

Whether the interests held by such individuals may create a self-interest threat will depend upon factors such as:

- The firm's organizational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the audit team.

The significance of any threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the individual from the audit team;
- Excluding the individual from any significant decision-making concerning the audit engagement; or
- Conducting an additional review of the work performed.

290.114 If a firm, a member of the audit team or other relevant professional, or his or her immediate family member, receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest or a material indirect financial interest in an audit client and such interest would not be permitted to be held under this section then:

- (a) If the interest is held by the firm, the financial interest should be disposed of immediately, or a sufficient amount of an indirect financial interest should be disposed of so that the remaining interest is no longer material, or the firm should withdraw from the audit engagement.
- (b) If the interest is held by a member of the audit team, or his or her immediate family member, the individual should immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material, or the individual should be removed from the team.

- (c) If the interest is held by a professional who is not a member of the audit team, or by his or her immediate family member, the individual should dispose of the financial interest as soon as possible, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material. During the period prior to the disposal of the financial interest, consideration should be given to whether any safeguards are necessary to reduce the self-interest threat to an acceptable level.

290.115 An inadvertent violation of this section as it relates to a financial interest in an audit client would not compromise independence provided:

- (a) The firm has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the audit client;
- (b) The individual, in the case of a purchase, is advised that the financial interest should be disposed of and the disposal takes place at the earliest date after the identification of the issue or in other circumstances the actions prescribed in paragraph 290.114 are taken; and
- (c) The firm considers whether any other safeguards should be applied. Such safeguards might include:
  - Involving an additional professional accountant to review the work done by the member of the audit team;
  - Excluding the individual from any significant decision-making concerning the audit engagement; or
  - Discussing the matter with those charged with governance

## **Loans and Guarantees**

290.116 A loan, or a guarantee of a loan, to the firm from an audit client that is a bank or a similar institution, may create a threat to independence. If the loan, or guarantee, is not made under normal lending procedures, terms and requirements the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, a firm should not accept such a loan or guarantee of a loan..

290.117 If the loan is made under normal lending procedures, terms and requirements and is material to the audit client or the firm it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional professional accountant from outside the firm to review the work performed.

290.118 A loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution, to a member of the audit team, or his or her immediate family member,

would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

290.119 Similarly, deposits made by, or brokerage accounts of, a firm or a member of the audit team, or his or her immediate family member, with an audit client that is a bank, broker or similar institution would not create a threat to independence provided the deposit or account is held under normal commercial terms.

290.120 If the firm, or a member of the audit team, or his or her immediate family member, makes a loan to an audit client, that is not a bank or similar institution, or guarantees such a client's borrowing, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the audit team, or the immediate family member, and the client.

290.121 Similarly, if the firm or a member of the audit team, or his or her immediate family member, accepts a loan from, or has borrowing guaranteed by, an audit client that is not a bank or similar institution, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the audit team, or the immediate family member, and the client.

### **Close Business Relationships**

290.122 A close business relationship between a firm, or a member of the audit team, or his or her immediate family member, and the audit client or its management, will involve a commercial relationship or common financial interest and may create self-interest and intimidation threats. The following are examples of such relationships:

- Having a material financial interest in a joint venture with the client or a controlling owner, director, officer or other individual who performs senior managerial functions for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm acts as a distributor or marketer of the client's products or services, or the client acts as the distributor or marketer of the products or services of the firm.

Unless any financial interest is immaterial and the relationship is clearly insignificant to the firm and the client, no safeguards could reduce the threat to an acceptable level. Therefore, in such circumstances:

- (a) The business relationship should be terminated;
- (b) The magnitude of the relationship should be reduced so that the financial interest is immaterial and the relationship is clearly insignificant; or

- (c) The firm should refuse to perform the audit engagement.

Unless any such financial interest is immaterial and the relationship is clearly insignificant to the member of the audit team, the individual should be removed from the audit team.

If the close business relationship is between an immediate family member of a member of the audit team and the audit client or its management, the significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

- 290.123 A business relationship involving an interest held by the firm, or a member of the audit team, or his or her immediate family member, in a closely held entity when the audit client or a director or officer of the client, or any group thereof, also has an interest in that entity, does not create threats to independence provided:

- (a) The relationship is clearly insignificant to the firm, the member of the audit team, or his or her immediate family member and the client;
- (b) The interest held is immaterial to the investor, or group of investors; and
- (c) The interest does not give the investor, or group of investors, the ability to control the closely held entity.

- 290.124 The purchase of goods and services from an audit client by the firm, or a member of the audit team, or his or her immediate family member, would not generally create a threat to independence providing the transaction is in the normal course of business and on an arm's length basis. However, such transactions may be of a nature or magnitude so as to create a self-interest threat. If the threat created is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the audit team.

### **Government Program – Benefits**

- 290.125 A firm may be engaged to audit a government program, or government entity. When the firm, a member of the audit team or his or her immediate or close family member, receives benefits from such a program a self-interest threat may be created. In evaluating the significance of the threat, and the appropriate safeguards to be applied to eliminate any threat or reduce it to an acceptable level, it is necessary to examine the nature of the benefit received. The significance of the threat will depend upon factors such as:

- The role of the professional on the audit team;
- Whether the benefit has general application, such as would be the case in a government retirement benefit program where the benefit is available to all



individuals who have achieved a certain age, or specific application, such as would be the case in a disability benefit program where the benefit is available only to individuals with a specific disability;

- The degree of judgment in assessing and establishing the nature and amount of the benefit; and
- The materiality of the benefit to the individual receiving the benefit.

The significance of any threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the individual from the audit team; or
- Conducting an additional review of the work performed.

### **Family and Personal Relationships**

290.126 Family and personal relationships between a member of the audit team and a director, an officer or certain employees, depending on his or her role, of the audit client, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors, including the individual's responsibilities on the audit engagement, the closeness of the relationship and the role of the family member or other individual within the client. Consequently, there is a wide spectrum of circumstances that will need to be evaluated to assess the significance of the threats.

290.127 In addition, in the case of an audit engagement in respect of a government entity, program, activity or function, family and personal relationships between a member of the audit team and the government minister with responsibility for the department related to the program, activity or function or senior officials in that department may create self-interest, familiarity or intimidation threats. Accordingly, when applying the requirements in paragraphs 290.128-132, the term "officer" also encompasses the relevant government minister and senior officials in that department.

290.128 When an immediate family member of a member of the audit team is a director or an officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, or was in such a position during any period covered by the engagement, the threats to independence can only be reduced to an acceptable level by removing the individual from the audit team. The closeness of the relationship is such that no other safeguard could reduce the threat to independence to an acceptable level. If this safeguard is not applied, the firm should withdraw from the audit engagement.

290.129 When an immediate family member of a member of the audit team is an employee in a position to exert significant influence over the client's financial position, financial

performance and cash flows, threats to independence may be created. The significance of the threats will depend on factors such as:

- The position the immediate family member holds with the client; and
- The role of the professional on the audit team.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the individual from the audit team; or
- Structuring the responsibilities of the audit team so that the professional does not deal with matters that are within the responsibility of the immediate family member.

290.130 When a close family member of a member of the audit team is a director or an officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, threats to independence may be created. The significance of the threats will depend on factors such as:

- The nature of the relationship between the member of the audit team and his or her close family member;
- The position the close family member holds with the client; and
- The role of the professional on the audit team.

The significance of any threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the individual from the audit team; or
- Structuring the responsibilities of the audit team so that the professional does not deal with matters that are within the responsibility of the close family member.

290.131 In addition, self-interest, familiarity or intimidation threats may be created when a person who is other than an immediate or close family member of a member of the audit team has a close relationship with the member of the audit team and is a director or an officer or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion. Therefore, members of the audit team are responsible for identifying any such persons and for consulting in accordance with firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the role of the professional on the audit team and the role of the individual within the client.

- 290.132 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a partner or employee of the firm who is not a member of the audit team and a director or an officer of the audit client or an employee a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion. Therefore, partners and employees of the firm are responsible for identifying any such relationships and for consulting in accordance with firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the partner or employee with the audit team, the position held within the firm, and the role of the individual within the client.
- 290.133 An inadvertent violation of this section as it relates to family and personal relationships would not compromise independence provided:
- (a) The firm has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence;
  - (b) Either the responsibilities of the audit team are re-structured so that the professional does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or the firm promptly removes the professional from the audit team; and
  - (c) The firm considers whether any other safeguards should be applied. Such safeguards might include:
    - Involving an additional professional accountant to review the work done by the member of the audit team; or
    - Excluding the individual from any significant decision-making concerning the engagement.

### **Employment with an Audit Client**

- 290.134 A firm or a member of the audit team's independence may be threatened if a director, or an officer of the audit client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, has been a member of the audit team or partner of the firm. Such circumstances may create self-interest, familiarity and intimidation threats, particularly when significant connections remain between the individual and his or her former firm.
- 290.135 If a member of the audit team, partner or former partner of the firm has joined the audit client, the significance of the self-interest, familiarity or intimidation threats created will depend upon factors such as:

- (a) The position the individual has taken at the client;
- (b) The amount of any involvement the individual will have with the audit team;
- (c) The length of time that has passed since the individual was a member of the audit team or firm; and
- (d) The former position of the individual within the audit team or firm.

In all cases the following safeguards are necessary to ensure that no significant connection remains between the firm and the individual:

- (a) The individual concerned is not entitled to any benefits or payments from the firm unless these are made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be material to the firm;
- (b) The individual does not continue to participate or appear to participate in the firm's business or professional activities.

The significance of any remaining threat should be evaluated and if it is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Modifying the audit plan for the engagement;
- Assigning an audit team to the engagement that is of sufficient experience in relation to the individual who has joined the client; or
- Involving an additional professional accountant to review the work done or otherwise advise as necessary;

290.136 If a former partner of the firm has previously joined an entity which subsequently becomes an audit client of the firm, any threats to independence should be evaluated and if the threats are other than clearly insignificant, safeguards should be considered and applied, as necessary, to eliminate the threat or reduce it to an acceptable level.

290.137 A self-interest threat is created when a member of the audit team participates in the audit engagement while knowing, or having reason to believe, that they will, or may, join the client some time in the future. Firms should have policies and procedures to require members of an audit team to notify the firm when entering employment negotiations with the client. Upon receiving such notification the significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied, as necessary, to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- (a) Removal of the individual from the audit team; or
- (b) A review of any significant judgments made by that individual while on the engagement.

### **Audit Clients of Significant Public Interest**

290.138 If a key audit partner joins an audit client that is an entity of significant public interest as a director or an officer of the audit client, or an employee in a position to exert significant influence over the preparation of the accounting records or the financial statements on which the firm will express an opinion, the self-interest, familiarity and intimidation threats created would be so significant no safeguards would be available to reduce the threat to an acceptable level unless audited financial statements covering a period of not less than twelve months, for which the partner was not a member of the audit team, have been issued.

290.139 If a former partner becomes, as a result of a business combination, a director or an officer of an audit client that is an entity of significant public interest, or an employee in a position to exert significant influence over preparation of the accounting records or the financial statements on which the firm will express an opinion, and the former partner was a key audit partner, the threats to independence are not considered unacceptable provided:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the partner from the firm have been settled in full, unless these are made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm;
- (c) The partner does not continue to participate or appear to participate in the firm's business or professional activities; and
- (d) The position taken by the partner with the audit client is discussed with those charged with governance.

290.140 The employment or association of a current or former senior partner of the firm, such as the firm's managing partner, with an audit client that is an entity of significant public interest may, in particular, create intimidation threats. If the senior partner joins such an audit client as a director or an officer, or employee in a position to exert significant influence over the preparation of the accounting records of the audit client or the financial statements on which the firm will express an opinion, the significance of any threat created should be evaluated. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Modifying the audit plan for the engagement;
- Assigning an audit team to the engagement that is of sufficient experience in relation to the individual who has joined the client; or
- Involving an additional professional accountant to review the work done or otherwise advise as necessary;

## **Temporary Staff Assignments**

290.141 The lending of staff by a firm to an audit client may create a self-review threat. In practice, such assistance may be given, but only on the understanding that the assistance should only be for a short period of time and the firm's personnel will not be involved in:

- Providing non-assurance services that the firm would not otherwise be able to provide in accordance with the requirements of this section; or
- Performing management functions.

In all circumstances, the following safeguards should be applied:

- The staff providing the assistance should not be given audit responsibility for any function or activity that they performed during their temporary staff assignment; and
- The audit client should acknowledge its responsibility for directing and supervising the activities of firm personnel.

The significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

## **Recent Service with an Audit Client**

290.142 If a former officer, director or employee of the audit client serves as a member of the audit team self-interest, self-review and familiarity threats may be created. This would be particularly true when, for example, a member of the audit team has to evaluate elements of the financial statements for which the he or she had prepared the accounting records while with the client.

290.143 If, during the period covered by the audit report, a member of the audit team had served as a director or an officer of the audit client, or had been an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the audit team.

290.144 If, prior to the period covered by the audit report, a member of the audit team had served as a director or an officer of the audit client, or had been an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion self-interest, self-review and familiarity threats may be created. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement. The significance of the threats will depend upon factors such as:

- The position the individual held with the client;

- The length of time that has passed since the individual left the client; and
- The role of the professional on the audit team.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include conducting an additional review of the work performed the individual as part of the audit team .

### **Serving as an Officer or Director of an Audit Client**

- 290.145 If a partner or employee of the firm serves as a director or an officer of an audit client, the self-review and self-interest threats created would be so significant no safeguard could reduce the threats to an acceptable level. Therefore, if such an individual were to accept such a position the firm should either refuse to perform or should withdraw from the audit engagement.
- 290.146 The position of Company Secretary has different implications in different jurisdictions. The duties may range from administrative duties such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally this position is seen to imply a close degree of association with the entity and may create self-review and advocacy threats.
- 290.147 If a partner or employee of the firm serves as Company Secretary for an audit client, the self-review and advocacy threats created would generally be so significant, no safeguard could reduce the threat to an acceptable level. When the practice is specifically permitted under local law, professional rules or practice, the duties and functions undertaken should be limited to those of a routine and formal administrative nature such as the preparation of minutes and maintenance of statutory returns.
- 290.148 Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters are generally not perceived to compromise independence, provided client management makes all relevant decisions.

### **Long Association of Senior Personnel**

#### **General Provisions**

- 290.149 Using the same senior personnel on an audit engagement over a long period of time may create a familiarity threat, a self-review and self-interest threat. The significance of the threat will depend upon factors such as:
- The length of time that the individual has been a member of the audit team;
  - The role of the individual on the audit team;
  - The structure of the firm;
  - The nature of the audit engagement;

- Whether there have been changes in the client's management team; and
- Whether there has been a change in the nature or complexity of the client's accounting and reporting issues.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Rotating the senior personnel off the audit team;
- Involving an additional professional accountant who was not a member of the audit team to review the work done by the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

### **Audit Clients of Significant Public Interest**

290.150 In respect of the audit of entities of significant public interest:

- (a) The engagement partner and the individual responsible for the engagement quality control review should be rotated off the audit team after serving for seven years in either capacity or a combination thereof; and
- (b) Other **key audit partners** should be rotated off the audit team normally after serving in as key audit partner for seven years.

290.151 Upon rotating off the audit team, the individual should not be a member of the audit team for two years. During that period, the individual should not engage in activities, with respect to the audit of the entity, other than those which are clearly insignificant.

290.152 When an audit client becomes an entity of significant public interest, the length of time the individual has served the audit client as key audit partner prior to the client becoming an entity of significant public interest should be considered in determining when the individual should be rotated. If the individual has served the audit client as a key audit partner for five years or less at the time the client becomes an entity of significant public interest, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is the difference between seven years and the number of years already served. If the individual has served the audit client as a key audit partner for six or more years at the time the client becomes an entity of significant public interest, the partner may continue to serve in that capacity for two additional years before rotating off the engagement.

290.153 Limited flexibility equal to no more than one additional year on the audit team is permitted regarding the rotation of key audit partners other than the engagement partner and the individual responsible for the engagement quality control review if the individual's continuity is especially important to audit quality provided any threat to independence that is other than clearly insignificant can be eliminated or reduced to an acceptable level by the application of safeguards. For example, if there will be major changes to the audit client's management or structure that would coincide with the



rotation of the partner and those changes are determined to be sufficient to mitigate the familiarity and self-review threats, that partner may remain on the audit team for up to one additional year.

290.154 Using other partners on the audit team of an entity of significant public interest over a long-period of time may create a familiarity threat, a self-review threat and self-interest threat. The significance of the threat will depend upon factors such as:

- The length of time the individual has been a member of the audit team;
- The role of the individual on the audit team; and
- The nature, frequency, and extent of the individual's interactions with the client, its board or those charged with governance.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Rotating the individual off the audit team; or
- Regular independent internal or external quality reviews of the engagement

#### **Provision of Non-assurance Services to Audit Clients**

290.155 Firms have traditionally provided to their audit clients a range of non-assurance services that are consistent with their skills and expertise. The provision of non-assurance services may, however, create threats to the independence of the firm, or the members of the audit team. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In evaluating the significance of any threat created by a particular non-assurance service, consideration should be given to any additional threat that the audit team has reason to believe may be created by the provision of the service in combination with another related non-assurance service. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards are available to reduce the threat to an acceptable level and accordingly the non-assurance service should not be provided.

290.156 New developments in business, the evolution of financial markets, rapid changes in information technology, and the consequences for management and control, make it impossible to draw up an all-inclusive list of all situations when providing non-assurance services to an audit client might create threats to independence and of the different safeguards that might eliminate these threats or reduce them to an acceptable level. A firm may provide services beyond the audit engagement provided any threats to independence that are other than clearly insignificant have been reduced to an acceptable level.

290.157 Management of an entity performs many functions in order to carry out its responsibility to manage the entity in the best interests of stakeholders. It is not possible to specify every function which is a management responsibility. However, management functions involve leading and directing an entity including making significant decisions

regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

290.158 The determination of whether an activity is the proper responsibility of management and, therefore, a management function will depend on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered management functions include:

- Setting policies and strategic direction;
- Preparing and fairly presenting the financial statements in accordance with the applicable financial reporting framework;
- Designing, implementing and maintaining internal control;
- Deciding which recommendations of the firm or other third parties should be implemented; and
- Authorizing transactions.

290.159 Performing management functions for an audit client creates threats to independence. For example, deciding which recommendations of the firm should be implemented will create self-review and self-interest threats. Further, performing management functions creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. If a firm performs management functions for an audit client, the threats created could not be reduced to an acceptable level by any safeguard. Accordingly, in providing professional services to an audit client, a firm should not perform management functions.

290.160 Some activities may not be management functions because they are routine and administrative, involve matters that are insignificant or do not otherwise represent a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit client of such forthcoming dates would not be considered management functions. Further, providing advice and recommendations to assist management in performing its functions or providing elements of a client's internal training program would not be considered a management function.

290.161 In order to avoid the risk of performing management functions when providing non-assurance services to an audit client, the firm should be satisfied that a member of management of the client has been designated to make all significant judgments and decisions connected with the performance of the services and accept responsibility for the results of the service receive. This reduces the risk of the firm inadvertently making any significant judgment or decision. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions on the basis of an objective and transparent analysis and presentation of the issues.

- 290.162 The provision of certain non-assurance services to an audit client may create threats to independence so significant that no safeguard could eliminate the threat or reduce it to an acceptable level. However, the provision of such services to a related entity, division or in respect of a discrete financial statement item of such clients may be permissible when any threats to the firm's independence have been reduced to an acceptable level by arrangements for that related entity, division or discrete financial statement item to be audited by another firm or when another firm re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.
- 290.163 A firm may be able to provide certain non-assurance services to related entities of the audit client if the firm is able to reasonably conclude that the results of the services will not be subject to audit procedures and consequently does not create a self-review threat. This would be the case if the firm provides certain non-assurance services to:
- (i) an entity, which is not an audit client, which has direct or indirect control over the audit client, or
  - (ii) an entity, which is not an audit client, which is under common control with the audit client,
- 290.164 A non-assurance service provided to an audit client will not compromise the firm's independence when the client becomes an entity of significant public interest provided:
- (a) The previous non-assurance service was provided in accordance with the provisions of this section that relate to audit clients that are not entities of significant public interest;
  - (b) The service will be terminated as soon as practicable after the client becomes an entity of significant public interest if the services are impermissible under this section for audit clients that are entities of significant public interest; and
  - (c) The firm implements appropriate safeguards to eliminate or reduce to an acceptable level any threats to independence that are other than clearly insignificant arising from the service.

### **Preparing Accounting Records and Financial Statements**

- 290.165 Assisting an audit client in matters such as preparing accounting records or financial statements may create a self-review threat when the financial statements are subsequently audited by the firm.
- 290.166 The audit process involves extensive dialogue between the firm and management of the audit client. Management may request and receive technical assistance and advice from members of the audit team regarding such matters as implementation of new accounting standards or policies and financial statement disclosure requirements, the appropriateness of financial and accounting controls and the methods used in determining the stated amounts of assets and liabilities. Assistance and advice of this

nature promotes the fair presentation of the client's financial statements and accordingly, does not generally threaten the firm's independence.

290.167 Similarly, the firm may be requested to assist the client in resolving account reconciliation problems, analyzing and accumulating information for regulatory reporting, converting financial statements from one financial reporting framework to another, (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards), drafting disclosure items and proposing adjusting journal entries. These activities are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.

290.168 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. To discharge this responsibility management is responsible for:

- Determining or changing journal entries, or the classifications for accounts or transaction or other accounting records without obtaining the approval of the client;
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

*Audit Clients that are not Entities of Significant Public Interest*

290.169 The firm may provide services related to the preparation of accounting records and financial statements for an audit client that is not an entity of significant public interest where the services are of a routine or mechanical nature, provided any self-review threat created is reduced to an acceptable level. Examples of such services include:

- Providing payroll services based on client originated data
- Recording transactions for which the client has determined or approved the appropriate account classification;
- Posting transactions coded by the client to the client's general ledger;
- Posting client approved entries to the trial balance; and
- Preparing financial statements based on information in the trial balance.

In all cases the significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Making arrangements so that such services are not performed by a member of the audit team; or

- If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to conduct and additional review of the work performed.

*Audit Clients that are Entities of Significant Public Interest*

290.170 Except in emergency situations, a firm should not provide to an audit client that is an entity of significant public interest accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

290.171 Notwithstanding paragraph 290.170 a firm may provide services of a routine or mechanical nature involving the preparation of accounting records and financial statements for related entities of an audit client that is of significant public interest provided the personnel providing the services are not members of the audit team and:

- the related entities for which the service is provided are collectively immaterial to the financial statements on which the audit opinion is given, or
- the services provided relate to matters that are collectively immaterial to the financial statements of the related entity.

*Emergency Situations*

290.172 The preparation of accounting records and financial statements for audit clients may be provided in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements, provided:

- (a) Personnel providing the services are not members of the audit team;
- (b) The emergency situation arose as a result of unforeseeable events; and
- (c) The services are provided for only a short period of time and are not expected to recur.

**Valuation Services**

290.173 A valuation comprises the making of assumptions with regard to future developments, the application of certain methodologies and techniques, and the combination of both in order to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

290.174 If a firm provides a valuation service to an audit client a self-review threat may be created. If the valuation service has a material effect on the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any safeguard. Accordingly, such valuation services should not be provided or, alternatively, the firm should withdraw from the audit engagement.

290.175 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case where the underlying assumptions are determined by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different and the provision of valuation services involving matters material to the financial statements might not create significant threats due to the lack of subjectivity.

290.176 Performing valuation services for an audit client that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, may also create a self-review threat. The significance of the threat will depend on factors such as:

- (a) The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- (b) The degree to which established methodologies and professional guidelines are available when performing a particular valuation service.
- (c) For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.
- (d) The reliability and extent of the underlying data.
- (e) The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved.
- (f) The extent and clarity of the disclosures in the financial statements.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Involving an additional professional accountant to review the work done or otherwise advise as necessary; or
- Making arrangements so that personnel providing such services do not participate in the audit engagement.

*Audit Clients that are Entities of Significant Public Interest*

290.177 A firm should not provide a valuation service to an audit client that is an entity of significant public interest if the valuation would have a material effect on the financial statements on which the firm will express an opinion.

**Taxation Services**

290.178 Taxation services comprise a broad range of services, including:

- Tax return preparation;

- Preparation of tax calculations to be used as the basis for the accounting entries in the financial statements;
- Tax planning and other tax advisory services; and
- Assistance in the resolution of tax disputes

While taxation services are considered separately under each of these broad headings, in practice these activities are often interrelated.

290.179 The performance of certain tax services may create self review and advocacy threats. The nature and significance of any threats created will vary depending on factors such as the system by which the tax in question is assessed and administered by the tax authorities, the complexity of the relevant tax regime and the particular characteristics of the engagement.

#### *Tax Return Preparation*

290.180 Tax return preparation services involve assisting clients with their tax reporting obligations by completing information, usually on standardized forms, required to be submitted to the applicable tax authorities. Such services also include advising on the tax return treatment of past transactions and responding on behalf of the audit client to the tax authorities' requests for further information and analysis. Tax return preparation services are generally based upon historical information and principally involve analysis and presentation of such historical information based upon the constraints of existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate. Accordingly, the provision of such services does not generally threaten the firm's independence.

#### *Preparation of Tax Calculations to be Used as the Basis for the Accounting Entries in the Financial Statements*

290.181 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client to be used by the client as the basis for preparing the accounting entries which will be subsequently audited by the firm may create a self review threat. The significance of the threat created will depend on the degree of subjectivity involved in the calculations and their materiality to the financial statements. If the self-review threat created is other than clearly insignificant safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Using professionals who are not members of the audit team to perform the service; or
- If the service is performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the tax calculations prepared by the audit team.

*Audit Clients that are Entities of Significant Public Interest*

290.182 In the case of an audit client that is an entity of significant public interest, a firm should not prepare tax calculations the primary use of which will be for the preparation accounting entries that are material to the financial statements on which the firm will express an opinion.

*Tax Planning and Other Tax Advisory Services*

290.183 A firm may provide tax planning or other tax advisory services to an audit client, for example advising as to how the client might structure its affairs in a tax efficient manner.

290.184 A self-review threat may be created where the advice will affect matters that will be reflected in the financial statements. The significance of any threat created will depend upon factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;
- The extent to which the outcome of the tax advice will have a material effect on the financial statements;
- The extent to which the advice is supported by tax law or regulations, other precedent or established practice;
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority prior to the preparation of the financial statements; and
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

290.185 The significance of any threat created should be evaluated and if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Using professionals who are not members of the audit team to perform the service;
- Involving an additional tax partner or senior tax employee, not involved in the provision of tax services to the client, to provide advice to the audit team on the service and to review the financial statement treatment; or
- Obtaining advice on the service from an external tax professional.

290.186 Where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:



- (a) there is reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) the outcome or consequences of the tax advice will have a material impact on the financial statements;

the self-review threat would be so significant that no safeguard could reduce the threat to an acceptable level in which case the service would not be provided or, alternatively, the only course of action would be to withdraw from the financial statement audit engagement.

#### *Assistance in the Resolution of Tax Disputes*

- 290.187 Acting for an audit client in the resolution of a tax matter by representing the client before a public tribunal or court may create an advocacy threat. What constitutes a “public tribunal or court” should be determined according to how tax proceedings are heard in the particular jurisdiction
- 290.188 Where the taxation services involve acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements, the advocacy threat is considered so significant that no safeguard could eliminate or reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for an audit client.
- 290.189 The firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analyzing the tax issues) for the audit client in relation to the matter which is being heard before a public tribunal or court.
- 290.190 Where a firm is asked to act in an advocacy role for an audit client in the resolution of a tax matter in circumstances where the amounts involved are not material to the financial statements on which the firm will express an opinion, the significance of any threats should be evaluated and, if the threat is other than clearly insignificant, safeguards should be applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:
- Using professionals who are not members of the audit team to perform the service;
  - Involving an additional tax partner or senior tax employee, not involved in the provision of tax services to the client, to provide advice to the audit team on the service and to review the financial statement treatment.

#### **Internal Audit Services**

- 290.191 A self-review threat may be created when a firm provides internal audit services to an audit client. Internal audit services may comprise an extension of the firm’s audit service beyond requirements of generally accepted auditing standards, assistance in the

performance of a client's internal audit activities or outsourcing of the activities. In evaluating any threats to independence, the nature of the service will need to be considered. For this purpose, internal audit services do not include operational internal audit services unrelated to the internal accounting controls, financial systems or financial statements.

- 290.192 Services involving an extension of the procedures required to conduct an audit in accordance with International Standards on Auditing would not be considered to compromise independence with respect to the audit client provided that the firm's personnel do not perform management functions.
- 290.193 When the firm provides assistance in the performance of an audit client's internal audit activities or undertakes the outsourcing of some of the activities, any self-review threat created may be reduced to an acceptable level by ensuring that there is a clear separation between the management and control of the internal audit by client management and the internal audit activities themselves.
- 290.194 Performing a significant portion of an audit client's internal audit activities may create a self-review threat and a firm should consider the threats and proceed with caution before taking on such activities. Appropriate safeguards should be put in place and the firm should, in particular, ensure that the audit client acknowledges its responsibilities for establishing, maintaining and monitoring the system of internal controls.
- 290.195 A firm should not provide any internal audit services to an audit client unless:
- (a) The client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls;
  - (b) The client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
  - (c) The client or those charged with governance approves the scope, risk and frequency of internal audit work;
  - (d) The client is responsible for evaluating and determining which recommendations of the firm should be implemented;
  - (e) The client evaluates the adequacy of the internal audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining and acting on reports from the firm; and
  - (f) The findings and recommendations resulting from the internal audit activities are reported appropriately to those charged with governance.
- 290.196 Consideration should also be given to whether such non-assurance services should be provided only by personnel who are not members of the audit team who have different reporting lines within the firm.

## **IT Systems Services**

290.197 Services related to information technology (IT) systems include the design or implementation of hardware or software systems. The systems may aggregate source data or generate information that affects the accounting records or financial statements or the systems may be unrelated to the audit client's accounting records or financial statements. The provision of IT systems services by a firm to an audit client may create a self-review threat depending on the nature of the services and the IT systems.

290.198 Certain IT systems services are not considered to create a threat to independence provided firm personnel do not perform management functions. Such services include the following:

- Design or implementation of IT systems that are unrelated to the accounting records or financial statements;
- Implementation of "off-the-shelf" accounting or financial information reporting software that was not developed by the firm provided the customization required to meet the client's needs is clearly insignificant; and
- Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.

### *Audit Clients that are not Entities of Significant Public Interest*

290.199 The provision of services by a firm to an audit client that is not an entity of significant public interest involving the design or implementation of IT systems that form a significant part of the accounting systems or generate significant information used in the preparation of a client's financial statements may create a self-review threat.

290.200 The self-review threat is likely to be too significant to allow the provision of such services to an audit client unless appropriate safeguards are put in place ensuring that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client designates a competent employee, preferably within senior management, with the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.

- 290.201 Consideration should also be given to whether such non-assurance services should be provided only by personnel who are not members of the audit team who have different reporting lines within the firm.

*Audit Clients that are Entities of Significant Public Interest*

- 290.202 In the case of an audit client that is an entity of significant public interest, a firm should not provide services involving the design or implementation of IT systems that form a significant part of the accounting systems or generate significant information used in the preparation of the financial statements on which the firm will express an opinion.

**Litigation Support Services**

- 290.203 Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a dispute or litigation.
- 290.204 Litigation support services provided to an audit client may create a self-review threat.
- 290.205 If the litigation support services involve estimating damages or other amounts estimated by the firm that are material to the financial statements on which the firm will express an opinion and the estimates involve a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any safeguard. The estimate of damages or other amounts involves a significant degree of subjectivity when it is likely that two or more experts would reach materially different values because of the judgments required to be made by such experts. Accordingly, such litigation support services should not be provided or, alternatively, the firm should withdraw from the audit engagement
- 290.206 Certain engagements to estimate damages may not involve a significant degree of subjectivity. This is likely to be the case where the underlying assumptions are determined by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or even prescribed by law or regulation. In such circumstances, the estimate of damages prepared by two or more parties is not likely to be materially different and the provision of services involving the estimation of damages material to the financial statements might not create significant threats.
- 290.207 If the litigation support services involve estimating damages or other amounts that affect the financial statements for an audit client that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, may also create a self-review threat. The significance of the threat will depend on factors such as:

- The extent of the client's knowledge, experience and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgment;
- The degree to which established methodologies and professional guidelines are available when performing the service;
- For estimates involving standard or established methodologies, the degree of subjectivity inherent in the item concerned;
- The reliability and extent of the underlying data;
- The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved; and
- The extent and clarity of the disclosures in the financial statements.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Involving an additional professional accountant to review the work done or otherwise advise as necessary;
- Confirming with the client their understanding of the underlying assumptions of the estimate and the methodology to be used and obtaining approval for their use; or
- Making arrangements so that personnel providing such services are not members of the audit team.

290.208 If the litigation support services relate to activities other than estimating damages or other amounts the significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level..

*Audit Clients that are Entities of Significant Public Interest*

290.209 A firm should not provide a litigation support service to an audit client that is an entity of significant public interest if the service involves estimating damages or other amounts that have a material effect on the financial statements on which the firm will express an opinion.

**Legal Services**

290.210 Legal services are defined as any services for which the person providing the services must either be admitted to practice law before the Courts of the jurisdiction in which such services are to be provided, or have the required legal training to practice law. Legal services encompass a wide and diversified range of areas including both

corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition advice and support and the provision of assistance to clients' internal legal departments. The provision of legal services by a firm to an entity that is an audit client may create both self-review and advocacy threats.

290.211 There is a distinction between advocacy and advice. Legal services to support an audit client in the execution of a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create self-review threats. The significance of the threat will depend on factors such as:

- The nature of the service to be provided,
- Whether the service is provided by a member of the audit team; and
- The materiality of any matter in relation to the client's financial statements;

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Using professionals who are not members of the audit team to perform the service; or
- Involving an additional partner or senior employee, not involved in the provision of legal services to the client, to provide advice to the audit team on the service and review the financial statement treatment, if any.

290.212 Acting for an audit client in the resolution of a dispute or litigation in such circumstances when the amounts involved are material in relation to the financial statements of the client would create advocacy and self-review threats so significant no safeguard could reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for an audit client.

290.213 When a firm is asked to act in an advocacy role for an audit client in the resolution of a dispute or litigation in circumstances when the amounts involved are not material to the financial statements of the client, the firm should evaluate the significance of any advocacy and self-review threats created and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include

- Using professionals who are not members of the audit team to perform the service; or
- Involving an additional partner or senior employee, not involved in the provision of legal services to the client, to provide advice to the audit team on the service and review the financial statement treatment, if any.

- 290.214 The appointment of a partner or an employee of the firm as General Counsel for legal affairs to an audit client would create self-review and advocacy threats that are so significant no safeguards could reduce the threats to an acceptable level. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company and consequently, no member of the firm should accept such an appointment for an audit client.

### **Recruiting Senior Management**

- 290.215 The recruitment of senior management for an audit client, such as those in a position to exert significant influence over the preparation of the financial statements, may create a self-interest, familiarity and intimidation threats. The significance of the threat will depend upon factors such as:

- The role of the person to be recruited; and
- The nature of the assistance sought.

The firm could generally provide such services as reviewing the professional qualifications of a number of applicants and provide advice on their suitability for the post. In addition, the firm could generally produce a short-list of candidates for interview, provided it has been drawn up using criteria specified by the audit client.

The significance of the threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. In all cases, the firm should not undertake management functions and the decision as to whom to hire should be left to the client.

### *Audit Clients that are Entities of Significant Public Interest*

- 290.216 A firm should not recruit for an audit client that is an entity of significant public interest senior management in a position to exert significant influence over the preparation of the accounting records or the financial statements on which the firm will express an opinion.

### **Corporate Finance Services**

- 290.217 The provision of corporate finance services to an audit client may create advocacy and self-review threats.
- 290.218 Assisting an audit client in developing corporate strategies, assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria and providing structuring advice may create advocacy and self-review threats. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied a necessary to eliminate the threat or reduce it to an acceptable level.. Such safeguards might include:
- Using professionals who are not members of the audit team to provide the services; or

- Involving an additional partner or senior employee, not involved in the provision of corporate finance services to the client, to provide advice to the audit team on the service and review accounting treatment and financial statement presentation, if any.

290.219 A self-review threat may be created where a corporate finance service, for example advice as to the structuring of a corporate finance transaction or on financing arrangements, will affect matters that will be reflected in the financial statements on which the firm will provide an opinion. The significance of any threat created will depend upon factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements;
- The extent to which the outcome of the corporate finance advice will have a material effect on the financial statements;
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

290.220 The significance of any threat created should be evaluated and if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Using professionals who are not members of the audit team to perform the service; or
- Involving an additional corporate finance partner or senior employee, not involved in the provision of corporate finance services to the client, to provide advice to the audit team on the service and to review the financial statement treatment;
- Obtaining advice on the service from an external professional on the service.

290.221 The provision of corporate finance services involving promoting, dealing in, or underwriting an audit client's shares would create an advocacy or self-review threat that is so significant no safeguard could reduce the threat to an acceptable level. Accordingly, firms should not provide such services to audit clients.

290.222 Where the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:

- (a) There is reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and



(b) The outcome or consequences of the corporate finance advice will have a material impact on the financial statements,

the self-review threat would generally be so significant that no safeguard could reduce the threat to an acceptable level in which case the service would not be provided or, alternatively, the only course of action would be to withdraw from the audit engagement.

## **Fees and Pricing**

### **Fees—Relative Size**

290.223 When the total fees generated by an audit client represent a large proportion of a firm's total fees, the dependence on that client or client group and concern about the possibility of losing the client may create a self-interest threat. The significance of the threat will depend upon factors such as:

- The structure of the firm; and
- Whether the firm is well established or newly created.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Taking steps to reduce dependency on the client;
- External quality control reviews; or
- Consulting a third party, such as a professional regulatory body or another professional accountant on key audit judgments.

290.224 A self-interest threat may also be created when the fees generated from an audit client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Policies and procedures to monitor and implement quality control of audit engagements; and
- Involving an additional professional accountant who was not a member of the audit team to review the work done or otherwise advise as necessary.

### **Fees—Overdue**

290.225 A self-interest threat may be created if fees due from an audit client for professional services remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the payment of such fees should be required before the report is issued. The following safeguard may be applicable involving an additional professional accountant who did not take part in the assurance engagement to provide advice or review the work performed. The firm

should also consider whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed

### **Contingent Fees**

290.226 Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them.

290.227 A contingent fee charged by a firm in respect of an audit engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard. Accordingly, a firm should not enter into any such fee arrangement.

290.228 A contingent fee charged by a firm in respect of a non-assurance service provided to an audit client may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement was agreed to, or contemplated, during an audit engagement and was contingent on the result of the audit engagement, the threats could not be reduced to an acceptable level by the application of any safeguard. Accordingly, such arrangements should not be accepted. For other types of contingent fee arrangements, the significance of the threats created will depend on factors such as:

- The range of possible fee amounts;
- The degree of variability;
- The basis on which the fee is to be determined;
- Whether the outcome or result of the transaction is to be reviewed by an independent third party; and
- The effect of the event or transaction on the audit engagement.

The significance of the threats should be evaluated and, if the threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce them to an acceptable level. Such safeguards might include:

- Review or determination of the final fee by an unrelated third party; or
- Quality and control policies and procedures.

### **Compensation Policies**

290.229 The basis on which a partner is evaluated and compensated may create a self-interest threat to independence particularly when the partner is evaluated on or compensated for selling non-assurance services. Accordingly, a key audit partner should not be evaluated on or compensated based on that partner's success in selling non-assurance services to

the audit client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.

290.230 Compensating other members of the audit team for selling non-assurance services to an audit client may create a self-interest threat. The significance of the threat will depend upon the proportion of the individual's compensation which is based on the sale of non-assurance services to the audit client. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant the firm should either revise the compensation plan for that individual or apply other safeguards to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Involving an additional professional accountant who was not a member of the audit team to review the work done; or
- Removing the individual from the audit team.

### **Gifts and Hospitality**

290.231 Accepting gifts or hospitality from an audit client may create self-interest and familiarity threats. When a firm or a member of the audit team accepts gifts or hospitality, unless the value is clearly insignificant, the threats to independence cannot be reduced to an acceptable level by the application of any safeguard. Consequently, a firm or a member of the audit team should not accept such gifts or hospitality.

### **Actual or Threatened Litigation**

290.232 When litigation takes place, or appears likely, between the firm or a member of the audit team and the audit client, a self-interest or intimidation threat may be created. The relationship between client management and the members of the audit team must be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. The firm and the client's management may be placed in adversarial positions by litigation, affecting management's willingness to make complete disclosures and the firm may face a self-interest threat. The significance of the threat created will depend upon such factors as:

- The materiality of the litigation; and
- Whether the litigation relates to a prior audit engagement.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- (a) If the litigation involves a member of the audit team, removing that individual from the audit team; or
- (b) Involving an additional professional accountant in the firm who was not a member of the audit team to review the work done or otherwise advise as necessary.

If such safeguards do not reduce the threat to an appropriate level, the only appropriate action is to withdraw from, or refuse to accept, the audit engagement.

## DEFINITIONS

In this Code of Ethics for Professional Accountants the following expressions have the following meanings assigned to them:

Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
Assurance client	<p>The responsible party that is the person (or persons) who:</p> <ul style="list-style-type: none"><li>(a) In a direct reporting engagement, is responsible for the subject matter; or</li><li>(b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.</li></ul>
Assurance engagement	<p>An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.</p> <p>(For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)</p>
Assurance team	<ul style="list-style-type: none"><li>(a) All members of the engagement team for the assurance engagement;</li><li>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:<ul style="list-style-type: none"><li>(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 or review engagement this includes those at all successively senior levels above the engagement partner for the audit or review engagement to the firm's chief executive;</li><li>(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</li></ul></li></ul>

Audit team	<p>(iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement; and</p> <p>(a) All members of the engagement team for the audit engagement; and</p> <p>(b) All others within a firm who can directly influence the outcome of the audit engagement, including:</p> <ul style="list-style-type: none"> <li>(i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through the firm's chief executive;</li> <li>(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</li> <li>(iii) those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</li> </ul> <p>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</p>
Clearly insignificant	A matter that is deemed to be both trivial and inconsequential.
Close family	A parent, child or sibling, who is not an immediate family member.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.
Direct financial interest	<p>A financial interest:</p> <ul style="list-style-type: none"> <li>• Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</li> <li>• Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control</li> </ul>
Director or officer	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.

Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement quality control review	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement team	All personnel performing an engagement.
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
Financial interest	An 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.
Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities.
Audit engagement	A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether historical financial information is prepared in all material respects in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation.
Firm	(a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties; and (c) An entity controlled by such parties.
Immediate family	A spouse (or equivalent) or dependant.
Independence	Independence is: (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise

professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism

- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.

Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.
Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other partners on the engagement team involved at the group level who are responsible for key decisions or judgments on significant matters with respect to the audit engagement.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
Network firm	An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
Office	A distinct sub-group, whether organized on geographical or practice lines.
Professional accountant	An individual who is a member of an IFAC member body.
Professional accountant in business	A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.
Professional accountant in public practice	A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.

Professional services	Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.
Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"><li>(a) An entity that has direct or indirect control over the client provided the client is material to such entity;</li><li>(b) An entity with a direct financial interest in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity;</li><li>(c) An entity over which the client has direct or indirect control;</li><li>(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and</li><li>(e) An entity which is under common control with the client (hereinafter a “sister entity”) provided the sister entity and the client are both material to the entity that controls both the client and sister entity.</li></ul>
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement in which a professional accountant in public practice expressed a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant’s attention that causes the accountant to believe that the historical financial information is not prepared in all material respects, in accordance with an applicable financial reporting framework, which is an engagement conducted in accordance with International Standards on Review Engagements or equivalent.
Audit team	<ul style="list-style-type: none"><li>(a) All members of the engagement team for the audit or review engagement; and</li><li>(b) All others within a firm who can directly influence the outcome of the audit or review engagement, including:<ul style="list-style-type: none"><li>(i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit or review engagement including those at all successively senior levels above the engagement partner through the firm’s chief executive;</li></ul></li></ul>



- (ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
  - (iii) those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the audit or review engagement.

## **EFFECTIVE DATE**

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Effective date will be for audit periods starting on or after September 15<sup>th</sup> 2009 with transitional provisions to be determined.