

## SECTION 290

### Independence – Audit and Review Engagements

#### Objective and Structure of this Section

290.1 This section addresses the **independence**\* requirements for **audit engagements**\* and **review engagements**\*, which are **assurance engagements**\* in which a **professional accountant in public practice**\* expresses a conclusion on financial statements. Such engagements comprise audit and review engagements to report on a complete set of **general purpose financial statements**\* and a single financial statement.

The independence requirements in this section apply to all audit and review engagements. However, in **limited-certain** circumstances involving certain audit engagements\* where the audit report ~~is restricted for~~**includes a restriction on** use ~~by only the intended users specified in the report and distribution~~, the independence requirements in this section may be modified as provided in paragraphs 290.500 to 290.51**54**.

Independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 291.

290.2 In this section, the term(s):

- “**Audit team**”\*, “audit engagement”, “**audit client**”\* and “audit report” includes review team, review engagement, **review client**\* and review report; and
- “**Firm**”\* includes **network firm**\* except where otherwise stated.

290.3 Compliance with the fundamental principle of objectivity is enhanced by being independent of audit clients. 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 applying a conceptual framework approach to achieving and maintaining independence

#### A Conceptual Approach to Independence

290.5 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.

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\* See Definitions.

*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.

290.6 A conceptual framework approach to achieving and maintaining independence involves:

- (a) Identifying threats to independence;
- (b) Evaluating whether these threats are **clearly insignificant**\*;
- (c) When the threats are not clearly insignificant, identifying and applying safeguards to eliminate the threats or reduce them to an acceptable level; and
- (d) When safeguards are not available-applied to eliminate the threats or reduce them to an acceptable level, eliminating the activity or relationship creating the threats or declining or terminating the audit engagement.

290.7 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. 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 that may be arbitrary is, therefore, in the public interest.

290.8 Paragraphs 290.100 and onwards demonstrate how the conceptual framework approach to independence is to be applied. These paragraphs do not describe all the circumstances that could be experienced. Therefore, in any situation not explicitly addressed in these paragraphs, the conceptual framework should be used when evaluating the particular circumstances.

290.9 In deciding whether to accept or continue an engagement, or whether a particular individual should be a member of the audit team, a firm should identify and evaluate ~~the relevant circumstances and the any~~ threats to independence, and consider the availability of appropriate safeguards to eliminate ~~the any~~ threat or reduce it to an acceptable level. The evaluation should be undertaken before accepting the engagement and during the engagement when relevant information comes to the attention of the firm.

290.10 Throughout this section, reference is made to significant and clearly insignificant threats to 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.

290.11 This section does not in most cases prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organization of a firm. The firm is required by International Standards on Quality Control to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. In addition, International Standards on Auditing require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.

### **Networks and Network Firms**

290.12 If a firm is considered to be a network firm, the firm is required to be independent of the audit clients of the other firms within the **network**\* (unless otherwise stated). 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.

290.13 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 on 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.

290.14 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.

290.15 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.

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\* See Definitions.

- 290.16 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.
- 290.17 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.
- 290.18 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.
- 290.19 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 audit report.
- 290.20 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.
- 290.21 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.
- 290.22 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.

290.23 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.

### Public Interest Entities

290.24 Evaluating the significance of threats to independence and the safeguards necessary to eliminate them or reduce them to an acceptable level takes into account the extent of public interest in the entity. This section, therefore, contains enhanced safeguards to recognize the increased public interest in such entities. For the purpose of this section public interest entities are defined as listed entities and other entities that have been designated by for which a regulator or by legislation requires to be subject to the same in the audit of those entities compliance with the same independence requirements as those that apply to listed entities.

290.25 Firms and member bodies are encouraged to consider whether other entities should be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees.

### Related Entities

290.26 In the case of an audit client that is a **listed entity**<sup>\*</sup>, references to an audit client in this section include related entities of the client (unless otherwise stated). For all other audit clients, references to an audit client in this section include related entities over which the client has direct or indirect control. When the audit team knows or has reason to believe that another **related entity**<sup>\*</sup> of the client is relevant to the evaluation of the firm's independence from the client, the audit team should consider that related entity when evaluating threats to independence and applying appropriate safeguards.

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<sup>\*</sup> See Definitions.

### Those Charged with Governance

290.27 Even when not required by applicable auditing standards, law or regulation, regular communication is encouraged between the firm and **those charged with governance**<sup>\*</sup> of the audit client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to (a) consider the firm's judgments in identifying and evaluating threats to independence, (b) consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level, and (c) take appropriate action. Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

### Documentation

290.28 Standards on quality control and auditing standards require documentation of matters important to the audit. Although documentation is not, in itself, a determinant of whether a firm is independent, 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 describe the threats identified and the safeguards applied to eliminate them or reduce them to an acceptable level.

### Engagement Period

290.29 Independence from the audit client is required both during the engagement period and the period covered by the financial statements. The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.

290.30 When an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm should consider whether any threats to independence may be created by:

- Financial or business relationships with the audit client during or after the period covered by the financial statements, but before accepting the audit engagement; or
- Previous services provided to the audit client.

290.31 If a non-assurance service was provided to the audit client during or after the period covered by the financial statements but before the commencement of professional services in connection with the audit and the service would be prohibited during the period of the audit engagement, consideration should be given to any threats to independence arising from the service. If the threat is not clearly insignificant, the audit engagement should only be accepted if safeguards ~~can~~are be applied to reduce the threat to an acceptable level. Such safeguards might include:

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\* See Definitions.

- ~~Precluding~~ Not including personnel who provided the non-assurance service ~~from being~~ as members of the audit team;
- Having ~~an additional~~ another professional accountant review the audit and non-assurance work as appropriate; 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**

290.32 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. Consideration should be given to whether the matter should be communicated to those charged with governance.

**SECTION 290 OF THE CODE OF ETHICS**  
**INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS**

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## Introduction

~~(a)~~290.100 Paragraphs 290.102 to 290.228~~6~~ describe specific circumstances and relationships that may create threats to independence. The paragraphs describe the potential threats and the type of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level and in some circumstances identify situations where no safeguards could reduce the threats to an acceptable level. The paragraphs 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 to 200.15 can be applied to satisfactorily address the threats to independence.

290.101 Paragraphs 290.102 to 290.126 contain references to the materiality of a financial interest, other financial relationship or business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and his or her immediate family members should be taken into account.

## Financial Interests

~~(b)~~290.102 Holding 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 it or reduce it to an acceptable level, it is necessary to evaluate (a) the materiality of the financial interest, (b) whether the financial interest is direct or indirect, and (c) the role of the person holding the financial interest.

~~(c)~~290.103 Financial interests may be held through an intermediary (e.g. a collective investment vehicle, estate, or trust). ~~When evaluating~~The determination of whether ~~the such~~ financial interests are direct or indirect, ~~consideration should be given to the fact that financial interests range from those where~~will depend upon whether the ~~individual beneficial owner~~ has ~~no~~ control over the investment vehicle or the ability to influence its investment decisions ~~or the financial interest it holds (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 direct owner or trustee) or is able to influence investment decisions. In evaluating the significance of any threat to independence from an interest held through an investment vehicle, it is important to consider whether control can be exercised over the intermediary or its investment strategy.~~ When control over the investment vehicle or the ability to influence investment decisions exists, the financial interest should be considered direct. Conversely, when the holder beneficial owner of the financial interest has no ability to exercise control over the investment vehicle or ability to influence ~~over the~~ investment decisions, the financial interest should be considered indirect.

~~(d)~~290.104 If a member of the audit team, an **immediate family**\* member, or a firm has a **direct financial interest**\* or a material **indirect financial interest**\* in the audit client, the self-interest threat would be so significant no safeguard could eliminate the threat or reduce it to an acceptable level. Therefore, none of the following should have a direct financial

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\* See Definitions.

interest or a material indirect financial interest in the client: a member of the audit team; his or her immediate family member; or the firm.

~~(e)~~290.105 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 to the close family member. If the threat is not clearly insignificant, safeguards should be considered and applied when 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 so that the remaining interest is no longer material;
- Having a professional accountant perform an additional review of the work of the relevant member of the audit team; or
- Removing the individual from the audit team.

~~(f)~~290.106 If a member of the audit team, his or her immediate family member, or a firm has a direct or material indirect 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 would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following should have such a financial interest: a member of the audit team; his or her immediate family member; or the firm.

~~(g)~~290.107 The holding by a firm's retirement benefit plan of a direct or material indirect financial interest in an audit client, may create a self-interest threat. The significance of any such threat should therefore be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

~~(h)~~290.108 If other partners in the **office**\* in which the **engagement partner**\* practices in connection with the audit engagement, or their immediate family members, hold a direct financial interest or a material indirect financial interest in that audit client, the self-interest threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, neither such partners nor their immediate family members should hold any such financial interests in such an audit client.

~~(i)~~290.109 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

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\* See Definitions.

of the audit team, judgment should be used to determine in which office the partner practices in connection with that engagement.

~~(+)290.110~~ If other partners and managerial employees who provide non-audit 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 that no safeguards could reduce the threat to an acceptable level. Accordingly, neither such personnel nor their immediate family members should hold any such financial interests in such an audit client.

~~(+)290.111~~ Despite paragraphs 290.10~~87~~ and 290.1~~1009~~, the holding of a financial interest in an audit client 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-audit services to the audit client, is not considered to compromise independence if the financial interest is received as a result of his or her employment rights (e.g., pension rights or share options) and appropriate safeguards, when necessary, are applied to eliminate any threat to independence or reduce it to an acceptable level. However when the immediate family member has or obtains the right to dispose of the financial interest or, in the case of a stock option, the right to exercise the option, the financial interest should be disposed of or forfeited as soon as practicable.

~~(+)290.112~~ 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 also has a financial interest in that entity. Independence is not compromised if these interests are immaterial and the audit client cannot exercise significant influence over the entity. If such interest is material to any party, and the audit client can exercise significant influence over the other entity, no safeguards could reduce the threat to an acceptable level and the firm should either dispose of the interest or the firm should decline the audit engagement. Any individual with such a material interest should, before becoming a member of the audit team, either:

(a) Dispose of the interest; or

~~(a)(b)~~ Dispose of a sufficient amount of the interest so that the remaining interest is no longer material.

290.113 Consideration should be given to whether a self-interest, familiarity or intimidation threat may be created by any financial interests of a member of the audit team, or his or her immediate family member, or the firm in an entity when a director, officer or controlling owner of the audit client also has a known financial interest in that entity. Whether these interests create a self-interest threat will depend upon factors such as:

- The materiality of the financial interest;
- The role of the professional on the audit team;
- Whether the entity is closely or widely held;

- Whether the interest gives the investor the ability to control or significantly influence the entity.

The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the member of the audit team with the from the audit team;
- Having a professional accountant perform an additional review of the work of the relevant member of the audit team.

~~(a)~~290.114 The holding by a firm or a member of the audit team, or his or her immediate family member, of a direct financial interest or a material indirect financial interest in the audit client as a trustee, may create a self-interest threat. Accordingly, such an interest should only be held when:

- Neither the member of the audit team, nor the immediate family member, nor the firm are 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 can not significantly influence any investment decision involving a financial interest in the audit client.

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

~~(b)~~290.115 Consideration should be given by members of the audit team to whether a self-interest threat may be created by any known financial interests in the audit client held by other individuals including:

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

Whether these interests create a self-interest threat will depend on 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 not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the member of the audit team with the personal relationship from the audit team;
- Excluding the member of the audit team from any significant decision-making concerning the audit engagement; or
- Having a professional accountant perform an additional review of the work of the relevant member of the audit team.

~~(e)~~290.116 If a firm or a partner or employee of the firm or his or her immediate family member, receives a direct financial interest or a material indirect financial interest in an audit client, for example by way of an inheritance, gift or, as result of a merger, and such interest would not be permitted to be held under this section, then:

- (a) If the interest is received 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 received 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; or
- (c) If the interest is received by an individual 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. Pending the disposal of the financial interest, consideration should be given to whether any safeguards are necessary.

~~(d)~~290.117 An inadvertent violation of this section as it relates to a financial interest in an audit client would not compromise independence as long as:

- (a) The firm has established policies and procedures that require all professionals to promptly report to the firm any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the audit client;

~~(e)~~(b) In the case of a purchase by an individual, the individual is advised that the financial interest should be disposed of and the disposal takes place as soon as possible after the identification of the issue or in other circumstances the actions prescribed in paragraph 290.1154 are taken;

~~(f)~~(c) In the case of a purchase by the firm, the disposal takes place immediately after the identification of the issue; and

~~(g)~~(d) The firm considers whether any other safeguards should be applied. Such safeguards might include:

- ~~Involving Having an additional~~another professional accountant ~~to~~ review the work of the member of the audit team; or
- Excluding the individual from any significant decision-making concerning the audit engagement.

In addition, consideration should be given to discussing the matter with those charged with governance.

### Loans and Guarantees

~~(h)~~290.118 A loan, or a guarantee of a loan, to the firm, or a member of the audit team, 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 conditions, the self-interest threat would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, neither a firm nor a member of the audit team should accept such a loan or guarantee.

~~(i)~~290.119 If a loan to a firm from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client, or firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. Such safeguards might include ~~having another a review of the work by an additional~~ professional accountant from a network firm that is not involved with the audit and did not receive the loan review the work.

~~(j)~~290.120 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 if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

~~(k)~~290.121 If the firm or a member of the audit team, or his or her immediate family member, accepts a loan from, or has a borrowing guaranteed by, an audit client that is not a bank or similar institution, the self-interest threat would be so significant that no safeguards 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~~ and his or her immediate family ~~member~~, and the client.

~~(l)~~290.122 Similarly, if the firm, or a member of the audit team, or his or her immediate family member, makes or guarantees a loan to an audit client, the self-interest threat would be so significant that no safeguards 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 ~~and, or the his or her~~ immediate family ~~member~~, and the client.



~~(m)~~290.123 Deposits made by, or brokerage accounts of, a firm or 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 if the deposit or account is held under normal commercial terms.

### Close Business Relationships

~~(n)~~290.124 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~~ involves a commercial relationship or common financial interest and may create self-interest or intimidation threats. The following are examples of such relationships:

- Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities 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 distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

Unless any financial interest is immaterial and the relationship is clearly insignificant to the firm and the client or its management, no safeguards could reduce the threat to an acceptable level. If the magnitude of the relationship cannot be reduced so that the financial interest is immaterial and the relationship is clearly insignificant:

- (a) The business relationship should be terminated; or
- (b) The firm should decline the audit engagement.

In the case of a member of the audit team, unless any such financial interest is immaterial and the relationship is clearly insignificant to that member, 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 not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

~~(e)~~290.125 A business relationship involving the holding of an interest 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 holds an interest in that entity, does not create threats to independence if:

- (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;

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\* See Definitions.

- (b) The interest 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.

~~(d)~~ 290.126 The purchase of goods and services from an audit client by the firm, or member of the audit team, or his or her immediate family member, would not generally create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. If the threat is not clearly insignificant, safeguards should be considered and applied when 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.

~~(e)~~ ~~Paragraphs 290.101 to 290.124 contain numerous references to the materiality of a financial interest, other financial interest or business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and his or her immediate family members should be taken into account.~~

### Family and Personal Relationships

~~(f)~~ 290.127 Family and personal relationships between a member of the audit team and a director, officer or certain employees (depending on their role) of the audit client, may create self-interest, familiarity or intimidation threats. The significance of any threats will depend on a number of factors, including the individual's responsibilities on the audit team, the closeness of the relationship and the role of the family member or other individual within the client. Consequently, the particular circumstances will need to be evaluated in assessing the significance of these threats.

~~(g)~~ 290.128 When an immediate family member of a member of the audit team is:

~~(a)~~ ~~(d)~~ A director or ~~an~~ officer of the audit client; or

~~(b)~~ ~~(e)~~ 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 or the financial statements, 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 an acceptable level. If this safeguard is not applied, the firm should withdraw from the audit engagement.

~~(e)~~ 290.129 Threats to independence may be created 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 or cash flows. The significance of the threats will depend on factors such as:

- The position held by the immediate family member; and
- The role of the professional on the audit team.

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when 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.

~~290.113~~290.130 Threats to independence may be created when a close family member of a member of the audit team is:

~~(a)~~(f) A director or ~~an~~ officer of the audit client; or

~~(b)~~(g) 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 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 held by the close family member; and
- The role of the professional on the audit team.

The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when 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.

~~(e)~~290.131 Threats to independence 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) a close relationship with the member of the audit team and (b) is a director or ~~an~~ officer or an individual 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. Members of the audit team are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures. The significance of the threats will depend on factors such as:

- The nature of the relationship between the individual and the member of the audit team;

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

~~Members of the audit team are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures.~~ The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the professional 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 individual with whom he or she has a close relationship.

~~(d)~~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) a partner or employee of the firm who is not a member of the audit team and (b) a director or ~~an~~ officer of the audit client or an individual 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. Partners and employees of the firm who are aware of any such relationships are responsible for consulting in accordance with firm policies and procedures The significance of any threat will depend on factors such as:

- The nature of the relationship between the partner or employee of the firm and the director, officer or employee of the client;
- The interaction of the partner or employee of the firm with the audit team;
- The position of the partner or employee within the firm; and
- The role of the individual within the client.

~~Partners and employees of the firm who are aware of any such relationships are responsible for consulting in accordance with firm policies and procedures.~~ The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement; or
- Having ~~another~~ professional accountant review the relevant audit work performed.

~~(e)~~290.133 An inadvertent violation of this section as it relates to family and personal relationships would not compromise independence if:

- (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) The inadvertent violation relates to an immediate family member of a member of the audit team becoming a director or ~~an~~ officer of the audit client or being 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, and the relevant professional is removed from the audit team; and
- (c) The firm considers and applies as appropriate other safeguards. Such safeguards might include:
  - Having ~~an additional~~ another professional accountant review the work of the member of the audit team; or
  - Excluding the relevant professional from any significant decision-making concerning the engagement.

### Employment with an Audit Client

~~(d)~~ 290.134 Self-interest, familiarity or intimidation threats may be created if a director or ~~an~~ officer of the audit client, or an ~~individual 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. This would be particularly the case when significant connections remain between the individual and his or her former firm.

~~(e)~~ 290.135 If a member of the audit team, partner or former partner of the firm has joined the audit client in such a position, the significance of the self-interest, familiarity or intimidation threats will depend on factors such as:

- (a) The position the individual has taken at the client;
- (b) Any involvement the individual will have with the audit team;
- (c) The length of time 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, such as for example, whether the individual was responsible for maintaining regular contact with management or those charged with governance.

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

- (a) The individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be material to the firm; and
- (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 not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Modifying the audit plan;
- Assigning an audit team that is of sufficient experience in relation to the individual who has joined the client; or
- Having ~~an additional~~another professional accountant review the work ~~performed of the~~member of the audit team.

~~(c)~~290.136 If a former partner of the firm has previously joined an entity in such a position and the entity subsequently becomes an audit client of the firm, any threats to independence should be evaluated and if the threats are not clearly insignificant, safeguards should be considered and applied, when necessary, to eliminate the threat or reduce it to an acceptable level.

~~(d)~~290.137 A self-interest threat is created when a member of the audit team participates in the audit engagement while knowing that he or she will, or may, join the client some time in the future. Firm policies and procedures should require members of an audit team to notify the firm when entering employment negotiations with the client. On receiving such notification, the significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied, when 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 team.

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

~~(c)~~290.138 Self-interest, familiarity or intimidation threats will be created if a **key audit partner**\* joins an audit client that is a public interest entity:

~~(a)~~(c) As a director or ~~an~~-officer of the entity; or

~~(b)~~(d) 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.

No safeguards could eliminate these threats or reduce them to an acceptable level unless the public interest entity had issued audited financial statements covering a period of not less than twelve months for which the partner was not a member of the audit team during any part of the period.

~~(c)~~290.139 An intimidation threat will be created if the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent) joins an audit client of the firm that is a public interest entity (a) as an employee in a position to exert significant influence over the

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\* See Definitions.

preparation of the entity's accounting records or its financial statements or (b) as a director or ~~an~~ officer of the entity. No safeguards could eliminate these threats or reduce them to an acceptable level unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

~~(d)~~290.140 If, as a result of a business combination, a former key audit partner or former chief executive of the firm is in a position as described in paragraphs 290.13~~87~~ and 290.13~~98~~, the threats to independence are not considered unacceptable if:

- (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 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 held by the partner with the audit client is discussed with those charged with governance.

### Temporary Staff Assignments

~~(e)~~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 would not be permitted under this section; or
- Assuming management responsibilities.

In all circumstances, the audit client should be responsible for directing and supervising the activities of loaned staff.

The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Conducting an additional review of the work performed by the loaned staff;
- Not giving the loaned staff audit responsibility for any function or activity that he or she performed during their temporary staff assignment; or
- Not including the loaned staff as a member of the audit team

### Recent Service with an Audit Client

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



~~(g)~~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 was 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.

~~(h)~~290.144 Self-interest, self-review or familiarity threats may be created if, before 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 was 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. 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 on factors such as:

- The position the individual held with the client;
- The length of time 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 not clearly insignificant, safeguards should be considered and applied when necessary to reduce the threat to an acceptable level. Such safeguards might include conducting an additional review of the work performed by the individual as part of the audit team.

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

~~290.114~~290.145 If a partner or employee of the firm serves at the same time as a director or ~~an~~ officer of an audit client, the self-review and self-interest threats would be so significant that no safeguards could reduce the threats to an acceptable level. Therefore, if such an individual were to accept such a position the firm should decline or withdraw from the audit engagement.

~~(i)~~290.146 The position of Company Secretary has different implications in different jurisdictions. 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.

~~(j)~~290.147 If a partner or employee of the firm serves as Company Secretary for an audit client, the self-review and advocacy threats would generally be so significant, that no safeguards could reduce the threat to an acceptable level. When this practice is specifically permitted under local law, professional rules or practice, the duties and activities should be limited to those of a routine and administrative nature such as preparing minutes and maintaining



statutory returns. Further, management should make all relevant decisions. The significance of any threat should be evaluated and, if not clearly insignificant, safeguards should be applied to eliminate the threat or reduce it to an acceptable level.

~~(k)~~290.148 Performing routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters will not generally be perceived to compromise independence, as long as client management makes all relevant decisions.

## **Long Association of Senior Personnel (Including Partner Rotation)**

### *General Provisions*

~~(k)~~290.149 Familiarity, self-review or self-interest threats may be created by using the same senior personnel on an audit engagement over a long period of time. The significance of the threat will depend on factors such as:

- How long 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 the client's management team has changed; and
- Whether the nature or complexity of the client's accounting and reporting issues has changed.

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

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

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

~~(m)~~290.150 In respect of an audit of a public interest entity, an individual should not be a key audit partner for more than seven years. After such a time, the individual should not be a member of the **engagement team**<sup>\*</sup> or be a key audit partner for the client for two years. During that period, the individual should not participate in the audit of the entity or be in a position where they can directly influence the outcome of the engagement through providing quality control for the engagement or providing consultation regarding client technical or industry-specific issues, transactions or events.

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<sup>\*</sup> See Definitions.

~~(h)~~290.151 Despite paragraph 290.151~~49~~, key audit partners whose continuity is especially important to audit quality may in rare cases, due to unforeseen circumstances outside the firm's control, be permitted an additional year on the audit team as long as the threat to independence that is not clearly insignificant can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.

~~(h)~~290.152 The long association of other partners with an audit client that is a public interest entity may create a familiarity threat, a self-review threat or self-interest threat. The significance of the threat will depend on factors such as:

- How long any such partner has been associated with the audit client;
- The role, if any, of the individual on the audit team; and
- The nature, frequency, and extent of the individual's interactions with the client's management or those charged with governance.

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

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

~~(h)~~290.153 When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity 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 when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity for two additional years before rotating off the engagement.

~~(h)~~290.154 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

## 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. Providing non-assurance services may, however, create threats to the independence of the firm or the members of the audit team. The threats created are most often self-review, self-interest and advocacy threats.

~~(+)~~290.156 New developments in business, the evolution of financial markets and changes in information technology make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit client. When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework should be applied when evaluating the particular circumstances.

~~(+)~~290.157 Before the firm accepts an engagement to provide a non-assurance service to an audit client, consideration should be given to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration should be given to any threat that the audit team has reason to believe may be created by providing other related non-assurance services. In some cases it may be possible to eliminate or reduce the threat created by the application of safeguards. In other cases no safeguards could reduce the threat to an acceptable level; accordingly the non-assurance service should not be provided.

~~(+)~~290.158 Providing certain non-assurance services to an audit client may create a threat to independence so significant that no safeguards could eliminate the threat or reduce it to an acceptable level. However, the inadvertent provision of such a service to a related entity, division or in respect of a discrete financial statement item of such clients may not compromise independence if any threats that are not clearly insignificant 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.

290.159 A firm may provide non-assurance services that would otherwise be restricted under this section to the following related entities of the audit client:

(a) An entity, which is not an audit client, that has direct or indirect control over the audit client; or

(b) An entity, which is not an audit client, that is under common control with the audit client

~~certain related entities of the audit client if the firm if it~~ is able to reasonably conclude that (a) the services do not create a self-review threat because the results of the services will not be subject to audit procedures and (b) any other threats that are other than clearly insignificant that are created by the provision of such services are eliminated or reduced to an acceptable level. ~~This paragraph only applies to the following related entities of the audit client:~~

~~(a) An entity, which is not an audit client, that has direct or indirect control over the audit client; or~~

~~(v)(c)~~ \_\_\_\_\_ ~~An entity, which is not an audit client, that is under common control with the audit client.~~

~~(w)~~ 290.160 A non-assurance service provided to an audit client will not compromise the firm's independence when the client becomes a public interest entity if:

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;
- (b) Services that are not permitted under this section for audit clients that are public interest entities are terminated before or as soon as practicable after the client becomes a public interest entity; and
- (c) The firm implements appropriate safeguards to eliminate or reduce to an acceptable level any threats to independence that are not clearly insignificant arising from the service.

### Management Responsibilities

~~(d)~~ 290.161 Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

~~(e)~~ 290.162 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorizing transactions;
- Deciding which recommendations of the firm or other third parties should be implemented;
- Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
- Taking responsibility for designing, implementing and maintaining internal control.

~~(f)~~ 290.163 ~~Some A~~activities ~~may not be management responsibilities because they~~that are routine and administrative, or involve matters that are insignificant would generally not be regarded as 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 those dates would not be considered a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities would not be assuming a management responsibility.

~~(g)~~290.164 Assuming a management responsibility 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, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. If a firm assumes a management responsibility for an audit client, no safeguards could reduce the threats to an acceptable level. . Therefore, the firm should not assume a management responsibility for an audit client.

~~(h)~~290.165 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm should be satisfied that a member of management is responsible for evaluating the results, makes all significant judgments and decisions connected with the services and accepts responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm inadvertently making any significant judgment or decision on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

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

#### *General Provisions*

~~(i)~~290.166 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Originating or changing journal entries, or determining the account classifications of transactions; and
- 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).

~~(j)~~290.167 Providing an audit client with accounting and bookkeeping services such as preparing accounting records or financial statements may create a self-review threat when the firm subsequently audits the financial statements.

~~(k)~~290.168 The audit process, however, necessitates extensive dialogue between the firm and management of the audit client and may involve (a) the application of accounting standards or policies and financial statement disclosure requirements, (b) the appropriateness of financial and accounting controls and the methods used in determining the stated amounts of assets and liabilities, or (c) proposing adjusting journal entries. These activities are considered to be a normal part of the audit process and do not, generally, threaten independence.

~~(l)~~290.169 Similarly, the client may request technical assistance from the firm on matters such as (a) resolving account reconciliation problems, (b) analyzing and accumulating information

for regulatory reporting, or (c) 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). Such technical assistance does not, generally, threaten independence.

*Audit Clients that are Not Public Interest Entities*

~~(m)~~290.170 The firm may provide services related to the preparation of accounting records and financial statements for an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as 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 not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Arranging for such services to be performed by an individual who is not 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 an additional review of the work performed.

*Audit Clients that are Public Interest Entities*

~~(n)~~290.171 Except in emergency situations, a firm should not provide to an audit client that is a public interest entity 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.

~~(o)~~290.172 Despite paragraph 290.171~~o~~, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not members of the audit team and:

- The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or

- The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

### *Emergency Situations*

~~(p)~~290.173 Accounting and bookkeeping services, which would otherwise not be permitted under this section, may be provided to audit clients in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements. This may be the case when only the firm has the resources and necessary knowledge of the client's systems and procedures to assist the client in the timely preparation of its accounting records and financial statements and when a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, a firm may provide such services, if:

~~(a)~~(d) Those who provide the services are not members of the audit team; and

~~(b)~~(e) The services are provided for only a short period of time and are not expected to recur.

In addition, the situation should be discussed with those charged with governance.

### **Valuation Services**

#### *General Provisions*

~~(e)~~290.174 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques, and the combination of both to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

~~(d)~~290.175 Performing valuation services for an audit client may create a self-review threat. The significance of the threat will depend on factors such as:

~~(a)~~(f) Whether the valuation will have a material effect on the financial statements.

~~(b)~~(g) The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.

~~(e)~~(h) The availability of established methodologies and professional guidelines.

~~(d)~~(i) For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item.

~~(e)~~(j) The reliability and extent of the underlying data.

~~(f)~~(k) The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.

~~(g)~~(l) The extent and clarity of the disclosures in the financial statements.



The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Having ~~an additional~~another professional accountant review the audit and valuation work performed as appropriate; or
- Making arrangements so that personnel providing such services do not participate in the audit engagement.

~~(H)~~290.176 Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either 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.

#### *Audit Clients that are Not Public Interest Entities*

~~(H)~~290.177 In the case of an audit client that is not a public interest entity, if the valuation service has a material effect on the financial statements on which the firm will express an opinion and the valuation involves a significant degree of subjectivity, no safeguard could reduce the self-review threat to an acceptable level. Accordingly, the firm should either not provide the valuation service or should withdraw from the audit engagement.

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

~~(H)~~290.178 A firm should not provide valuation services to an audit client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.

### **Taxation Services**

~~(H)~~290.179 Taxation services comprise a broad range of services, including:

- Tax return preparation;
- Tax calculations for the purpose of the preparing accounting entries;
- Tax planning and other tax advisory services;
- Tax valuations; and
- Assistance in the resolution of tax disputes

While taxation services provided by a firm to an audit client are considered separately under each of these broad headings, in practice these activities are often interrelated.

~~(H)~~290.180 Performing certain tax services creates self-review and advocacy threats. The nature and significance of any threats will depend on factors such as (a) the system by which the tax authorities assess and administer the tax in question and the role of the firm in that



process, (b) the complexity of the relevant tax regime and the degree of judgment necessary in applying it (c) the particular characteristics of the engagement and (d) the level of tax expertise of the client's employees.

### *Tax Return Preparation*

~~(m)~~290.181 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and completing information, including the amount of tax due (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 (including providing explanations of and technical support for the approach being taken). Tax return preparation services are generally based on historical information and principally involve analysis and presentation of such historical information under 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, providing such services does not generally threaten the firm's independence if management takes responsibility for the returns including any significant judgments made.

### *Tax Calculations for the Purpose of Preparing ~~of the~~ Accounting Entries*

~~(n)~~290.182 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm may create a self-review threat. The significance of the threat created will depend on (a) the complexity of the relevant tax ~~regime~~ laws and regulations and the degree of judgment necessary in applying ~~it~~ them; (b) the level of tax expertise of the client's personnel; and (c) the materiality of the amounts to the financial statements. If the self-review threat created is not clearly insignificant safeguards should be considered and applied when 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;
- 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; or
- Obtaining advice on the service from an external tax professional.

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

~~(o)~~290.183 Except in emergency situations, in the case of an audit client that is a public interest entity, a firm should not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

~~(p)~~290.184 The preparation of calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of the preparation of accounting entries that would otherwise not be permitted under this section, may be provided to audit clients in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements. This may be the case when only the firm has the resources and necessary knowledge of the client's business to assist the client in the timely preparation of its calculations of current and deferred tax liabilities (or assets) and when a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, a firm may provide such services, if:

- (a) Those who provide the services are not members of the audit team; and
- (b) The services are provided for only a short period of time and are not expected to recur.

In addition, the situation should be discussed with those charged with governance.

#### *Tax Planning and Other Tax Advisory Services*

~~(q)~~290.185 Tax planning or other tax advisory services comprise a broad range of services such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

~~(r)~~290.186 A self-review threat may be created where the advice will affect matters to be reflected in the financial statements. The significance of any threat will depend on 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;
- 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;
- The level of tax expertise of the client's employees;
- The extent to which the advice is supported by tax law or regulations, other precedent or established practice; and
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, by established practice or has a basis in tax law that is likely to prevail does not generally threaten the firm's independence.

~~(s)~~290.187 The significance of any threat should be evaluated and if the threat is not clearly insignificant, safeguards should be considered and applied when 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;
- Having ~~an additional~~another tax ~~partner or senior tax employee~~professional, not involved in the provision of tax services, advise the audit team on the service and review the financial statement treatment;
- Obtaining advice on the service from an external tax professional; or
- Obtaining pre-clearance or advice from the tax authorities.

~~(t)~~290.188 Where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

~~(a)~~(m) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

~~(b)~~(n) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion;

the self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level in which case such tax advice should not be provided. The only other course of action would be to withdraw from the audit engagement.

### Tax Valuations

290.189 A firm may be requested to prepare a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes. Where the result of the valuation will not be directly incorporated in the financial statements (i.e. the financial statements are only affected through accounting entries related to tax) this would not generally threaten the firm's independence if such effect on the financial statements is immaterial or if the valuation is subject to external review, for example by a tax authority. If the valuation is not subject to an external review and the effect is not immaterial, the significance of the threat should be evaluated. The significance of the threat will depend upon factors such as:

- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The extent to which the valuation methodology is supported by tax law or regulations, other precedent or established practice and the degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.
- The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.

If the threat created is not 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;
- Having an additional professional review the valuation; or
- Obtaining pre-clearance or advice from the tax authorities.

Where the result of the valuation performed to assist an audit client with its tax reporting obligations or for tax planning purposes will be directly incorporated in the financial statements, the valuation services provisions included in paragraphs 290.174 to 290.178 should be followed.

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

~~(e)~~290.190 An advocacy or self-review threat may be created when the firm represents an audit client in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the audit client's arguments on a particular issue and either the tax authority or the audit client is referring the matter for determination in a formal proceeding, for example before a tribunal or court. The significance of the threat will depend on factors such as:

- Whether the firm has provided the advice which is the subject of the tax dispute;
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion;
- The extent to which the matter is supported by tax law or regulations, other precedent, or established practice;
- Whether the proceedings are conducted in public; and
- The role management plays in the resolution of the dispute.

The significance of any threat should be evaluated and if the threat is not clearly insignificant, safeguards should be considered and applied when 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;
- Having ~~an additional~~another tax ~~partner or senior tax employee who is professional,~~ not involved in the provision of the tax services, ~~to the client~~ advise the audit team on the services and review the financial statement treatment; or
- Obtaining advice on the service from an external tax professional.

~~(d)~~290.191 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 on which the firm will express an opinion, 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. What constitutes a “public tribunal or court” should be determined according to how tax proceedings are heard in the particular jurisdiction.

~~(e)~~290.192 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 that is being heard before a public tribunal or court.

### Internal Audit Services

~~(f)~~290.193 A self-review threat may be created when a firm provides internal audit services to an audit client. Internal audit services may comprise (a) an extension of the firm’s audit service beyond requirements of generally accepted auditing standards, (b) assistance in performing a client’s internal audit activities or (c) 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.

~~(g)~~290.194 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 if the firm’s personnel do not perform management functions.

~~(h)~~290.195 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 may be reduced to an acceptable level by ensuring there is a clear separation between the management and control of the internal audit by client management and the internal audit activities themselves.

~~(i)~~290.196 Performing a significant portion of an audit client’s internal audit activities may create a self-review threat. A firm should consider the threats and proceed with caution. 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.

~~(j)~~290.197 A firm should not provide any internal audit services to an audit client unless:

~~(a)~~(o) The client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls;

~~(b)~~(p) The client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;

~~(c)~~(q) The client or those charged with governance approve the scope, risk and frequency of internal audit work;

~~(d)~~(r) The client is responsible for evaluating and determining which recommendations of the firm to implement;

~~(e)~~(s) The client evaluates the adequacy of the internal audit procedures and the findings resulting from their performance by, among other things, obtaining and acting on reports from the firm; and

~~(f)~~(t) The findings and recommendations resulting from the internal audit activities are reported appropriately to those charged with governance.

~~(e)~~290.198 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 and who have different reporting lines within the firm.

## IT Systems Services

### *General Provisions*

~~(h)~~290.199 Services related to information technology (IT) systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal controls over financial reporting or generate information that affects the accounting records or financial statements or the systems may be unrelated to the audit client's accounting records, the internal controls over financial reporting or financial statements. Providing systems services may create a self-review threat depending on the nature of the services and the IT systems.

~~(i)~~290.200 The following IT systems services are not considered to create a threat to independence as long as firm personnel do not assume a management responsibility:

- Design or implementation of IT systems that are unrelated to internal controls over financial reporting;
- Design or implementation of IT systems that do not generate information forming a significant part of the accounting records or financial statements;
- Implementation of "off-the-shelf" accounting or financial information reporting software that was not developed by the firm if the customization required to meet the client's needs is not significant; 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 Public Interest Entities*

~~(j)~~290.201 Providing services to an audit client that is not a public interest entity involving the design or implementation of IT systems that (a) form part of the internal controls over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion may create a self-review threat.

~~(k)~~290.202 The self-review threat is likely to be too significant to permit such services unless appropriate safeguards are put in place ensuring that:

~~(a)~~(u) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;

~~(b)~~(v) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;

~~(c)~~(w) The client makes all management decisions with respect to the design and implementation process;

~~(d)~~(x) The client evaluates the adequacy and results of the design and implementation of the system; and

~~(e)~~(y) The client is responsible for operating the system (hardware or software) and the data it uses or generates.

~~(f)~~290.203 Depending on the degree of reliance that will be placed on the particular IT systems as part of the audit, 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 and who have different reporting lines within the firm. The significance of any remaining threat should be evaluated and if it is not clearly insignificant, safeguards should be considered and applied, when necessary, to eliminate the threat or reduce it to an acceptable level. Such safeguards might include having ~~an additional~~another professional accountant review the audit or non-assurance work ~~performed as appropriate~~.

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

~~(g)~~290.204 In the case of an audit client that is a public interest entity, a firm should not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal controls over financial reporting or (b) generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

#### **Litigation Support Services**

~~(h)~~290.205 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. These services may create a self-review or advocacy threat.

~~(i)~~290.206 If the firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the valuation service provisions included in paragraphs 290.17~~43~~ to 290.17~~87~~ should be followed. In the case of other litigation support services, the significance of any threat created should be evaluated and, if the threat is not clearly



insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

## Legal Services

~~(+)290.207~~ 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 assistance to clients' internal legal departments. Providing legal services to an entity that is an audit client may create both self-review and advocacy threats.

~~(+)290.208~~ Legal services that support an audit client in executing 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;
- 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 not clearly insignificant, safeguards should be considered and applied when 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
- Having ~~an additional another partner or senior employee~~ legal professional, not involved in providing the legal services, provide advice to the audit team on the service and review any financial statement treatment.

~~290.115~~ ~~290.209~~ Acting for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion 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.

~~(+)290.210~~ When a firm is asked to act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are not material to the financial statements on which the firm will express an opinion, the firm should evaluate the significance of any advocacy and self-review threats and, if they are not clearly insignificant, safeguards should be considered and applied when 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



- Having ~~an additional~~another partner or senior employee, not involved in providing the legal services, advise the audit team on the service and review any financial statement treatment.

~~(m)~~290.211 The appointment of a partner or an employee of the firm as General Counsel for legal affairs of an audit client would create self-review and advocacy threats that are so significant that 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 Services

### *General Provisions*

~~(n)~~290.212 Providing recruiting services to an audit client may create self-interest, familiarity or intimidation threats. The significance of the threat will depend on factors such as:

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

The significance of the threat created should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. In all cases, the firm should not assume management responsibilities, including acting as negotiator on the client's behalf, and the hiring decision should be left to the client.

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 may interview candidates and advise on a candidate's competence for financial accounting, administrative or control positions.

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

~~(o)~~290.213 A firm should not provide the following recruiting services to an audit client that is a public interest entity with respect to a director or officer of the entity or senior management 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:

- Searching for or seeking out candidates for such positions; and
- Undertaking references checks of prospective candidates for such positions.

## Corporate Finance Services

~~(p)~~290.214 Providing corporate finance services such as (a) assisting an audit client in developing corporate strategies, (b) identifying possible targets for the audit client to acquire, (c) advising on disposal transactions, (d) assisting finance raising transactions, and (e) providing structuring advice may create advocacy and self-review threats. The

significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when 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
- Having ~~an additional partner or senior employee~~another corporate finance professional, who is not involved in the provision of corporate finance services ~~to the client~~, advise the audit team and review the accounting treatment and any financial statement presentation.

~~(+)~~290.215 Providing a corporate finance service, for example advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will provide an opinion may create a self-review threat. The significance of any threat will depend on 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 directly affect amounts recorded in the financial statements and the extent to which the amounts are material to the financial statements; and
- 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.

The significance of any threat should be evaluated and if the threat is not clearly insignificant, safeguards should be considered and applied when 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
- Having ~~an additional partner or senior employee~~another corporate finance professional, who is not involved in the provision of corporate finance services to the client, advise the audit team on the service, and review the financial statement treatment.

~~(+)~~290.216 Where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:

~~(a)~~(z) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

~~(s)~~(aa) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion;

the self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level, in which case the corporate finance advice service should not be provided.

~~(+)~~290.217 Providing 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 that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm should not provide such services to an audit client.

## **Fees**

### **Fees – Relative Size**

~~(+)~~290.218 When the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client or client group and concern about losing the client may create a self-interest threat. The significance of the threat will depend on factors such as:

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

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when 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.

~~(+)~~290.219 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 not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include having an additional professional accountant who was not a member of the audit team review the work performed.

### **Fees – Overdue**

~~(w)~~290.220 A self-interest threat may be created if fees due from an audit client 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 firm should require payment of such fees before the audit report is issued. If the fee remains unpaid after the report has been issued, the significance of the threat should be evaluated. If the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include having an additional

professional accountant who did not take part in the audit engagement, 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

~~(x)~~290.221 **Contingent fees**\* are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them.

~~(y)~~290.222 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 applying any safeguard. Accordingly, a firm should not enter into any such fee arrangement.

~~(z)~~290.223 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 contingent on the result of the audit engagement, no safeguards could reduce the threats to an acceptable level. Accordingly, such arrangements should not be accepted.

~~(aa)~~290.224 For other types of contingent fee arrangements for a non-assurance service, the significance of the threats will depend on factors such as:

- The range of possible fee amounts;
- The degree of variability;
- The basis for determining the fee;
- Whether an independent third party will review the outcome or result of the transaction; and
- The effect of the event or transaction on the financial statements.

The significance of the threats should be evaluated and, if the threats are not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threats 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 control policies and procedures for the non-assurance service.

### Compensation and Evaluation Policies

~~(bb)~~290.225 A self-interest threat may be created ~~The basis on which when~~ a member of the audit team ~~is evaluated and compensated may create a self interest threat to independence particularly when the individual~~ is evaluated on or compensated for selling non-assurance services to his or her audit clients. The significance of the threat will depend on:

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\* See Definitions.

- The proportion of the individual's compensation or performance evaluation that is based on the sale of such services;
- The role of the individual on the audit team; and
- Whether promotion decisions are influenced by the sale of such services.

The significance of the threat should be evaluated and, if the threat is not clearly insignificant the firm should either revise the compensation or evaluation plan for that individual or apply other safeguards to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing such members from the audit team; or
- Having ~~an additional~~another professional accountant ~~who was not a member of the audit team~~ review the work of the audit team.

~~(ee)~~290.226 A key audit partner should not be evaluated on or compensated based on that partner's success in selling non-assurance services to his or her audit client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.

### **Gifts and Hospitality**

~~(dd)~~290.227 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, no safeguards could reduce such threats to an acceptable level. Consequently, a firm or a member of the audit team should not accept such gifts or hospitality.

### **Actual or Threatened Litigation**

~~(ee)~~290.228 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 on 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 not clearly insignificant, safeguards should be considered and applied to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- (bb) If the litigation involves a member of the audit team, removing that individual from the audit team; or

(ff)(cc) \_\_\_\_\_ Having ~~an additional~~another professional accountant ~~in the firm~~ who was not a member of the audit team review the work performed.

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

**Paragraphs 290.22~~97~~ to 290.499 are left intentionally blank for future use.**

## Reports that Include a Restriction on Use and Distribution

### Introduction

290.500 The independence requirements in this ~~S~~section apply to all audit ~~and review~~ engagements. However, in ~~limited certain~~ circumstances involving ~~certain~~ audit ~~and review~~ engagements where the report includes a restriction on use and distribution, and provided certain conditions are met, the independence requirements in this section may be modified as provided in paragraphs 290.501 to 290.51~~54~~. The modifications should not, however, be applied in the case of an audit of historical financial information required by law or regulation.

~~(a)~~

290.501 ~~For the purpose of this~~Paragraphs 290.502 to 514 ~~section may apply to~~, an audit ~~report engagement on special purpose financial statements that (a) is intended to provide a conclusion in positive or negative form that the financial statements are prepared in accordance with an applicable financial reporting framework and (b) that where the audit report includes a restriction on use and distribution is a report on special purpose financial statements intended solely for the intended users specified in the report because it is not to be used by or distributed to parties other than the intended users.~~

~~(a)~~290.502 In the case of an engagement to issue such a report, certain modifications to the requirements of Section 290 are permitted if the intended users of the report (1) are knowledgeable as to the purpose, subject matter information and limitations of the report, and (2) explicitly agree the application of the modified independence requirements. Knowledge as to the purpose, subject matter information and limitations of the report may be obtained by the intended users through their participation either directly, or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm to communicate with intended users about independence matters, including the circumstances that are relevant to the evaluation of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level, to enable obtain their agreement ~~with to~~ the modified independence requirements that are to be applied.

~~(b)~~290.503 The firm should communicate (for example, in an engagement letter) with the intended users regarding the independence requirements that are to be applied with respect to the provision of the audit engagement. Where the intended users are a class of users (for example, lenders in a syndicated loan arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users should subsequently be made aware of the independence requirements agreed to by the representative (for example, by the representative making the firm's engagement letter available to all users).

~~(c)~~290.504 If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 290.500 to 290.51~~54~~ do not change the requirements to apply the provisions of paragraphs 290.1 to 290.22~~86~~ to that audit engagement.

~~(d)~~290.505 The modifications to the requirements of Section 290 that may be permitted in the circumstances set out above are described in paragraphs 290.~~505–506~~ to 290.51~~54~~. Compliance in all other respects with the provisions of Section 290 is required.

### Public Interest Entities

~~(e)~~290.506 When the conditions set out in paragraphs 290.50~~19~~ to 290.502 are met, it is not necessary to apply the additional requirements in paragraphs 290.100 to 290.~~226–228~~ that apply to audit engagements for public interest entities.

### Related Entities

~~(f)~~290.507 When the conditions set out in paragraphs 290.501 to 290.502 are met references to audit client do not include its related entities. However, 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 threats to independence and applying appropriate safeguards.

### Networks and Network Firms

~~(g)~~290.508 When the conditions set out in paragraphs 290.501 to 290.502 are met reference to the firm does not include network firms. However, where the firm knows or has reason to believe that threats may be created by any interests and relationships of a network firm, they should be considered in the evaluation of threats to independence.

### Financial Interests, Loans and Guarantees, Close Business Relationships and Family and Personal Relationships

~~(h)~~290.509 When the conditions set out in paragraphs 290.501 to 290.502 are met, the relevant provisions set out in paragraphs 290.10~~24~~ to 290.13~~43~~ apply only to the members of the engagement team, their immediate family members and close family members.

~~(i)~~290.510 In addition, consideration should be given to whether threats to independence are created by interests and relationships, as described in paragraphs 290.101 to 290.13~~43~~, between the audit client and the following members of the audit team:

•~~(dd)~~ Those who provide consultation regarding technical or industry specific issues, transactions or events; and

•~~(ee)~~ Those who provide quality control for the engagement, including those who perform the **engagement quality control review**\*.

Consideration should also be given to any threats that the engagement team has reason to believe may be created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement including those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement partner in connection with the performance of the audit engagement (including those at all successively senior levels

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\* See Definitions.



above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent).

~~(j)~~290.511 Consideration should also be given to any threats that the engagement team has reason to believe may be created by financial interests in the audit client held by individuals, as described in paragraphs 290.1087 to 290.1110 and paragraphs 290.1132 to 290.1143.

~~(k)~~290.512 Where a threat to independence that is not clearly insignificant is identified, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

~~(l)~~290.513 In applying the provisions set out in paragraphs 290.1065 and 290.1142 to interests of the firm, if the firm had a material financial interest, whether direct or indirect, in the audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, the firm should not have such a financial interest.

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

~~(m)~~290.514 Consideration should be given to threats from any employment relationships as described in paragraphs 290.1343 to 290.1376. Where a threat exists that is not clearly insignificant, safeguards should be applied when necessary to eliminate the threat or reduce it to an acceptable level. Appropriate safeguards might include those set out in paragraph 290.1354.

### **Provision of Non-Assurance Services**

~~(n)~~290.515 If the firm conducts an engagement to issue a restricted use and distribution report for an audit client and provides a non-assurance service to an audit client the provisions of paragraphs 290.1554 to 290.2286 should be complied with, subject to paragraphs 290.5065 and 290.5087.



## SECTION 291

### Independence – Other Assurance Engagements

#### Objectives and Structure of this Section

- 291.1 This section addresses independence requirements for assurance engagements that are not audit or review engagements. Independence requirements for audit and review engagements are addressed in Section 290. If the **assurance client**\* is also an audit or review client, the requirements in Section 290 also apply to the firm, network firms and to the members of the audit or review team. In limited circumstances involving certain assurance engagements where the assurance report is restricted for use by and distribution to only the intended users specified in the report, the independence requirements may be modified as provided by 291.21 to 291.27
- 291.2 Assurance engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The International Framework for Assurance Engagements (the Assurance Framework) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement, and identifies engagements to International Standards on Assurance Engagements (ISAEs) that apply. For a description of the elements and objectives of an assurance engagement reference should be made to the Assurance Framework.
- 291.3 Compliance with the fundamental principle of objectivity is enhanced by being independent of assurance clients. In the case of assurance engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of **assurance teams**\* and firms be independent of assurance clients and consideration be given to any threats that the firm has reason to believe may be created by network firm interests and relationships. In addition when the assurance team has reason to believe that a related entity of the assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider the related entity when evaluating independence and applying appropriate safeguards.
- 291.4 The objective of this section is to assist firms and members of assurance teams in applying a conceptual approach to achieving and maintaining independence.

#### A Conceptual Framework Approach to Independence

- 291.5 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.

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\* See Definitions.

*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 assurance team's, integrity, objectivity or professional skepticism has been compromised.

291.6 A conceptual approach to achieving and maintaining independence involves:

- (a) Identifying threats to independence;
- (b) Evaluating whether these threats are clearly insignificant;
- (c) When the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate the threats or reduce them to an acceptable level; and
- (d) When safeguards are not available-applied to eliminate the threats or reduce them to an acceptable level, eliminating the activity or relationships creating the threats or declining or terminating the assurance engagement.

291.7 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. A conceptual framework that requires firms and members of assurance teams to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules that may be arbitrary, is, therefore, in the public interest.

291.8 Paragraphs 291.100 and onwards demonstrate how the conceptual framework approach to independence is to be applied. The paragraphs do not describe all the circumstances that could be experienced. Therefore in any situation not explicitly addressed in the se paragraphs the conceptual framework should be used when evaluating the particular circumstances.

291.9 In deciding whether to accept or continue an engagement, or whether a particular individual should be a member of the assurance team, a firm should identify and evaluate the relevant circumstances any threats to independence and consider the availability of appropriate safeguards to eliminate the-any threat or reduce it to an acceptable level. Assurance engagements encompass a broad range of engagements and can take many forms. The evaluation should be undertaken before accepting the engagement and during the engagement when relevant information comes to the attention of the firm.

291.10 Throughout this section, reference is made to significant and clearly insignificant threats to 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.

291.11 This section does not in most cases prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organization of a firm. The firm is required by International Standards on Quality Control to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical standards.

## **Assurance Engagements**

- 291.12 As further explained in the Assurance Framework, in an assurance engagement the 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.
- 291.13 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of a subject matter. For example, the Framework states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO<sup>1</sup> or CoCo<sup>2</sup>, (criteria) to internal control, a process (subject matter).
- 291.14 Assurance engagements may be assertion-based or direct reporting. In either case they involve three separate parties: a professional accountant in public practice, a responsible party and intended users.
- 291.15 In an assertion-based assurance engagement the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.
- 291.16 In a direct reporting assurance engagement the professional accountant in public practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

## **Assertion-based Assurance Engagements**

- 291.17 In an assertion-based assurance engagement, the members of the assurance team and the firm are required to be independent of the assurance client (the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter). Such independence requirements prohibit certain relationships between members of the assurance team and (a) directors, (b) officers and (c) individuals at the client in a position to exert significant influence over the subject matter information. Also, consideration should be given to whether threats to independence are created by relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement. Consideration should also be given to any threats that the firm has reason to believe may be created by network firm<sup>3</sup> interests and relationships.
- 291.18 In the majority of assertion-based assurance engagements the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements the responsible party may not be responsible for the subject matter. For

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<sup>1</sup> “Internal Control – Integrated Framework” The Committee of Sponsoring Organizations of the Treadway Commission.

<sup>2</sup> “Guidance on Assessing Control – The CoCo Principles” Criteria of Control Board, The Canadian Institute of Chartered Accountants.

<sup>3</sup> See paragraphs 290.10 to 290.21 for guidance on what constitutes a network firm.

example, when a professional accountant in public practice is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices, for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

- 291.19 In assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter, the members of the assurance team and the firm are required to be independent of the party responsible for the subject matter information (the assurance client). In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

### **Direct Reporting Assurance Engagements**

- 291.20 In a direct reporting assurance engagement the members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter). Consideration should also be given to any threats the firm has reason to believe may be created by network firm interests and relationships.

### **Reports that Include a Restriction on Use and Distribution**

- 291.21 The independence requirements in this Section apply to assurance engagements that are not audit or review engagements. However, in certain circumstances involving such assurance engagements where ~~For the purpose of this section, an assurance~~ the report that includes a restriction on use and distribution is a report that is intended solely for the intended users specified in the report because it is not to be used by or distributed to parties other than the intended users. In the case of an assurance engagement, other than an audit or review engagement, to issue such a report, certain modifications to the requirements of Section 291 are permitted if the intended users of the report (1) are knowledgeable as to the purpose, subject matter information and limitations of the report, and (2) explicitly agree to the application of the modified independence requirements. Knowledge as to the purpose, subject matter information and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm to communicate with intended users about independence matters, including the circumstances that are relevant to the evaluation of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level, to enable obtain their agreement ~~with to~~ the modified independence requirements that are to be applied.

- 291.22 The firm should communicate (for example, in an engagement letter) with the intended users regarding the independence requirements that are to be applied with respect to the provision of the assurance engagement. Where the intended users are a class of users (for example, lenders in a syndicated loan arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users should subsequently be made

aware of the independence requirements agreed to by the representative (for example, by the representative making the firm's engagement letter available to all users).

291.23 If the firm also issues an assurance report that has does not include a restriction on use and distribution for the same client [4](#), the provisions of paragraphs 291.25 to 291.27 do not change the requirement to apply the provisions of paragraphs 291.1 to 291. 159 to that assurance engagement.

291.24 The modifications to the requirements of Section 291 that are permitted in the circumstances set out above are described in paragraphs 291.25 to 290.27. Compliance in all other respects with the provisions of Section 291 is required.

291.25 When the conditions set out in paragraphs 290.21 to 290.22 are met, the relevant provisions set out in paragraphs 291.10[43](#) to 291.134 apply to all members of the engagement team, their immediate and close family members. In addition, consideration should be given to whether threats to independence are created by interests and relationships between the assurance client and the following other members of the assurance team:

- Those who provide consultation regarding technical or industry specific issues, transactions or events; and
- Those who provide quality control for the engagement, including those who perform the engagement quality control review.

Consideration should also be given, by reference to the provisions set out in paragraphs 291.10[43](#) to 291.134, to any threats that the engagement team has reason to believe may be created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement including 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.

291.26 When the conditions set out in paragraphs 290.21 to 290.22 are met if the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, the firm should not have such a financial interest. In addition, the firm is required to comply with the other applicable provisions of this section described in paragraphs 291.11[32](#) to 291.159.

291.27 Consideration should also be given to any threats that the firm has reason to believe may be created by network firm interests and relationships.

### **Multiple Responsible Parties**

291.28 In some assurance engagements, whether assertion-based or direct reporting there might be several responsible parties. In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and

a particular responsible party would create a threat to independence that is not clearly insignificant in the context of the subject matter information. This will take into account factors such as:

- The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest associated with the engagement.

If the firm determines that the threat to independence created by any such interest or relationship with a particular responsible party would be clearly insignificant, it may not be necessary to apply all of the provisions of this section to that responsible party.

## **Documentation**

291.29 Standards on quality control and assurance standards require documentation of matters important to the assurance engagement. Although documentation is not, in itself, a determinant of whether a firm is independent, when threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should describe the threats identified and the safeguards applied to eliminate them or reduce them to an acceptable level.

## **Engagement Period**

291.30 Independence from the assurance client is required both during the engagement period and the period covered by the subject matter information. The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final assurance report.

291.31 When an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm should consider whether any threats to independence may be created by:

- Financial or business relationships with the assurance client during or after the period covered by the subject matter information, but before accepting the assurance engagement; or
- Previous services provided to the assurance client.

291.32 If a non-assurance service was provided to the assurance client during or after the period covered by the subject matter information but before the commencement of professional services in connection with the assurance engagement and the service would be prohibited during the period of the assurance engagement, consideration should be given to any threats to independence arising from the service. If the threat is not clearly insignificant the assurance engagement should only be accepted if safeguards ~~can~~are be applied to reduce the threat to an acceptable level. Such safeguards might include:



- Precluding personnel who provided the non-assurance service from being members of the assurance team;
- Having ~~an additional~~another professional accountant review the work; 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**

291.33 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. Consideration should be given to whether the matter should be communicated to those charged with governance.

**SECTION 291 OF THE CODE OF ETHICS**  
**INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS**

**CONTENTS [TO BE MOVED TO FRONT OF SECTION, HEADINGS AND PARAS  
ALIGNED]**

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## Introduction

~~(a)~~291.100 Paragraphs 291.104 to 291.159 describe specific circumstances and relationships that may create threats to independence. The paragraphs describe the potential threats and the type of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level and in some circumstances identify situations where no safeguards could reduce the threats to an acceptable level. The paragraphs are not all-inclusive. In practice, the firm and the members of the assurance 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 to 200.15 can be applied to satisfactorily address the threats to independence.

~~(a)~~291.101 The paragraphs illustrate how the framework applies to assurance engagements and should be read in conjunction with paragraph 291.28 which explains that, in the majority of assurance engagements, there is one responsible party and that responsible party is the assurance client. However, in some assurance engagements there are two or more responsible parties. In such circumstances, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter. For assurance reports that include a restriction on use and distribution the paragraphs should be read in the context of paragraphs 291.21 to 291.27.

291.102 Interpretation 2005-01 provides further guidance on applying the independence requirements contained in this section to assurance engagements.

~~(b)~~291.103 Paragraphs 291.104 to 291.120 contain references to the materiality of a financial interest, other financial relationship or business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and his or her immediate family members should be taken into account

## Financial Interests

~~(c)~~291.104 Holding a financial interest in an assurance client may create a self-interest threat. In evaluating the significance of any threat, and the appropriate safeguards to be applied to eliminate it or reduce it to an acceptable level, it is necessary to evaluate (a) the materiality of the financial interest, (b) whether the financial interest is direct or indirect, and (c) the role of the person holding the financial interest.

~~(d)~~291.105 Financial interests may be held through an intermediary (e.g. a collective investment vehicle, estate or trust). The determination of ~~When evaluating whether the such~~ financial interests ~~is are~~ direct or indirect, ~~consideration should be given to the fact that financial interests range from those where will depend upon whether the individual beneficial owner~~ has ~~no~~ control over the investment vehicle or the ability to influence its investment decisions. financial interest it holds (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 direct owner or trustee) or is able to influence investment decisions. In evaluating the

~~significance of any threat to independence from an interest held through an investment vehicle, it is important to consider whether control can be exercised over the intermediary or its investment strategy.~~ When control or the ability to influence investment decisions exists, the financial interest should be considered direct. Conversely, when the ~~holder~~ beneficial owner of the financial interest has no ~~ability to exercise control over the investment vehicle~~ or ability to influence ~~the~~ its investment decisions, the financial interest should be considered indirect.

~~(e)~~291.106 If a member of the assurance team, an immediate family member, or a firm has a direct financial interest or a material indirect financial interest in the assurance client, the self-interest threat would be so significant no safeguards could eliminate the threat or reduce it to an acceptable level. Therefore, none of the following should have a direct financial interest or a material indirect financial interest in the client: a member of the assurance team; his or her immediate family member; or the firm.

~~(f)~~291.107 When a member of the assurance team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the assurance 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 assurance team and the close family member and the materiality of the financial interest to the close family member. If the threat is not clearly insignificant, safeguards should be considered and applied when 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 so that the remaining interest is no longer material;
- Having a professional accountant perform an additional review of the work of the relevant member of the assurance team; or
- Removing the individual from the assurance team.

~~(g)~~291.108 If a member of the assurance team, his or her immediate family member, or a firm has a direct or material indirect financial interest in an entity that has a controlling interest in the assurance client, and the client is material to the entity, the self-interest threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following should have such a financial interest: a member of the assurance team; his or her immediate family member; or the firm.

~~(h)~~291.109 The holding by a firm or a member of the assurance team, or his or immediate family member, of a direct financial interest or a material indirect financial interest in the assurance client as a trustee, may create a self-interest threat. Accordingly, such an interest should only be held when:

- Neither the member of the assurance team, nor the immediate family, nor the firm are beneficiaries of the trust;

- The interest held by the trust in the assurance client is not material to the trust;
- The trust is not able to exercise significant influence over the assurance client; and
- The member of the assurance team, the immediate family member, or the firm does not have significant influence over any investment decision involving a financial interest in the assurance client.

(+)291.110 Consideration should be given by the assurance team as to whether a self-interest threat may be created by any known financial interests in the assurance client held by other individuals including:

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

Whether these interests create a self-interest threat will depend on 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 assurance team.

The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the member of the assurance team with the personal relationship from the assurance team;
- Excluding the member of the assurance team from any significant decision-making concerning the assurance engagement; or
- Having a professional accountant perform an addition review of the work of relevant member of the assurance team.

(+)291.111 If a firm, a member of the assurance team, or his or her immediate family member, receives a direct financial interest or a material indirect financial interest in an assurance client, for example, by way of an inheritance, gift or, as a result of a merger, and such interest would not be permitted to be held under this section then:

- (e) If the interest is received 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 assurance engagement.
- (f) If the interest is received by a member of the assurance 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.

~~(k)~~291.112 An inadvertent violation of this section as it relates to a financial interest in an assurance client would not compromise independence as long as:

- (a) The firm has established policies and procedures that require all professionals to promptly report to the firm any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client;
- (b) In the case of a purchase by an individual, the individual is advised that the financial interest should be disposed and the disposal takes place as soon as possible after the identification of the issue or in other circumstances the actions prescribed in paragraph 291.110 are taken;
- (c) In the case of a purchase by the firm, the disposal takes place immediately after the identification of the issue and;
- (d) The firm considers whether any other safeguards should be applied. Such safeguards might include:
  - ~~Involving Having an additional~~another professional accountant ~~to~~ review the work of the member of the assurance team; or
  - Excluding the individual from any significant decision-making concerning the assurance engagement.

In addition, consideration should be given to discussing the matter with those charged with governance.

### Loans and Guarantees

~~(h)~~291.113 A loan, or a guarantee of a loan, to the firm or a member of the assurance team from an assurance 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 would be so significant no safeguards could reduce the threat to an acceptable level. Accordingly, neither a firm nor a member of the assurance team should accept such a loan or guarantee.

~~(m)~~291.114 If a loan to a firm from an assurance client that is a bank or similar institution is made under normal lending procedures, terms and requirements and it is material to the assurance client or firm it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. Such safeguards might include a review of the work by an additional professional accountant from a network firm that is not involved with the assurance engagement and did not receive the loan.

~~(n)~~291.115 A loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution to a member of the assurance team or his or her immediate family member would not create a threat to independence if 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.

~~(p)~~291.116 If the firm or a member of the assurance team, or his or her immediate family member, accepts a loan or loan guarantee from an assurance client that is not a bank or similar institution, the self-interest threat would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team, or the immediate family member, and the client.

~~(p)~~291.117 Similarly if the firm, or a member of the assurance team, or his or her immediate family member, makes or guarantees a loan to an assurance client that is not a bank or similar institution the self-interest threat would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team, or his or her immediate family member, and the assurance client.

~~(p)~~291.118 Deposits made by, or brokerage accounts of, a firm or member of the assurance team, or his or her immediate family member, with an assurance client that is a bank, broker or similar institution would not create a threat to independence if the deposit or account is held under normal commercial terms.

### **Close Business Relationships**

~~(p)~~291.119 A close business relationship between a firm, or a member of the assurance team, or his or her immediate family member, and the assurance client or its management, will involve a commercial relationship or common financial interest and may create self-interest or intimidation threats. The following are examples of such relationships:

- Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities 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 distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

Unless any financial interest is immaterial and the relationship is clearly insignificant to the firm and the client or its management, no safeguards could reduce the threat to an acceptable level. If the magnitude of the relationship cannot be reduced so that the financial interest is immaterial and the relationship is clearly insignificant:

- (a) The business relationship should be terminated; or
- (b) The firm should decline the assurance engagement.

In the case of a member of the assurance team, unless any such financial interest is immaterial and the relationship is clearly insignificant to that member, the individual should be removed from the assurance team.

If the close business relationship is between an immediate family member of a member of the assurance team and the assurance client or its management, the significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

~~(s)~~291.120 The purchase of goods and services from an assurance client by the firm, or a member of the assurance team, or his or her immediate family member, would not generally create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they to create a self-interest threat. If the threat is not clearly insignificant, safeguards should be considered and applied when 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 assurance team.

~~(t) Paragraphs 291.103 to 291.119 contain numerous references to the materiality of a financial interest, other financial interest or business relationship. For the purposes of determining whether such an interest is material to an individual, the combined network of the individual and his or her immediate family members should be taken into account.~~

### **Family and Personal Relationships**

~~(u)~~291.121 Family and personal relationships between a member of the assurance team and a director, officer or certain employees (depending on their role) of the assurance client, may create self-interest, familiarity or intimidation threats. Their significance will depend on a number of factors, including the individual's responsibilities in the assurance team, the closeness of the relationship and the role of the family member or other individual within the client. Consequently, the particular circumstances will need to be evaluated in assessing the significance of these threats.

~~(v)~~291.122 When an immediate family member of a member of the assurance team is:

- ~~(a)~~ A director or ~~an~~ officer of the assurance client, or
- ~~(b)~~ An employee ~~in~~ in a position to exert significant influence over the subject matter information of the assurance engagement,

or was in such a position during any period covered by the engagement or the subject matter information, the threats to independence can only be reduced to an acceptable level by removing the individual from the assurance 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 assurance engagement.



~~(w)~~291.123 Threats to independence may be created when an immediate family member of a member of the assurance team is an employee in a position to exert significant influence over the subject matter of the engagement. The significance of the threats will depend on factors such as:

- The position held by the immediate family member; and
- The role of the professional on the assurance team.

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

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

~~(x)~~291.124 Threats to independence may be created when a close family member of a member of the assurance team is:

~~(1)~~(a) \_\_\_\_\_ A director or ~~an~~-officer of the assurance client; or

~~(2)~~(a) An employee ~~i~~n a position to exert significant influence over the subject matter information of the assurance engagement. The significance of the threats will depend on factors such as:

- The nature of the relationship between the member of the assurance team and his or her close family member;
- The position held by the close family member; and
- The role of the professional on the assurance team.

The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

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

~~(y)~~291.125 Threats to independence may be created when a person who is other than an immediate or close family member of a member of the assurance team has (a) a close relationship with the member of the assurance team and (b) is a director or ~~an~~-officer or ~~individual~~an employee in a position to exert significant influence over the subject matter information of the assurance engagement. The significance of the threats will depend on factors such as:

- The nature of the relationship between the individual and the member of the assurance team;

- The position the individual holds with the client; and
- The role of the professional on the assurance team.

Members of the assurance team are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures. The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the professional from the assurance team; or
- Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the individual with whom he or she has a close relationship.

~~(z)~~291.126 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner or employee of the firm who is not a member of the assurance team and (b) a director or ~~an~~ officer of the assurance client or an individual-employee in a position to exert significant influence over the subject matter information of the assurance engagement. The significance of any threat will depend on factors such as:

- The nature of the relationship between the partner or employee of the firm and the director, officer or employee of the client;
- The interaction of the partner or employee of the firm with the assurance team;
- The position of the partner or employee within the firm; and
- The role of the individual within the client.

The significance of any threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the assurance engagement; or
- Having another professional accountant review the relevant assurance work performed.

~~(aa)~~291.127 An inadvertent violation of this section as it relates to family and personal relationships would not compromise independence if:

- ~~(b)~~ (b) 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)~~(c) The inadvertent violation relates to an immediate family member of a member of the assurance team becoming a director or ~~an~~ officer of the assurance client or being in a position to exert significant influence over the subject matter information

of the assurance engagement, the relevant professional is removed from the assurance team; and

~~(e)~~(d) \_\_\_\_\_ The firm considers and applies as appropriate other safeguards. Such safeguards might include:

- Having ~~an additional~~another professional accountant review the work of the member of the assurance team; or
- Excluding the relevant professional from any significant decision-making concerning the engagement.

### Employment with Assurance Clients

~~(b)~~291.128 Self-interest, familiarity or intimidation threats may be created if a director or ~~an~~ officer of the assurance client or an ~~individual-employee~~ who is in a position to exert significant influence over the subject matter information of the assurance engagement has been a member of the assurance team or partner of the firm. This would be particularly the case when significant connections remain between the individual and his or her former firm.

~~(c)~~291.129 If a member of the assurance team, partner or former partner of the firm has joined the assurance client in such a position, the significance of the self-interest, familiarity or intimidation threats will depend on factors such as:

(e) The position the individual has taken at the client;

~~(d)~~(f) Any involvement the individual will have with the assurance team;

~~(e)~~(g) \_\_\_\_\_ The length of time since the individual was a member of the assurance team or firm; and

~~(f)~~(h) The former position of the individual within the assurance team or firm, for example, whether the individual was responsible for maintaining contact with management and those charged with governance.

In all cases the individual should not continue to participate in the firm's business or professional activities:

The significance of any remaining threat should be evaluated and if it is not clearly insignificant safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual should not be material to the firm;
- Modifying the plan for the assurance engagement;

- Assigning an assurance team that is of sufficient experience in relation to the individual who has joined the client; or
- Having ~~an additional~~another professional accountant review the work performed.

~~(dd)~~291.130 If a former partner of the firm has previously joined an entity in such a position and the entity subsequently becomes an assurance client of the firm, any threats to independence should be evaluated and if the threats are not than clearly insignificant, safeguards should be considered and applied, when necessary, to eliminate the threat or reduce it to an acceptable level.

~~(ee)~~291.131 A self-interest threat is created when a member of the assurance team participates in the assurance engagement while knowing that he or she will, or may, join the client some time in the future. Firm policies and procedures should require members of an assurance team to notify the firm when entering employment negotiations with the client. On such notification, the significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

~~(a)~~(i) Removal of the individual from the assurance team; or

~~(b)~~(j) A review of any significant judgments made by that individual while on the team.

#### **Recent Service with an Assurance Client**

~~(ff)~~291.132 Self-interest, familiarity or intimidation threats may be created if a former director, officer or employee of the assurance client serves as a member of the assurance team. This would be particularly true when, for example, a member of the assurance team has to evaluate elements of the subject matter information he or she had prepared while with the assurance client.

~~(gg)~~291.133 If, during the period covered by the assurance report, a member of the assurance team had served as ~~an~~ officer or director of the assurance client, or was an employee in a position to exert significant influence over the subject matter information of the assurance engagement, 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 assurance team.

~~(hh)~~291.134 Self-interest, self-review or familiarity threats may be created if, before the period covered by the assurance report, a member of the assurance team had served as ~~an~~ officer or director of the assurance client, or was an employee in a position to exert significant influence over the subject matter information of the assurance engagement. 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 assurance client, is to be evaluated in the current period as part of the current assurance engagement. The significance of the threats will depend on factors such as:

- The position the individual held with the assurance client;

- The length of time since the individual left the assurance client; and
- The role of the professional on the assurance team.

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to reduce the threat to an acceptable level. Such safeguards might include conducting an additional review of the work performed by the individual as part of the assurance team.

### **Serving as a Director or Officer of an Assurance Client**

~~(ii)~~291.135 If a partner or employee of the firm serves at the same time as a director or ~~an~~ officer of an assurance client, the self-review and self-interest threats would be so significant that no safeguards could reduce the threats to an acceptable level. Therefore, if such an individual were to accept such a position the firm should decline or withdraw from the assurance engagement.

~~(j)~~291.136 The position of Company Secretary has different implications in different jurisdictions. 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.

~~(k)~~291.137 If a partner or employee of the firm serves as Company Secretary for an assurance client, the self-review and advocacy threats would generally be so significant, that no safeguards could reduce the threat to an acceptable level. When this practice is specifically permitted under local law, professional rules or practice, the duties and activities should be limited to those of a routine and administrative nature preparing minutes and maintaining statutory returns. Further, management should make all relevant decisions. The significance of any threat should be evaluated and, if not clearly insignificant, safeguards should be applied to eliminate the threat or reduce it to an acceptable level.

~~(l)~~291.138 Performing, routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters will not generally compromise independence, as long as client management makes all relevant decisions.

### **Long Association of Senior Personnel with Assurance Clients**

~~(mm)~~291.139 Familiarity, self-review or self-interest threats may be created by using the same senior personnel on an assurance engagement over a long period of time. The significance of the threat will depend on factors such as:

- How long the individual has been a member of the assurance team;
- The role of the individual on the assurance team;
- The structure of the firm;

- The nature of the assurance engagement;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the subject matter information has changed.

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Rotating the senior personnel off the assurance team;
- Having ~~an additional~~another professional accountant who was not a member of the assurance team review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

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

~~(nn)~~291.140 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Provision of non-assurance services may, however, create threats to the independence of the firm or the members of the assurance team.. The threats created are most often self-review, self-interest and advocacy threats.

~~(oo)~~291.141 New developments in business, the evolution of financial markets and changes in information technology make it impossible to draw up an all-inclusive list non-assurance services that might be provided to an assurance client. If specific guidance on a particular non-assurance service is not included in this section the conceptual framework should be applied when evaluating the particular circumstances.

~~(pp)~~291.142 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, consideration should be given to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration should be given to any threat that the team has reason to believe may be created by providing other related non-assurance services. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards could reduce the threat to an acceptable level. Accordingly the non-assurance service should not be provided.

### **Management Responsibilities**

~~(qq)~~291.143 Management of an entity performs many activities in managing the entity in the best interests of stakeholders. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

~~(¶)~~291.144 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorizing transactions;
- Deciding which recommendations of the firm or other third parties should be implemented; and
- Taking responsibility for designing, implementing and maintaining internal control.

~~(ss)~~291.145 ~~Some Activities may not be management responsibilities because they that~~ are routine and administrative, or involve matters that are insignificant would generally not be regarded as 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 assurance client of those dates would not be considered a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities would not be assuming a management responsibility.

~~(¶)~~291.146 Assuming a management responsibility for an assurance client may create threats to independence. If a firm assumes a management responsibility as part of the assurance service the threats created could not be reduced to an acceptable level by any safeguard. Accordingly, in providing assurance services to an assurance client, a firm should not assume management responsibilities as part of the assurance service. If the firm assumes a management responsibility as part of any other services provided to the assurance client, it should ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement provided by the firm.

~~(¶¶)~~291.147 To avoid the risk of assuming a management responsibility related to the subject matter or subject matter information of the assurance engagement, the firm should be satisfied that a member of management is responsible for evaluating the results and makes all significant judgments and decisions connected with the services and to accept responsibility for the actions to be taken arising from the results of the service received. This reduces the risk of inadvertent significant judgments or decisions being made by the firm. This risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

## Other Matters

~~(¶¶)~~291.148 Threats to independence might be created when a firm provides a non-assurance service related to the subject matter information of an assurance engagement. In such cases, consideration should be given to the significance of the firm's involvement with the subject matter information of the engagement, whether any self-review threats are created



and whether any threat to independence that is not clearly insignificant can be reduced to an acceptable level by the application of safeguards.

| ~~(ww)~~291.149 A self-review threat may be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this information. Consequently, the firm should evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat created is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

| ~~(xx)~~291.150 When a firm performs a valuation that forms part of the subject matter information of an assurance engagement the firm should consider any self-review threat. If the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

## **Fees**

### **Fees – Relative Size**

| ~~(yy)~~291.151 When the total fees from an assurance client represent a large proportion of the total fees of the firm expressing the conclusion, the dependence on that client or client group and concern about losing the client may create a self-interest threat. The significance of the threat will depend on factors such as:

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

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when 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 assurance judgments.

| ~~(zz)~~291.152 A self-interest threat may also be created when the fees generated from an assurance 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 not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include having an additional professional accountant who was not a member of the assurance team review the work or otherwise advise as necessary.



## Fees – Overdue

~~(aaa)~~291.153 A self-interest threat may be created if fees due from an assurance client remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report, if any, for the following period. Generally the firm should require payment of such fees before any such report is issued. The following safeguard may be applicable having ~~an additional~~another professional accountant who did not take part in the assurance engagement provide advice or review the work. 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

~~(bbb)~~291.154 Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them.

~~(eee)~~291.155 A contingent fee charged by a firm in respect of an assurance engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguard. Accordingly, a firm should not enter into any such fee arrangement.

~~(ddd)~~291.156 A contingent fee charged by a firm in respect of a non-assurance service provided to an assurance client may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement was contingent on the result of the assurance engagement no safeguards could reduce the threat to an acceptable level. Accordingly, such arrangements should not be accepted.

~~(eee)~~291.157 For other types of contingent fee arrangements for a non-assurance service, the significance of the threats will depend on factors such as:

- The range of possible fee amounts;
- The degree of variability;
- The basis for determining the fee;
- Whether an independent third party will review the outcome or result of the transaction; and
- The effect of the event or transaction on the assurance engagement.

The significance of the threats should be evaluated and, if the threats are not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threats or reduce them to an acceptable level. Such safeguards might include:

- ~~290.100~~• Review or determination of the final fee by an unrelated third party; or
- ~~290.101~~• Quality control policies and procedures for the non-assurance service.

## Gifts and Hospitality

~~(fff)~~291.158 Accepting gifts or hospitality from an assurance client may create self-interest and familiarity threats. When a firm or a member of the assurance team accepts gifts or hospitality, unless the value is clearly insignificant, no safeguards could reduce the threats to an acceptable level. Consequently, a firm or a member of the assurance team should not accept such gifts or hospitality.

## Actual or Threatened Litigation

~~(ggg)~~291.159 When litigation takes place, or appears likely, between the firm or a member of the assurance team and the assurance client, a self-interest or intimidation threat may be created. The relationship between client management and the members of the assurance 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 on such factors as:

290.33• The materiality of the litigation; and

290.34• Whether the litigation relates to a prior assurance engagement.

The significance of the threat should be evaluated and, if the threat is not 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 assurance team, removing that individual from the assurance team; or

~~(b)~~(a) Having ~~an additional~~another professional accountant in the firm who was not a member of the assurance team review the work performed.

If such safeguards do not reduce the threat to an acceptable level, the only appropriate action is to withdraw from, or decline, the assurance 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> <p><del>(hhh)</del>(a) _____ In a direct reporting engagement, is responsible for the subject matter; or</p> <p><del>(iii)</del>(b) _____ In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.</p>
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	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <p>(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;</p> <p>(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</p> <p>(iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.</p>

Audit client	An entity in respect of which a firm conducts an audit engagement.. When the client is a listed entity, audit client s includes its related entities. When the audit client is not a listed entity audit client includes those related entities over which the client has direct or indirect control
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.
Audit team	<ul style="list-style-type: none"><li>(a) All members of the engagement team for the audit engagement; and</li><li>(b) All others within a firm who can directly influence the outcome of the audit 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 engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</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></li><li>(c) All those within a network firm who can directly influence the outcome of the audit engagement.</li></ul>
<b>Auditor's External expert<sup>4</sup></b>	A person or organization possessing specialized skills, knowledge and experience in a field other than accounting or auditing who is engaged, not employed, by the firm, or a network firm, to assist the <u>auditor-professional accountant</u> to obtain sufficient appropriate <del>audit</del> evidence.
Clearly insignificant	A matter that is deemed to be both trivial and inconsequential.

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<sup>4</sup> This definition is consistent with the principle in the definition contain in the exposure draft ISA 620 Using the Work of an Auditor's Expert issued by the International Auditing and Assurance Standards Board in October 2007. The definition will be conformed to the final ISA.

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 <u>or the ability to influence investment decisions</u>.</li></ul>
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, 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 partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes <del>auditor's</del> external experts engaged by the firm or a network firm
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.

Financial statements	A structured representation of historical financial information, which ordinarily includes explanatory notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
Financial statements on which the firm will express an opinion	<u>The financial statements of an entity on which the firm will report.</u> In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	(a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties <u>through ownership management or other means</u> ; and (c) An entity controlled by such parties <u>through ownership management or other means</u> .
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.
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 <u>or the ability to influence investment decisions</u> .

Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team, who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, other “audit partners” may include, for example, audit partners responsible for significant subsidiaries or divisions.
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	A larger structure: (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to a network.
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.
Public Interest Entity	(a) A listed entity; and (b) An entity <del>that has been designated by</del> <u>for which</u> a regulator or <del>by</del> <u>legislation requires, in the audit of those entities, compliance with</u> <del>to be subject to</del> the same independence requirements as those <del>that</del> <u>apply</u> <del>ieable</del> to a listed entity.

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 if the client is material to such entity;</li><li>(b) An entity with a direct financial interest in the client if 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 (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.</li></ul>
Review client	<p>An entity in respect of which a firm conducts a review engagement.</p>
Review engagement	<p>An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses 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 financial statements are not prepared in all material respects, in accordance with an applicable financial reporting framework..</p>



Review team	<ul style="list-style-type: none"><li>(a) All members of the engagement team for the review engagement; and</li><li>(b) All others within a firm who can directly influence the outcome of the 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 review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</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></li><li>(c) All those within a network firm who can directly influence the outcome of the review engagement.</li></ul>
Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
Those charged with governance	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.