

## **EXPOSURE DRAFT: CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS**

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## PREFACE

The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest.” In pursuing this mission, the IFAC Board has established the Ethics Standards Board for Accountants to develop and issue, under its own authority, high quality ethical standards and other pronouncements for professional accountants for use around the world.

This *Code of Ethics for Professional Accountants* establishes ethical requirements for professional accountants. A member body of IFAC or firm ~~may~~shall not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they ~~should~~shall comply with all other parts of this Code.

Some jurisdictions may have requirements and guidance that differs from that contained in this Code. Professional accountants ~~should~~shall be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation.

**PART A—GENERAL APPLICATION OF THE CODE**

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## SECTION 100

### Introduction and Fundamental Principles

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a **professional accountant's**\* responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest a professional accountant ~~shall~~~~should~~ observe and comply with the ethical requirements of this Code.
- 100.2 This Code is in three parts. Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. The conceptual framework provides guidance on fundamental ethical principles. Professional accountants ~~shall~~~~are required to~~ apply this conceptual framework to identify threats to compliance with the fundamental principles, to evaluate their significance and, ~~when necessary, if such threats are other than clearly insignificant~~\* to apply safeguards to eliminate them or reduce them to an acceptable level\* such that compliance with the fundamental principles is not compromised.
- 100.3 Parts B and C illustrate how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also ~~provides examples of~~~~describes~~ situations where safeguards are not available to address the threats and consequently the activity or relationship creating the threats ~~should~~~~shall~~ be avoided. Part B applies to **professional accountants in public practice**.\* Part C applies to **professional accountants in business**.\* Professional accountants in public practice may also find the guidance in Part C relevant to their particular circumstances.

### Fundamental Principles

- 100.4 A professional accountant is required to comply with the following fundamental principles:
- (a) *Integrity*  
A professional accountant ~~should~~~~shall~~ be straightforward and honest in all professional and business relationships.
  - (b) *Objectivity*  
A professional accountant ~~should~~~~shall~~ not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
  - (c) *Professional Competence and Due Care*  
A professional accountant ~~has a continuing duty to~~~~shall~~ maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in

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\* See Definitions.

practice, legislation and techniques. A professional accountant ~~should~~shall act diligently and in accordance with applicable technical and professional standards when providing **professional services**.\*

(d) *Confidentiality*

A professional accountant ~~should~~shall respect the confidentiality of information acquired as a result of professional and business relationships and ~~should~~ not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships shall ~~should~~ not be used for the personal advantage of the professional accountant or third parties.

(e) *Professional Behavior*

A professional accountant ~~should~~shall comply with relevant laws and regulations and ~~should~~ avoid any action that discredits the profession.

Each of these fundamental principles is discussed in more detail in Sections 110 – 150.

### Conceptual Framework Approach

- 100.5 The circumstances in which professional accountants operate may ~~give rise to~~create specific threats to compliance with the fundamental principles. It is impossible to define every situation that creates such threats and specify the appropriate mitigating action. In addition, the nature of engagements and work assignments may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires a professional accountant to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest. This Code provides a framework to assist a professional accountant to identify and evaluate ~~and respond to~~ threats to compliance with the fundamental principles. ~~If identified threats are other than clearly insignificant~~, a professional accountant identifies threats that are not at an acceptable level he or she shall~~should~~, ~~where appropriate~~, apply safeguards to eliminate the threats or reduce them to an acceptable level, such that compliance with the fundamental principles is not compromised.
- 100.6 A professional accountant ~~shall has an obligation to~~ evaluate any threats to compliance with the fundamental principles when the professional accountant knows, or could reasonably be expected to know, of circumstances or relationships that may compromise compliance with the fundamental principles.
- 100.7 A professional accountant shall ~~should~~ take qualitative as well as quantitative factors into account when considering evaluating the significance of a threat. If a professional

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\* See Definitions.

accountant cannot implement appropriate safeguards, ~~the professional accountant he or she shall should~~ decline or discontinue the specific professional service involved, or where necessary resign from the client (in the case of a professional accountant in public practice) or the employing organization (in the case of a professional accountant in business).

100.8 A professional accountant may inadvertently violate a provision of this Code. Such an inadvertent violation, depending on the nature and significance of the matter, may not compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.

100.9 Parts B and C of this Code ~~include examples that are intended to illustrate~~ describe how the conceptual framework is to be applied. ~~Parts B and C do not describe. The examples are not intended to be, nor should they be interpreted as, an exhaustive list of all the circumstances that could be~~ experienced by a professional accountant that ~~create or~~ may create threats to compliance with the fundamental principles. ~~Consequently, it is not sufficient for a professional accountant merely to comply with the examples presented; rather, Therefore, in any situation not explicitly addressed by Parts B or C, the professional accountant shall apply the framework when evaluating should be applied to the particular circumstances encountered by the professional accountant.~~

### Threats and Safeguards

100.10 ~~Threats are created by relationships or other circumstances that could compromise a professional accountant's ability to comply with the fundamental principles of this Code, described in paragraph 100.4.~~ Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- (a) Self-interest threats, ~~- the threat that a professional accountant will act in his or her own best interest, or in the best interest of a member of his or her -which may occur as a result of the financial or other interests of a professional accountant or of an-~~ immediate or **close family\*** ~~member~~;
- (b) Self-review threats, ~~- the threat that a professional accountant will not appropriately evaluate the results of a previous service that he or she will rely upon in forming a judgment as part of providing a current service or because he or she, or others within his or her firm or organization, performed the previous service which may occur when a previous judgment needs to be re-evaluated by the professional accountant responsible for that judgment~~;
- (c) Advocacy threats, ~~- the threat that which may occur when~~ a professional accountant ~~who promotes a client's or employer's position or opinion may do so to the point that subsequent his or her~~ objectivity may be compromised;

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\* See Definitions.

- (d) Familiarity threats, ~~- the threat that which may occur when, because of a close relationship,~~ a professional accountant will become too sympathetic to the interests of ~~others~~ a client or employer or will not appropriately evaluate the work performed by the client or employer because the work (i) involves issues that are familiar to the professional accountant, or (ii) was performed by an individual familiar to the professional accountant; and
- (e) Intimidation threats, ~~- the threat that which may occur when~~ a professional accountant will subordinate his or her judgment to that of a client or employer because of their reputation or because of their attempts to exercise excessive influence over him or her ~~may be deterred from acting objectively by threats, actual or perceived.~~

Parts B and C of this Code, ~~respectively, explain~~ provide examples of circumstances that may create how these categories of threats may be created for professional accountants in public practice and professional accountants in business, respectively. Professional accountants in public practice may also find ~~the guidance in~~ Part C relevant to their particular circumstances.

- 100.11 Safeguards are processes or procedures that ~~may~~ eliminate or reduce such threats to an acceptable level. They fall into two broad categories:
- (a) Safeguards created by the profession, legislation or regulation; and
  - (b) Safeguards in the work environment.
- 100.12 Safeguards created by the profession, legislation or regulation include, ~~but are not restricted to:~~
- Educational, training and experience requirements for entry into the profession.
  - Continuing professional development requirements.
  - Corporate governance regulations.
  - Professional standards.
  - Professional or regulatory monitoring and disciplinary procedures.
  - External review by a legally empowered third party of the reports, returns, communications or information produced by a professional accountant.
- 100.13 Parts B and C of this Code, ~~respectively,~~ discuss safeguards in the work environment for professional accountants in public practice and ~~those professional accountants~~ in business, respectively.
- 100.14 Certain safeguards may increase the likelihood of identifying or deterring unethical behavior. Such safeguards, which may be created by the accounting profession, legislation, regulation or an employing organization, include, but are not restricted to:
- Effective, well publicized complaints systems operated by the employing organization, the profession or a regulator, which enable colleagues, employers

and members of the public to draw attention to unprofessional or unethical behavior.

- An explicitly stated duty to report breaches of ethical requirements.

100.15 The nature of the safeguards to be applied will vary depending on the circumstances. In exercising professional judgment, a professional accountant ~~should~~shall consider what a reasonable and informed third party, weighing all the specific facts and circumstances~~having knowledge of all relevant information~~, including the significance of the threat and the safeguards applied, would conclude to be ~~un~~acceptable.

### **Ethical Conflict Resolution**

100.16 In ~~evaluating compliance~~complying with the fundamental principles, a professional accountant may be required to resolve a conflict in the application of the fundamental principles.

100.17 When initiating either a formal or informal conflict resolution process, a professional accountant ~~should~~shall consider the following, either individually or together with others, as part of the resolution process:

- (a) Relevant facts;
- (b) Ethical issues involved;
- (c) Fundamental principles related to the matter in question;
- (d) Established internal procedures; and
- (e) Alternative courses of action.

Having considered these issues, a professional accountant ~~should~~shall determine the appropriate course of action that is consistent with the fundamental principles ~~identified~~. The professional accountant ~~should~~shall also weigh the consequences of each possible course of action. If the matter remains unresolved, the professional accountant shall ~~should~~ consult with other appropriate persons within the **firm**<sup>\*</sup> or employing organization for help in obtaining resolution.

100.18 Where a matter involves a conflict with, or within, an organization, a professional accountant shall ~~should also consider determine whether to~~ consulting with those charged with governance of the organization, such as the board of directors or the audit committee.

100.19 It may be in the best interests of the professional accountant to document the substance of the issue and details of any discussions held or decisions ~~taken~~made, concerning that issue.

100.20 If a significant conflict cannot be resolved, a professional accountant ~~may wish to~~shall consider obtaining professional advice from the relevant professional body or legal advisors, and thereby obtain guidance on ethical issues without breaching confidentiality. For example, a professional accountant may have encountered a fraud,



the reporting of which could breach the professional accountant's responsibility to respect confidentiality. The professional accountant ~~shall~~ ~~should~~ consider obtaining legal advice to ~~determine~~ ascertain whether there is a requirement to report.

- 100.21 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional accountant ~~should~~ shall, where possible, refuse to remain associated with the matter creating the conflict. The professional accountant ~~may~~ ~~shall~~ determine whether ~~that~~, in the circumstances, it is appropriate to withdraw from the **engagement team**\* or specific assignment, or to resign altogether from the engagement, the firm or the employing organization.

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\* See Definitions.

## SECTION 110

### Integrity

- 110.1 The principle of integrity imposes an obligation on all professional accountants to be straightforward and honest in professional and business relationships. Integrity also implies fair dealing and truthfulness.
- 110.2 A professional accountant ~~should~~shall not be associated with reports, returns, communications or other information where ~~they~~he or she believes that the information:
- (a) Contains a materially false or misleading statement;
  - (b) Contains statements or information furnished recklessly; or
  - (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.
- 110.3 A professional accountant will not be ~~considered to be~~ in breach of paragraph 110.2 if the professional accountant provides a modified report in respect of a matter contained in paragraph 110.2.

## SECTION 120

### Objectivity

- 120.1 The principle of objectivity imposes an obligation on all professional accountants not to compromise their professional or business judgment because of bias, conflict of interest or the undue influence of others.
- 120.2 A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. The professional accountant shall avoid rRelationships that bias or unduly influence the his or her professional judgment. ~~of the professional accountant should be avoided.~~

## SECTION 130

### Professional Competence and Due Care

- 130.1 The principle of professional competence and due care imposes the following obligations on professional accountants:
- (a) To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service; and
  - (b) To act diligently in accordance with applicable technical and professional standards when providing professional services.
- 130.2 Competent professional service requires the exercise of sound judgment in applying professional knowledge and skill in the performance of such service. Professional competence may be divided into two separate phases:
- (a) Attainment of professional competence; and
  - (b) Maintenance of professional competence.
- 130.3 The maintenance of professional competence requires a continuing awareness and an understanding of relevant technical professional and business developments. Continuing professional development develops and maintains the capabilities that enable a professional accountant to perform competently within the professional environments.
- 130.4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- 130.5 A professional accountant ~~should~~shall take steps to ensure that those working under the professional accountant's authority in a professional capacity have appropriate training and supervision.
- 130.6 Where appropriate, a professional accountant ~~should~~shall make clients, employers or other users of ~~the~~his or her professional services aware of limitations inherent in the services to avoid the misinterpretation of an expression of opinion as an assertion of fact.

## SECTION 140

### Confidentiality

- 140.1 The principle of confidentiality imposes an obligation on professional accountants to refrain from:
- (a) Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
  - (b) Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.
- 140.2 A professional accountant ~~should~~shall maintain confidentiality even in a social environment. The professional accountant ~~should~~shall be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a close or **immediate family**\* member.
- 140.3 A professional accountant ~~shall~~should also maintain confidentiality of information disclosed by a prospective client or employer.
- 140.4 A professional accountant ~~shall~~should also ~~consider~~determine the need to maintain confidentiality of information within the firm or employing organization.
- 140.5 A professional accountant ~~shall~~should take all reasonable steps to ensure that staff under ~~the professional accountant's~~his or her control and persons from whom advice and assistance is obtained respect the professional accountant's duty of confidentiality.
- 140.6 The need to comply with the principle of confidentiality continues even after the end of relationships between a professional accountant and a client or employer. When a professional accountant changes employment or acquires a new client, ~~the professional accountant~~he or she is entitled to use prior experience. The professional accountant ~~shall~~should not, however, use or disclose any confidential information either acquired or received as a result of a professional or business relationship.
- 140.7 The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate:
- (a) Disclosure is permitted by law and is authorized by the client or the employer;
  - (b) Disclosure is required by law, for example:
    - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
    - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
  - (c) There is a professional duty or right to disclose, when not prohibited by law:

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\* See Definitions.

- (i) To comply with the quality review of a member body or professional body;
- (ii) To respond to an inquiry or investigation by a member body or regulatory body;
- (iii) To protect the professional interests of a professional accountant in legal proceedings; or
- (iv) To comply with technical standards and ethics requirements.

140.8 In deciding whether to disclose confidential information, professional accountants shall ~~should~~ consider the following points:

- (a) Whether the interests of all parties, including third parties whose interests may be affected, could be harmed if the client or employer consents to the disclosure of information by the professional accountant;
- (b) Whether all the relevant information is known and substantiated, to the extent it is practicable; when the situation involves unsubstantiated facts, incomplete information or unsubstantiated conclusions, professional judgment ~~shall~~should be used in determining the type of disclosure to be made, if any; and
- (c) The type of communication that is expected and to whom it is addressed; in particular, professional accountants shall ~~should~~ be satisfied that the parties to whom the communication is addressed are appropriate recipients.

## SECTION 150

### Professional Behavior

- 150.1 The principle of professional behavior imposes an obligation on professional accountants to comply with relevant laws and regulations and avoid any action that may ~~bring~~ discredit ~~to~~ the profession. This includes actions which a reasonable and informed third party, ~~having knowledge of all relevant~~weighing all the specific facts and circumstances~~information~~, would conclude negatively affects the good reputation of the profession.
- 150.2 In marketing and promoting themselves and their work, professional accountants shall ~~should~~ not bring the profession into disrepute. Professional accountants shall ~~should~~ be honest and truthful and ~~should~~ not:
- (a) Make exaggerated claims for the services they are able to offer, the qualifications they possess, or experience they have gained; or
  - (b) Make disparaging references or unsubstantiated comparisons to the work of others.

**PART B—PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

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## SECTION 200

### Introduction

- 200.1 This Part of the Code ~~illustrates~~ describes how the conceptual framework contained in Part A is to be applied by professional accountants in public practice. ~~The examples in the following sections are not intended to be, nor should they be interpreted as, an exhaustive list of~~ This Part does not describe all circumstances that could be experienced by a professional accountant in public practice that create or may create threats to compliance with the fundamental principles. ~~Therefore, in any situation not explicitly addressed in this Part, Consequently, it is not sufficient for a~~ professional accountant in public practice ~~merely to comply with the examples presented; rather, shall apply~~ the framework ~~should be applied to when evaluating the particular specific facts and~~ circumstances ~~faeed~~.
- 200.2 A professional accountant in public practice ~~shall~~ should not engage in any business, occupation or activity that impairs or might impair integrity, objectivity or the good reputation of the profession and as a result would be incompatible with the rendering of professional services.

### Threats and Safeguards

- 200.3 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
- (a) Self-interest;
  - (b) Self-review;
  - (c) Advocacy;
  - (d) Familiarity; and
  - (e) Intimidation.
- These threats are discussed further in Part A of this Code.
- The ~~nature and~~ significance of the threats may differ depending on whether they arise in relation to the provision of services to a **financial statement audit client**,\* a non-financial statement audit **assurance client**\* or a non-assurance client.
- 200.4 Examples of circumstances that ~~may~~ create self-interest threats for a professional accountant in public practice include, ~~but are not limited to~~:
- A member of the audit team having a direct **financial interest**\* in an audit client ~~or jointly holding a financial interest with a client~~.
  - Undue dependence on total fees from a client.
  - Having a ~~close~~ significant business relationship with a client.

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\* See Definitions.

- Concern about the possibility of losing a client.
- Potential employment with a client.
- Contingent fees<sup>\*</sup> relating to an **assurance engagement**.<sup>\*</sup>
- The discovery of a significant error in the performance of a re-evaluation of a professional services engagement.

~~• A loan to or from an assurance client or any of its directors or officers.~~

200.5 Examples of circumstances that ~~may~~ create self-review threats include, ~~but are not limited to:~~

~~• The discovery of a significant error during a re-evaluation of the work of the professional accountant in public practice.~~

- Reporting on the operation of financial systems after ~~being~~ involved in their design or implementation.
- Having prepared the original data used to generate records that are the subject matter of the engagement.
- A member of the **assurance team**<sup>\*</sup> being, or having recently been, a **director or officer**<sup>\*</sup> of that client.
- A member of the assurance team being, or having recently been, employed by the client in a position to exert direct and significant influence over the subject matter of the engagement.
- Performing a service for a client that directly affects the subject matter of the assurance engagement.

200.6 Examples of circumstances that ~~may~~ create advocacy threats include, ~~but are not limited to:~~

- Promoting shares in a **listed entity**<sup>\*</sup> when that entity is a financial statement audit client.
- Acting as an advocate on behalf of an assurance client in litigation or disputes with third parties.

200.7 Examples of circumstances that ~~may~~ create familiarity threats include, ~~but are not limited to:~~

- A member of the engagement team having a close or immediate family relationship with a director or officer of the client.
- A member of the engagement team having a close or immediate family relationship with an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.

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\* See Definitions.

- A ~~former partner of the firm being a~~ director or officer of the client or an employee in a position to exert direct and significant influence over the subject matter of the engagement was recently a partner of the firm.
  - Accepting gifts or preferential treatment from a client, unless the value is ~~clearly insignificant~~ trivial or inconsequential.
  - Long association of senior personnel with the assurance client.
- 200.8 Examples of circumstances that ~~may~~ create intimidation threats include, ~~but are not limited to~~:
- Being threatened with dismissal or replacement in relation to a client engagement.
  - Being threatened with litigation by the client.
  - Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.
- 200.9 A professional accountant in public practice may also find that specific circumstances ~~give rise to~~ create unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In either professional or business relationships, a professional accountant in public practice ~~should~~ shall ~~always be on the~~ alert for such circumstances and threats.
- 200.10 Safeguards that may eliminate or reduce threats to an acceptable level fall into two broad categories:
- (a) Safeguards created by the profession, legislation or regulation; and
  - (b) Safeguards in the work environment.
- Examples of safeguards created by the profession, legislation or regulation are described in paragraph 100.12 of Part A of this Code.
- 200.11 In the work environment, the relevant safeguards will vary depending on the circumstances. Work environment safeguards comprise firm-wide safeguards and engagement specific safeguards. A professional accountant in public practice shall ~~should~~ exercise judgment to determine how to best deal with an identified threat. In exercising this judgment a professional accountant in public practice shall ~~should~~ consider what a reasonable and informed third party, ~~having knowledge of all relevant information~~ weighing all specific facts and circumstances, including the significance of the threat and the safeguards applied, would reasonably conclude to be acceptable. This consideration will be affected by matters such as the significance of the threat, the nature of the engagement and the structure of the firm.

200.12 Examples of firm-wide safeguards in the work environment ~~may~~ include:

- Leadership of the firm that stresses the importance of compliance with the fundamental principles.
- Leadership of the firm that establishes the expectation that members of an assurance team will act in the public interest.
- Policies and procedures to implement and monitor quality control of engagements.
- Documented policies regarding the identification of threats to compliance with the fundamental principles, the evaluation of the significance of these threats and the ~~identification and the~~ application of safeguards to eliminate or reduce the threats; ~~other than those that are clearly insignificant,~~ to an acceptable level.
- For firms that perform assurance engagements, documented **independence**\* policies regarding the identification of threats to independence, the evaluation of the significance of these threats and the ~~evaluation-identification~~ and application of safeguards to eliminate or reduce the threats; ~~other than those that are clearly insignificant,~~ to an acceptable level.
- Documented internal policies and procedures requiring compliance with the fundamental principles.
- Policies and procedures that will enable the identification of interests or relationships between the firm or members of engagement teams and clients.
- Policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client.
- Policies and procedures to prohibit individuals who are not members of an engagement team from inappropriately influencing the outcome of the engagement.
- Timely communication of a firm's policies and procedures, including any changes to them, to all partners and professional staff, and appropriate training and education on such policies and procedures.
- Designating a member of senior management to be responsible for overseeing the adequate functioning of the firm's quality control system.
- Advising partners and professional staff of those assurance clients and related entities from which they must be independent.
- A disciplinary mechanism to promote compliance with policies and procedures.

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\* See Definitions.

- Published policies and procedures to encourage and empower staff to communicate to senior levels within the firm any issue relating to compliance with the fundamental principles that concerns them.

200.13 Examples of eEngagement-specific safeguards in the work environment ~~may~~ include:

- Involving an additional professional accountant to review the work done or otherwise advise as necessary.
- Consulting an independent third party, such as a committee of independent directors, a professional regulatory body or another professional accountant.
- Discussing ethical issues with those charged with governance of the client.
- Disclosing to those charged with governance of the client the nature of services provided and extent of fees charged.
- Involving another firm to perform or re-perform part of the engagement.
- Rotating senior assurance team personnel.

200.14 Depending on the nature of the engagement, a professional accountant in public practice may also be able to rely on safeguards that the client has implemented. However it is not possible to rely solely on such safeguards to reduce threats to an acceptable level.

200.15 Examples of sSafeguards within the client's systems and procedures ~~may~~ include:

- When a client appoints a firm in public practice to perform an engagement, persons other than management ratify or approve the appointment.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that ensure objective choices in commissioning non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

## SECTION 210

### Professional Appointment

#### Client Acceptance

- 210.1 Before accepting a new client relationship, a professional accountant in public practice ~~should~~shall consider-determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behavior may be created from, for example, questionable issues associated with the client (its owners, management and activities).
- 210.2 Client issues that, if known, could threaten compliance with the fundamental principles include, for example, client involvement in illegal activities (such as money laundering), dishonesty or questionable financial reporting practices.
- 210.3 ~~The A professional accountant in public practice shall evaluate the~~ significance of any threats ~~should be evaluated and apply safeguards when necessary. If identified threats are other than clearly insignificant, safeguards should be considered and applied as necessary~~ to eliminate them or reduce them to an acceptable level.
- 210.4 Appropriate safeguards may include obtaining knowledge and understanding of the client, its owners, managers and those responsible for its governance and business activities, or securing the client's commitment to improve corporate governance practices or internal controls.
- 210.5 Where it is not possible to reduce the threats to an acceptable level, ~~a~~the professional accountant in public practice ~~should~~shall decline to enter into the client relationship.
- 210.6 ~~The professional accountant in public practice shall~~ Acceptance decisions should be periodically reviewed ~~ed~~ acceptance decisions for recurring client engagements.

#### Engagement Acceptance

- 210.7 A professional accountant in public practice ~~should~~shall agree to provide only those services that the professional accountant in public practice is competent to perform. Before accepting a specific client engagement, a professional accountant in public practice ~~should~~shall consider-determine whether acceptance would create any threats to compliance with the fundamental principles. For example, a self-interest threat to professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies necessary to properly carry out the engagement.
- 210.8 A professional accountant in public practice ~~should~~shall evaluate the significance of identified threats and apply ~~if they are other than clearly insignificant,~~ safeguards ~~should be applied as when~~ necessary to eliminate them or reduce them to an acceptable level. Examples of such ~~Such~~ safeguards ~~may~~ include:
- Acquiring an appropriate understanding of the nature of the client's business, the complexity of its operations, the specific requirements of the engagement and the purpose, nature and scope of the work to be performed.
  - Acquiring knowledge of relevant industries or subject matters.

- Possessing or obtaining experience with relevant regulatory or reporting requirements.
- Assigning sufficient staff with the necessary competencies.
- Using experts where necessary.
- Agreeing on a realistic time frame for the performance of the engagement.
- Complying with quality control policies and procedures designed to provide reasonable assurance that specific engagements are accepted only when they can be performed competently.

210.9 When a professional accountant in public practice intends to rely on the advice or work of an expert, the professional accountant in public practice ~~should-shall~~ evaluate determine whether such reliance is warranted. The professional accountant in public practice ~~should-shall~~ consider factors such as reputation, expertise, resources available and applicable professional and ethical standards. Such information may be gained from prior association with the expert or from consulting others.

### Changes in a Professional Appointment

210.10 A professional accountant in public practice who is asked to replace another professional accountant in public practice, or who is considering tendering for an engagement currently held by another professional accountant in public practice, ~~should-shall~~ determine whether there are any reasons, professional or other, for not accepting the engagement, such as circumstances that threaten compliance with the fundamental principles. For example, there may be a threat to professional competence and due care if a professional accountant in public practice accepts the engagement before knowing all the pertinent facts.

210.11 ~~The A professional accountant in public practice shall evaluate the~~ significance of the threats ~~should-be-evaluated~~. Depending on the nature of the engagement, this may require direct communication with the **existing accountant**\* to establish the facts and circumstances behind the proposed change so that the professional accountant in public practice can decide whether it would be appropriate to accept the engagement. For example, the apparent reasons for the change in appointment may not fully reflect the facts and may indicate disagreements with the existing accountant that may influence the decision as to whether to accept the appointment.

210.12 An existing accountant is bound by confidentiality. ~~The extent to which the professional accountant in public practice Whether he or she can-is permitted to and/or should-is required to~~ discuss the affairs of a client with a proposed accountant will depend on the nature of the engagement and on:

- (a) Whether the client's permission to do so has been obtained; or

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\* See Definitions.

(b) The legal or ethical requirements relating to such communications and disclosure, which may vary by jurisdiction.

210.13 In the absence of specific instructions by the client, an existing accountant ~~shall~~ ~~should~~ not ~~ordinarily~~-volunteer information about the client's affairs. Circumstances where it may be appropriate to disclose confidential information are set out in Section 140 of Part A of this Code.

210.14 ~~If identified threats are other than clearly insignificant, S~~safeguards ~~should~~-~~shall~~ be ~~considered and~~-applied ~~as when~~ necessary to eliminate ~~them~~-~~threats~~ or reduce them to an acceptable level.

210.15 Examples of such ~~Such~~-safeguards ~~may~~-include:

- Discussing the client's affairs fully and freely with the existing accountant.
- Asking the existing accountant to provide known information on any facts or circumstances that, in the existing accountant's opinion, the proposed accountant should be aware of before deciding whether to accept the engagement.
- When replying to requests to submit tenders, stating in the tender that, before accepting the engagement, contact with the existing accountant will be requested so that inquiries may be made as to whether there are any professional or other reasons why the appointment should not be accepted.

210.16 A professional accountant in public practice will ~~ordinarily~~-~~generally~~ need to obtain the client's permission, preferably in writing, to initiate discussion with an existing accountant. Once that permission is obtained, the existing accountant ~~should~~-~~shall~~ comply with relevant legal and other regulations governing such requests. Where the existing accountant provides information, it ~~should~~-~~shall~~ be provided honestly and unambiguously. If the proposed accountant is unable to communicate with the existing accountant, the proposed accountant ~~should~~-~~shall~~ try to obtain information about any possible threats by other means such as through inquiries of third parties or background investigations on senior management or those charged with governance of the client.

210.17 Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice ~~should~~~~shall~~, unless there is satisfaction as to necessary facts by other means, decline the engagement.

210.18 A professional accountant in public practice may be asked to undertake work that is complementary or additional to the work of the existing accountant. Such circumstances may ~~give rise to~~~~create~~ potential threats to professional competence and due care resulting from, for example, a lack of or incomplete information. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such s~~S~~safeguards ~~against such threats~~-include notifying the existing accountant of the proposed work, which would give the existing accountant the opportunity to provide any relevant information needed for the proper conduct of the work.



## SECTION 220

### Conflicts of Interest

- 220.1 A professional accountant in public practice ~~should~~shall take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may ~~give rise to~~create threats to compliance with the fundamental principles. For example, a threat to objectivity may be created when a professional accountant in public practice competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client. A threat to objectivity or confidentiality may also be created when a professional accountant in public practice performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question.
- 220.2 A professional accountant in public practice ~~should~~shall evaluate the significance of any threats and apply safeguards when necessary to eliminate or reduce them to an acceptable level. ~~Evaluation includes considering, B~~before accepting or continuing a client relationship or specific engagement, ~~whether~~ the professional accountant in public practice shall evaluate the significance of any threat created by ~~has any~~ business interests, or relationships with the client or a third party ~~that could give rise to threats. If threats are other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.~~
- 220.3 Depending upon the circumstances giving rise to the conflict, application of one of the following safeguards ~~should ordinarily include the professional accountant in public practice is generally necessary~~:
- (a) Notifying the client of the firm's business interest or activities that may represent a conflict of interest, and obtaining their consent to act in such circumstances; or
  - (b) Notifying all known relevant parties that the professional accountant in public practice is acting for two or more parties in respect of a matter where their respective interests are in conflict, and obtaining their consent to so act; or
  - (c) Notifying the client that the professional accountant in public practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act.
- 220.4 The ~~following additional safeguards should also be considered~~significance of any remaining threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:
- (a) The use of separate engagement teams; ~~and~~
  - (b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing); ~~and~~
  - (c) Clear guidelines for members of the engagement team on issues of security and confidentiality; ~~and~~

- (d) The use of confidentiality agreements signed by employees and partners of the firm; and
- (e) Regular review of the application of safeguards by a senior individual not involved with relevant client engagements.

220.5 Where a conflict of interest poses a threat to one or more of the fundamental principles, including objectivity, confidentiality, or professional behavior, that cannot be eliminated or reduced to an acceptable level through the application of safeguards, the professional accountant in public practice ~~should~~shall conclude that it is not appropriate to accept a specific engagement or that resignation from one or more conflicting engagements is required.

220.6 Where a professional accountant in public practice has requested consent from a client to act for another party (which may or may not be an existing client) in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, ~~then~~ the professional accountant in public practice ~~must~~shall not continue to act for one of the parties in the matter giving rise to the conflict of interest.

## SECTION 230

### Second Opinions

- 230.1 Situations where a professional accountant in public practice is asked to provide a second opinion on the application of accounting, auditing, reporting or other standards or principles to specific circumstances or transactions by or on behalf of a company or an entity that is not an existing client may ~~give rise to~~create threats to compliance with the fundamental principles. For example, there may be a threat to professional competence and due care in circumstances where the second opinion is not based on the same set of facts that were made available to the existing accountant, or is based on inadequate evidence. The significance of the threat will depend on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.
- 230.2 When asked to provide such an opinion, a professional accountant in public practice ~~should~~shall evaluate the significance of the threats and, ~~if they are other than clearly insignificant, safeguards should be considered and~~ applied as safeguards when necessary to eliminate them or reduce them to an acceptable level. Examples of such ~~Such~~ safeguards ~~may~~ include seeking client permission to contact the existing accountant, describing the limitations surrounding any opinion in communications with the client and providing the existing accountant with a copy of the opinion.
- 230.3 If the company or entity seeking the opinion will not permit communication with the existing accountant, a professional accountant in public practice ~~should~~shall ~~consider~~ determine whether, taking all the circumstances into account, it is appropriate to provide the opinion sought.

## SECTION 240

### Fees and Other Types of Remuneration

- 240.1 When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed ~~to be~~ appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.
- 240.2 The significance of such threats will depend on factors such as the level of fee quoted and the services to which it applies. In view of these potential threats, safeguards ~~should~~ shall be ~~considered and~~ applied ~~as when~~ necessary to eliminate them or reduce them to an acceptable level. Examples of such sSafeguards ~~which may be adopted~~ include:
- Making the client aware of the terms of the engagement and, in particular, the basis on which fees are charged and which services are covered by the quoted fee.
  - Assigning appropriate time and qualified staff to the task.
- 240.3 Contingent fees are widely used for certain types of non-assurance engagements.<sup>1</sup> They may, however, ~~give rise to~~ create threats to compliance with the fundamental principles in certain circumstances. They may ~~give rise to~~ create a self-interest threat to objectivity. The significance of such threats will depend on factors including:
- The nature of the engagement.
  - The range of possible fee amounts.
  - The basis for determining the fee.
  - Whether the outcome or result of the transaction is to be reviewed by an independent third party.
- 240.4 The significance of such threats ~~should~~ shall be evaluated ~~and, if they are other than clearly insignificant, safeguards should be considered~~ and safeguards applied ~~as when~~ necessary to eliminate or reduce them to an acceptable level. Examples of such S~~uch~~ safeguards ~~may~~ include:
- An advance written agreement with the client as to the basis of remuneration.
  - Disclosure to intended users of the work performed by the professional accountant in public practice and the basis of remuneration.
  - Quality control policies and procedures.

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<sup>1</sup> Contingent fees for non-assurance services provided to assurance clients are discussed in Section 290 of this part of the Code.

- Review by an objective third party of the work performed by the professional accountant in public practice.
- 240.5 In certain circumstances, a professional accountant in public practice may receive a referral fee or commission relating to a client. For example, where the professional accountant in public practice does not provide the specific service required, a fee may be received for referring a continuing client to another professional accountant in public practice or other expert. A professional accountant in public practice may receive a commission from a third party (e.g., a software vendor) in connection with the sale of goods or services to a client. Accepting such a referral fee or commission may ~~give rise to~~create self-interest threats to objectivity and professional competence and due care.
- 240.6 A professional accountant in public practice may also pay a referral fee to obtain a client, for example, where the client continues as a client of another professional accountant in public practice but requires specialist services not offered by the existing accountant. The payment of such a referral fee may also create a self-interest threat to objectivity and professional competence and due care.
- 240.7 A professional accountant in public practice ~~should~~shall not pay or receive a referral fee or commission, unless the professional accountant in public practice has established safeguards to eliminate the threats or reduce them to an acceptable level. Examples of such ~~Such~~-safeguards ~~may~~ include:
- Disclosing to the client any arrangements to pay a referral fee to another professional accountant for the work referred.
  - Disclosing to the client any arrangements to receive a referral fee for referring the client to another professional accountant in public practice.
  - Obtaining advance agreement from the client for commission arrangements in connection with the sale by a third party of goods or services to the client.
- 240.8 A professional accountant in public practice may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not regarded as commissions or referral fees for the purpose of paragraph 240.5–240.7 above.

## SECTION 250

### Marketing Professional Services

250.1 When a professional accountant in public practice solicits new work through **advertising**\* or other forms of marketing, there may be potential threats to compliance with the fundamental principles. For example, a self-interest threat to compliance with the principle of professional behavior is created if services, achievements, or products are marketed in a way that is inconsistent with that principle.

250.2 A professional accountant in public practice ~~should~~shall not bring the profession into disrepute when marketing professional services. The professional accountant in public practice ~~should~~shall be honest and truthful and ~~should~~shall not:

- Make exaggerated claims for services offered, qualifications possessed, or experience gained; or
- Make disparaging references to unsubstantiated comparisons to the work of another.

If the professional accountant in public practice is in doubt about whether a proposed form of advertising or marketing is appropriate, the professional accountant in public practice ~~should~~shall consider consulting with the relevant professional body.

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\* See Definitions.

## SECTION 260

### Gifts and Hospitality

- 260.1 A professional accountant in public practice, or an immediate or close family member, may be offered gifts and hospitality from a client. Such an offer ~~ordinarily-generally gives rise to~~creates threats to compliance with the fundamental principles. For example, self-interest threats to objectivity may be created if a gift from a client is accepted; intimidation threats to objectivity may result from the possibility of such offers being made public.
- 260.2 The significance of such threats will depend on the nature, value, and intent behind the offer. Where gifts or hospitality which a reasonable and informed third party, having knowledge of all relevant information, would consider ~~clearly insignificant~~trivial and inconsequential are made, a professional accountant in public practice may conclude that the offer is made in the normal course of business without the specific intent to influence decision making or to obtain information. In such cases, the professional accountant in public practice may ~~generally~~ conclude that there is no significant threat to compliance with the fundamental principles.
- 260.3 ~~If evaluated threats are other than clearly insignificant, A professional accountant in public practice shall evaluate the significance of any threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level. safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level.~~ When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in public practice ~~should~~shall not accept such an offer.

## SECTION 270

### Custody of Client Assets

- 270.1 A professional accountant in public practice ~~should~~shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a professional accountant in public practice holding such assets.
- 270.2 The holding of client assets creates threats to compliance with the fundamental principles; for example, there is a self-interest threat to professional behavior and may be a self interest threat to objectivity arising from holding client assets. ~~To safeguard against such threats, a~~ A professional accountant in public practice entrusted with money (or other assets) belonging to others ~~should~~shall therefore:
- (a) Keep such assets separately from personal or firm assets; ~~and~~
  - (b) Use such assets only for the purpose for which they are intended; ~~and~~
  - (c) At all times, be ready to account for those assets, and any income, dividends, or gains generated, to any persons entitled to such accounting; and
  - (d) Comply with all relevant laws and regulations relevant to the holding of and accounting for such assets.
- 270.3 In addition, professional accountants in public practice ~~should~~shall be aware of threats to compliance with the fundamental principles through association with such assets, for example, if the assets were ~~found to be derived~~d from illegal activities, such as money laundering. As part of client and engagement acceptance procedures for such services, professional accountants in public practice ~~should~~shall make appropriate inquiries about the source of such assets and ~~should~~ consider their legal and regulatory obligations. They may also consider seeking legal advice.



## SECTION 280

### Objectivity—All Services

- 280.1 A professional accountant in public practice ~~should-shall consider-determine~~ when providing any professional service whether there are threats to compliance with the fundamental principle of objectivity resulting from having interests in, or relationships with, a client or its directors, officers or employees. For example, a familiarity threat to objectivity may be created from a family or close personal or business relationship.
- 280.2 A professional accountant in public practice who provides an assurance service is required to be independent of the assurance client. Independence of mind and in appearance is necessary to enable the professional accountant in public practice to express a conclusion, and be seen to express a conclusion, without bias, conflict of interest, or undue influence of others. Section 290 provides specific guidance on independence requirements for professional accountants in public practice when performing an assurance engagement.
- 280.3 The existence of threats to objectivity when providing any professional service will depend upon the particular circumstances of the engagement and the nature of the work that the professional accountant in public practice is performing.
- 280.4 A professional accountant in public practice ~~should-shall~~ evaluate the significance of identified threats and ~~if they are other than clearly insignificant, safeguards should be considered and applied-apply safeguards when as~~ necessary to eliminate them or reduce them to an acceptable level. Examples of such ~~Such~~ safeguards ~~may~~ include:
- Withdrawing from the engagement team.
  - Supervisory procedures.
  - Terminating the financial or business relationship giving rise to the threat.
  - Discussing the issue with higher levels of management within the firm.
  - Discussing the issue with those charged with governance of the client.

## SECTION 290

### Independence – Audit and Review Engagements

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## Objective and Structure of 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 financial statements and a single financial statement. Independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 291.
- 290.2 In certain circumstances involving audit engagements where the audit 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 290.500 to 290.515. The modifications are not permitted in the case of an audit of financial statements required by law or regulation.
- 290.3 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.
- 290.4 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.
- 290.5 The objective of this section is to assist firms and members of audit teams in applying a conceptual framework approach described below to achieving and maintaining independence.

## A Conceptual Framework Approach to Independence

- 290.6 Independence requires:

### *Independence of Mind*

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

### *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and

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\* See Definitions.

circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.

290.7 A conceptual framework approach to achieving and maintaining independence involves using professional judgment to:

- (a) Identify ~~ing~~ threats to independence;
- (b) Evaluate ~~ing the significance of the whether these~~ threats ~~are clearly insignificant~~\*;
- (c) When ~~necessary 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 applied to eliminate the threats or reduce them to an acceptable level, eliminate ~~ing~~ the activity or relationship creating the threats or declining or terminating the audit engagement.

290.8 Many different circumstances, or combination of circumstances, may be relevant in assessing independence. Accordingly, it is impossible to define every situation that creates threats to independence and to 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.

290.9 Paragraphs 290.100 and onwards ~~demonstrate~~ describe how the conceptual framework approach to independence is to be applied. These paragraphs do not ~~describe~~ address all the circumstances and relationships that create or may create threats to independence that could be experienced. Therefore, in any situation not explicitly addressed in these paragraphs, the conceptual framework ~~should~~ shall be ~~used~~ applied when evaluating the particular circumstances and relationships.

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

290.11 Throughout this section, reference is made to the significant ~~set of and clearly insignificant~~ threats to independence. In ~~considering~~ evaluating the significance of any particular matter, qualitative as well as quantitative factors ~~should~~ shall 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-

290.12 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**

290.13 If a firm is ~~considered~~deemed to be a network firm, the firm ~~is required to~~shall be independent of the audit clients of the other firms within the **network**\* (unless otherwise stated). The independence requirements in this section that apply to a network firm apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm.

290.14 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~~deemed to be a network.

290.15 The judgment as to whether the larger structure is a network ~~should~~shall 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~~shall be applied consistently throughout the network.

290.16 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~~deemed to be a network. However, the sharing of immaterial costs ~~does~~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 ~~does~~would not in itself create a network.

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\* See Definitions.

- 290.17 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is ~~considered-deemed~~ to be a network. This could be achieved by contract or other means.
- 290.18 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-deemed~~ to be a network. For this purpose common quality control policies and procedures would be those designed, implemented and monitored across the larger structure.
- 290.19 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is ~~considered-deemed~~ 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-deemed~~ 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.
- 290.20 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-deemed~~ to be a network. A common brand name includes common initials or a common name. A firm is ~~considered-deemed~~ 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.
- 290.21 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-shall be~~ carefully ~~consider-how-it-in~~ describinges any such memberships in order to avoid the perception that it belongs to a network.
- 290.22 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-considers~~shall determine how to disclose that they are not network firms when presenting themselves to outside parties.
- 290.23 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-deemed~~ 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 that consult on technical or industry specific issues, transactions or events for assurance engagements;
- Audit methodology or audit manuals; and
- Training courses and facilities.

290.24 The determination of whether the professional resources shared are significant, and therefore the firms are network firms, ~~should-shall~~ 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-deemed~~ 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

290.25 In evaluating the significance of threats to independence and the safeguards necessary to eliminate them or reduce them to an acceptable level the extent of public interest in the entity ~~is-shall be~~ taken into account. This section, therefore, contains enhanced safeguards to recognize the degree of public interest in certain entities. For the purpose of this section, **public interest entities\*** are:

- all **listed entities\***; and
- any entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

290.26 Firms and member bodies are encouraged to ~~determine~~consider whether additional entities, or certain categories of entities, should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- (a) 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;
- (b) Size; and
- (c) Number of employees.

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\* See Definitions.

## Related Entities

290.27 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~~shall include that related entity when evaluating threats to independence and applying appropriate safeguards.

## Those Charged with Governance

290.28 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

290.29 ~~Documentation is not, in itself, a determinant of whether a firm is independent. 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, International auditing standards require documentation of (i) conclusions regarding compliance with independence requirements and (ii) any relevant discussions that support these conclusions. When threats to independence that are not clearly insignificant are identified that require the application of safeguards, and the firm decides to accept or continue the audit engagement, the decision should be documented. The the documentation should also describe the nature of those threats identified and the safeguards applied to eliminate them or reduce them to an acceptable level.~~

## Engagement Period

290.30 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.

290.31 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~~shall determine whether any threats to independence ~~may be~~are created by:

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

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



- 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.

290.32 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 not be permitted during the period of the audit engagement, the firm shall evaluate consideration should be given to any threats to independence created by the service. ~~If the threat created is not clearly insignificant,~~ the audit engagement should shall only be accepted if safeguards are applied to eliminate ~~the any threats~~ or reduce ~~it them~~ to an acceptable level. Examples of sSuch safeguards ~~might~~ include:

- Not including personnel who provided the non-assurance service as members of the audit team;
- Having a 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

290.33 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally ~~does will~~ not compromise independence with respect to the client provided the firm has appropriate quality control policies and procedures in place to ~~maintain~~promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate the threat or reduce it to an acceptable level. The firm shall determine ~~Consideration should be given to~~ whether ~~to the matter should be~~ communicated the matter to those charged with governance.

### Application of a Conceptual Framework Approach to Independence

290.100 Paragraphs 290.102 to 290.229 describe specific circumstances and relationships that create or 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-evaluate~~ 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 when necessary to ~~satisfactorily address~~eliminate the threats to independence or reduce them to an acceptable level.

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~~shall be taken into account.

## Financial Interests

290.102 Holding a **financial interest**\* in an audit client may create a self-interest threat. In ~~determining whether a threat is created and in~~ evaluating the significance of ~~any the 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 role of the person holding the financial interest, (b) whether the financial interest is direct or indirect, and (c) the materiality of the financial interest shall be evaluated.

290.103 Financial interests may be held through an intermediary (e.g. a collective investment vehicle, estate, or trust). The determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, the financial interest ~~should be considered~~is direct. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, the financial interest ~~should be considered~~is indirect.

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 created would be so significant no safeguard could eliminate the threat or reduce it to an acceptable level. Therefore, none of the following ~~should~~shall have a direct financial 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.

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~~is created. In evaluating the significance of any threat, consideration ~~should~~shall 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, Ssafeguards should~~shall be ~~considered and~~ applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of sSuch 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;

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\* See Definitions.

- Having a professional accountant review the work of the member of the audit team; or
- Removing the individual from the audit team.

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 created 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:~~neither a member of the audit team;; his or her immediate family member;; nor the firm shall have such a financial interest.

290.107 The holding by a firm's retirement benefit plan of a direct or material indirect financial interest in an audit client ~~may~~creates a self-interest threat. The significance of any such threat ~~should-shall~~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.

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 created 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-shall~~ hold any such financial interests in such an audit client.

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 of the audit team, professional judgment ~~should-shall~~ 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~~minimal, 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-shall~~ hold any such financial interests in such an audit client.

290.111 Despite paragraphs 290.108 and 290.110, 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-does~~ not

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\* See Definitions.

~~considered to~~ compromise independence if the financial interest is received as a result of his or her employment rights (e.g., through pension or share option plans) and ~~appropriate safeguards~~, when necessary safeguards, 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~~shall be disposed of or forfeited as soon as practicable.

290.112 A self-interest threat ~~may be~~is 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. However, independence is not, ~~however,~~ 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~~shall either dispose of the interest or the firm ~~should~~shall withdraw from or decline the audit engagement. Any individual with such a material interest ~~should~~shall, before becoming a member of the audit team, either:

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

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

- The role of the professional on the audit team;
- Whether ownership of the entity is closely or widely held;
- Whether the interest gives the investor the ability to control or significantly influence the entity; and
- The materiality of the financial interest.

The significance of any threat ~~should~~shall 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. Examples of sSuch safeguards ~~might~~ include:

- Removing the member of the audit team with the financial interest from the audit team; and
- Having a professional accountant review the work of the member of the audit team.

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~~s a self-interest threat. Similarly, a self-interest threat ~~may be~~is 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~~shall only be held when:

- (a) Neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust;
- (b) The interest in the audit client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the audit client; and
- (d) The trustee, an immediate family member, or the firm cannot significantly influence any investment decision involving a financial interest in the audit client.

290.115 ~~Consideration should be given by M~~members of the audit team ~~to~~shall determine whether a self-interest threat ~~may be~~is 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~~shall 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. Examples of sSuch 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 review the work of the member of the audit team.

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 a 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~~shall be disposed of immediately, or a sufficient amount of an indirect financial interest ~~should~~shall be disposed of so that the remaining interest is no longer material, or the firm ~~should~~shall 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~~shall 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~~shall 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~~shall 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~~a determination shall be made as to whether any safeguards are necessary.

290.117 An inadvertent violation of this section as it relates to a financial interest in an audit client does not compromise independence ~~as long as if all of the following conditions are met:~~

- (a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the audit client;
- (b) The actions in paragraph 290.116 (a) – (c) are taken as applicable; and
- (c) The firm ~~considers whether any applies~~ other safeguards ~~should be applied when necessary to reduce any remaining threat to an acceptable level. Examples of s~~Such safeguards ~~might~~ include:
  - Having a professional accountant 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~~a determination shall be made as to whether to discuss~~ing~~ the matter with those charged with governance.

## Loans and Guarantees

290.118 A loan, or a guarantee of a loan, to the firm, or a member of the audit team, or his or her immediate family member, 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, ~~at the~~ self-interest threat ~~would be~~ created ~~that~~ 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, nor his or her immediate family member, ~~should~~shall accept such a loan or guarantee.

- 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. ~~An example of s~~Such ~~a~~ safeguards ~~might include~~is having a professional accountant from a network firm that is not involved with the audit and did not receive the loan review the work.
- 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~~does 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.
- 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 created 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 his or her immediate family member, and the client.
- 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 created 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 his or her immediate family member, and the client.
- 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~~do not create a threat to independence if the deposit or account is held under normal commercial terms.

### **~~Close~~-Business Relationships**

- 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, involves a commercial relationship or common financial interest and may create self-interest or intimidation threats. ~~The following are~~Eexamples of such relationships include:
- 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 business relationship is clearly insignificant to the firm and the client or its management, the threat would be created that would be so significant that no safeguards could reduce the threat created to an acceptable level. Therefore, If the magnitude of the relationship cannot be reduced so that unless the financial interest is immaterial and the business relationship is clearly insignificant:

- (a) The business relationship should-shall be terminated; or
- (b) The firm should-shall decline or terminate 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-shall 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 any threat should-shall 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.

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

290.126 The purchase of goods and services from an audit client by the firm, or a member of the audit team, or his or her immediate family member, would-does 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 The significance of any threat shall be evaluated and is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of sSuch safeguards might include:

- Eliminating or reducing the magnitude of the transaction; or

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\* See Definitions.



- Removing the individual from the audit team.

## Family and Personal Relationships

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

290.128 When an immediate family member of a member of the audit team is:

- (a) A director or officer of the audit client; or
- (b) 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 shall~~ withdraw from the audit engagement.

290.129 Threats to independence ~~may beare~~ 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 any threat ~~should shall~~ 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. Examples of sSuch safeguards ~~might~~ include:

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

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

- (a) A director or officer of the audit client; or

- (b) 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-the~~ threat ~~should-shall~~ 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. Examples of sSuch safeguards ~~might~~ include:

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

290.131 Threats to independence ~~may-beare~~ created when a member of the audit team has a close relationship with a person who is not an immediate or close family member, but who is a director or officer or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion. 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.

The significance of ~~any-the~~ threats ~~should-shall~~ be evaluated and, ~~if the threat is not clearly insignificant,~~ safeguards ~~should be considered and~~ applied when necessary to eliminate the threats or reduce ~~it-them~~ to an acceptable level. Examples of sSuch 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.

290.132 ~~Consideration should be given to whether S~~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 officer of the audit client or an employee in a position to exert significant influence over the

preparation of the client's accounting records or the financial statements on which the firm will express an opinion. 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 existence and 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 or 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 position the individual holds with the client.

The significance of any threat ~~should-shall~~ 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. Examples of sSuch safeguards ~~might~~ include:

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

290.133 An inadvertent violation of this section as it relates to family and personal relationships does not compromise independence if:

- (a) The firm has established policies and procedures that require prompt notification to the firm of 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 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 other safeguards, ~~as appropriate~~when necessary to reduce any remaining threat to an acceptable level. Examples of sSuch safeguards ~~might~~ include:
  - Having a 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**

290.134 Self-interest, familiarity or intimidation threats may be created if a director or officer of the audit client, or an employee in a position to exert significant influence over the

preparation of the client's accounting records or the financial statements on which the firm will express an opinion, has been a member of the audit team or partner of the firm.

290.135 If a former member of the audit team or partner of the firm has joined the audit client in such a position and a significant connection remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, independence would be compromised if a former member of the audit team or partner joins the audit client as a director or officer, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, unless:

- (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~~shall 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.

290.136 If a former member of the audit team or partner of the firm has joined the audit client in such a position, and no significant connection remains between the firm and the individual, the significance of any self-interest, familiarity or intimidation threats will depend on factors such as:

- The position the individual has taken at the client;
- Any involvement the individual will have with the audit team;
- The length of time since the individual was a member of the audit team or partner of the firm; and
- 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 the client's management or those charged with governance.

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

- Modifying the audit plan;
- Assigning individuals to the audit team who have sufficient experience in relation to the individual who has joined the client; or
- Having a professional accountant review the work of the former member of the audit team.

290.137 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, the significance of any

threats to independence ~~should~~shall 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.

290.138 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~~shall 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~~shall 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. Examples of ~~s~~Such safeguards ~~might~~ include:

- Removing ~~of~~ the individual from the audit team; or
- A review of any significant judgments made by that individual while on the team.

*Audit Clients that are Public Interest Entities*

290.139 Self-interest, familiarity or intimidation threats are created when a **key audit partner**\* joins the audit client that is a public interest entity as:

- (a) A director or officer of the entity; or
- (b) 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, subsequent to the partner ceasing to be a key audit partner, the public interest entity had issued audited financial statements covering a period of not less than twelve months and the partner was not a member of the audit team with respect to the audit of those financial statements.

290.140 An intimidation threat is created when the individual who was the firm's Senior or Managing Partner (Chief Executive or equivalent) joins an audit client that is a public interest entity as (a) an employee in a position to exert significant influence over the preparation of the entity's accounting records or its financial statements or (b) a director or 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.

290.141 Independence is not compromised if, as a result of a business combination, a former key audit partner or the individual who was the firm's former Senior or Managing Partner is in a position as described in paragraphs 290.139 and 290.140, ~~the threats to independence are not considered unacceptable if and~~:

- (a) The position was not taken in contemplation of the business combination;

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\* See Definitions.

- (b) Any benefits or payments due to the former 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 former 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 former partner with the audit client is discussed with those charged with governance.

### Temporary Staff Assignments

290.142 The lending of staff by a firm to an audit client ~~may create~~ a self-review threat. Such assistance may be given, but only ~~with the understanding that the assistance will only be~~ for a short period of time and the firm's personnel ~~will~~ shall 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~~ shall be responsible for directing and supervising the activities of the loaned staff.

The significance of ~~any~~ the threat ~~should~~ shall 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. Examples of sSuch 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 the temporary staff assignment; or
- Not including the loaned staff as a member of the audit team.

### Recent Service with an Audit Client

290.143 Self-interest, self-review or familiarity threats ~~may be~~ created if a member of the audit team has recently served as a former director or 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.

290.144 If, during the period covered by the audit report, a member of the audit team had served as a director or 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 that no safeguard could reduce the threat to an acceptable level. Consequently, such individuals ~~should~~ shall not be assigned to the audit team.

290.145 Self-interest, self-review or familiarity threats ~~may be~~are created if, before the period covered by the audit report, a member of the audit team had served as a director or 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~~shall 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. ~~An example of s~~Such a safeguards ~~might include~~is conducting a review of the work performed by the individual as a member of the audit team.

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

290.146 If a partner or employee of the firm serves ~~at the same time~~ as a director or officer of an audit client, the self-review and self-interest threats created 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~~shall decline or withdraw from the audit engagement.

290.147 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.

290.148 If a partner or employee of the firm serves as Company Secretary for an audit client, ~~the~~ self-review and advocacy threats are created that would generally be so significant, that no safeguards could reduce the threats to an acceptable level. When this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities ~~should~~shall 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 threats ~~should~~shall be evaluated and, ~~if not clearly insignificant,~~ safeguards ~~should be~~ applied when necessary to eliminate the threats or reduce them to an acceptable level.



290.149 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally ~~threaten~~create threats to independence, as long as client management makes all relevant decisions.

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

#### *General Provisions*

290.150 Familiarity, self-review or self-interest threats ~~may be~~are created by using the same senior personnel on an audit engagement over a long period of time. The significance of the threats 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 threats ~~should~~shall 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. Examples of sSuch safeguards ~~might~~ include:

- Rotating the senior personnel off the audit team;
- Having a 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*

290.151 In respect of an audit of a public interest entity, an individual ~~should~~shall not be a key audit partner for more than seven years. After such time, the individual ~~should~~shall not be a member of the **engagement team**\* or be a key audit partner for the client for two years. During that period, the individual ~~should~~shall not participate in the audit of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.

290.152 Despite paragraph 290.151, key audit partners whose continuity is especially important to audit quality may, in rare cases, due to unforeseen circumstances outside

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\* See Definitions.



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.

290.153 The long association of other partners with an audit client that is a public interest entity ~~may create~~ familiarity, self-review or self-interest threats. The significance of the threats 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 threats ~~should shall~~ 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. Examples of sSuch safeguards ~~might~~ include:

- Rotating the partner off the audit team or otherwise ending his or her association with the audit client; or
- Regular independent internal or external quality reviews of the engagement.

290.154 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 shall~~ be considered in determining when the individual ~~should shall~~ 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.

290.155 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

- 290.156 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 members of the audit team. The threats created are most often self-review, self-interest and advocacy threats.
- 290.157 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~~shall be applied when evaluating the particular circumstances.
- 290.158 Before the firm accepts an engagement to provide a non-assurance service to an audit client, ~~consideration should be given to a~~ determination shall be made as 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~~shall be given to any threat that the audit team has reason to believe may be created by providing other related non-assurance services. ~~If 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 threat~~ created could not be eliminated or reduced to an acceptable level by the application of safeguards, the non-assurance service ~~should~~shall not be provided.
- 290.159 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 a client ~~may~~ does 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.
- 290.160 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
- if it is reasonable to 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 by the application of safeguards.

290.161 A non-assurance service provided to an audit client does 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-applies appropriate~~ safeguards as necessary to eliminate or reduce to an acceptable level any threats to independence ~~that are not clearly insignificant~~ arising from the service.

### Management Responsibilities

290.162 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.

290.163 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.

290.164 Activities that are routine and administrative, or involve matters that are insignificant, ~~would generally~~ are 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 is~~ not ~~be considered~~ a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities ~~would is~~ not ~~be~~ assuming a management responsibility.

290.165 If a firm assumes a management responsibility for an audit client, no safeguards could reduce the threats to an acceptable level. 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. Therefore, the firm ~~should~~shall not assume a management responsibility for an audit client.

290.166 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm ~~should~~shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluates the results of the service 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 judgments or decisions 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**

### *General Provisions*

290.167 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).

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

290.169 The audit process, however, necessitates 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 control 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~~create threats to independence.

290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on

accounting issues such as the conversion of existing 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 services do not, generally, ~~threaten create threats to~~ independence, provided the firm does not assume a management responsibility for the client.

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

290.171 The firm may provide services related to the preparation of accounting records and financial statements to 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 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-shall~~ 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. Examples of sSuch 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 review the work performed.

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

290.172 Except in emergency situations, a firm ~~should-shall~~ 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.

290.173 Despite paragraph 290.172, 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*

290.174 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 (a) 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 (b) 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~~shall be discussed with those charged with governance.

## **Valuation Services**

### *General Provisions*

290.175 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.

290.176 Performing valuation services for an audit client may create a self-review threat. The existence and significance of ~~the~~any threat will depend on factors such as:

- Whether the valuation will have a material effect on the financial statements.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The availability of established methodologies and professional guidelines.
- For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item.
- 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.
- The extent and clarity of the disclosures in the financial statements.

The significance of ~~the any~~ threat created ~~should-shall~~ 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. Examples of sSuch safeguards ~~might~~ include:

- Having a professional review the audit or valuation work performed; or
- Making arrangements so that personnel providing such services do not participate in the audit engagement.

290.177 Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either established 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.

290.178 If a firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes, and the results of the valuation will not have a direct effect on the financial statements, the provisions included in paragraph 290.191 apply.

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

290.179 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 shall~~ either not provide the valuation service or ~~should-shall~~ withdraw from the audit engagement.

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

290.180 A firm ~~should-shall~~ 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**

290.181 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; and
- Assistance in the resolution of tax disputes.

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



290.182 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*

290.183 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 additional 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 deems appropriate. Accordingly, providing such services does not generally create a threat to the firm's independence if management takes responsibility for the returns including any significant judgments made.

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

290.184 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 law and regulation and the degree of judgment necessary in applying 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~~ shall be ~~considered and~~ applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of ~~s~~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*

290.185 Except in emergency situations, in the case of an audit client that is a public interest entity, a firm ~~should~~ shall 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.



290.186 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, 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 (a) 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 (b) 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~~shall be discussed with those charged with governance.

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

290.187 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.

290.188 A self-review threat may be created where the advice will affect matters to be reflected in the financial statements. The existence and 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 regulation, 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 create a threat to the firm's independence.

290.189 The significance of any threat ~~should~~ shall 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. Examples of sSuch safeguards ~~might~~ include:

- Using professionals who are not members of the audit team to perform the service;
- Having a tax 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.

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

- (a) 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) 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~~ shall not be provided. The only other course of action would be to withdraw from the audit engagement.

290.191 In providing tax services to an audit client, a firm may be requested to perform a valuation to assist the client with its tax reporting obligations or for tax planning purposes. Where the result of the valuation will have a direct effect on the financial statements, the provisions included in paragraphs 290. 175 to 290.180 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation will not have a direct effect on 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~~ create threats to independence if such effect on the financial statements is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. If the valuation is not subject to such an external review and the effect is material to the financial statements, the significance of any threat created ~~should~~ shall be evaluated. The existence and significance of any threat will depend upon factors such as:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice and the degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

~~If the~~The significance of any threat created ~~shall be evaluated and is not clearly insignificant,~~ safeguards ~~should be considered and~~ applied as necessary to eliminate the threat or reduce it to an acceptable level. ~~Examples of s~~Such safeguards ~~might~~ include:

- Using professionals who are not members of the audit team to perform the service;
- Having a professional review the audit work or the result of the tax service; or
- Obtaining pre-clearance or advice from the tax authorities.

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

290.192 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 client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding, for example before a tribunal or court. The existence and significance of ~~the any~~ 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 regulation, 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 ~~created should shall~~ 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. ~~Examples of s~~Such safeguards ~~might~~ include:

- Using professionals who are not members of the audit team to perform the service;
- Having a tax professional, not involved in the provision of the tax services, advise the audit team on the services and review the financial statement treatment; or
- Obtaining advice on the service from an external tax professional.

290.193 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~~ created would be so significant that no safeguard could eliminate or reduce the threat to an acceptable level. Therefore, the firm ~~should shall~~ not perform this type of service for an audit client. What constitutes a "public tribunal or court" ~~should shall~~ be determined according to how tax proceedings are heard in the particular jurisdiction.

290.194 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**

290.195 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.

290.196 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.

290.197 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.

290.198 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.

290.199 A firm should not provide any internal audit services to an audit client unless:

- (a) The client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls;
- (b) The client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
- (c) The client or those charged with governance approve the scope, risk and frequency of internal audit work;
- (d) The client is responsible for evaluating and determining which recommendations of the firm to implement;

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

290.200 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*

290.201 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 control 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 control 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.

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

- (a) Design or implementation of IT systems that are unrelated to internal control over financial reporting;
- (b) Design or implementation of IT systems that do not generate information forming a significant part of the accounting records or financial statements;
- (c) 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
- (d) 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*

290.203 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 control 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~~ s a self-review threat.

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

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client 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) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

290.205 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~~ a determination shall be made as 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~~ shall 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. An example of sSuch a ~~safeguards might include~~ s having a professional accountant review the audit or non-assurance work.

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

290.206 In the case of an audit client that is a public interest entity, a firm ~~should~~ shall not provide services involving the design or implementation of IT systems that (a) form a significant part of the internal control 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**

290.207 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.

290.208 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 290.175 to 290.180 ~~should~~ shall be followed. In the case of other litigation support services, the significance of any threat created ~~should~~ shall 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

290.209 For the purpose of this section, 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. Such legal services may include, depending on the jurisdiction, a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition legal 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.

290.210 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 existence and significance of ~~the any~~ 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 any~~ threat created ~~should~~ shall 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. Examples of ~~s~~Such safeguards ~~might~~ include:

- Using professionals who are not members of the audit team to perform the service; or
- Having a professional, not involved in providing the legal services, provide advice to the audit team on the service and review any financial statement treatment.

290.211 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~~ shall not perform this type of service for an audit client.

290.212 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~~ shall evaluate the significance of any advocacy and self-review threats created and, ~~if they are not clearly insignificant,~~ safeguards should be considered and applied apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Examples of ~~s~~Such safeguards ~~might~~ include:

- Using professionals who are not members of the audit team to perform the service; or

- Having a professional, not involved in providing the legal services, advise the audit team on the service and review any financial statement treatment.

290.213 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~~shall accept such an appointment for an audit client.

## Recruiting Services

### *General Provisions*

290.214 Providing recruiting services to an audit client ~~may~~creates 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~~shall 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~~shall not assume management responsibilities, including acting as negotiator on the client's behalf, and the hiring decision ~~should~~shall be left to the client.

The firm could generally provide such services as reviewing the professional qualifications of a number of applicants and providing 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*

290.215 A firm ~~should~~shall 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 reference checks of prospective candidates for such positions.

## Corporate Finance Services

290.216 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 any~~ threat ~~should~~shall 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. Examples of sSuch safeguards ~~might~~ include:

- Using professionals who are not members of the audit team to provide the services; or
- Having a professional, who is not involved in the provision of corporate finance services, advise the audit team and review the accounting treatment and any financial statement treatment.

290.217 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 existence and 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 shall~~ 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. Examples of sSuch safeguards ~~might~~ include:

- Using professionals who are not members of the audit team to perform the service; or
- Having a 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 accounting treatment and any financial statement treatment.

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

- (a) 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) 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 ~~should~~shall not be provided.

290.219 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~~shall not provide such services to an audit client.

## **Fees**

### **Fees – Relative Size**

290.220 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.

290.221 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**

290.222 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**

290.223 **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.

290.224 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.

290.225 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.

290.226 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**

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\* See Definitions.

290.227 A self-interest threat ~~may be~~is created when a member of the audit team is evaluated on or compensated for selling non-assurance services to his or her audit clients. The significance of the threat will depend on:

- 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~~shall 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 applied to eliminate the threat or reduce it to an acceptable level. Examples of Such safeguards ~~might~~ include:

- Removing such members from the audit team; or
- Having a professional accountant review the work of the member of the audit team.
- If these safeguards do not eliminate or reduce the threat to an acceptable level the firm shall revise the compensation plan for that individual.

290.228 A key audit partner ~~should~~shall 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**

290.229 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~~trivial and inconsequential, no safeguards could reduce the threats to an acceptable level. Consequently, a firm or a member of the audit team ~~should~~shall not accept such gifts or hospitality.

### **Actual or Threatened Litigation**

290.230 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~~is 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~~shall 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. Examples of sSuch safeguards ~~might~~ include:

- If the litigation involves a member of the audit team, removing that individual from the audit team; or
- Having a professional 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 290.231 to 290.499 are intentionally left blank.**

## Reports that Include a Restriction on Use and Distribution

### Introduction

- 290.500 The independence requirements in section 290 apply to all audit engagements. However, in certain circumstances involving audit engagements where the report includes a restriction on use and distribution, and provided the conditions described in 290.501-502 are met, the independence requirements in this section may be modified as provided in paragraphs 290.505 to 290.514. These paragraphs are only applicable to an audit engagement on special purpose financial statements (a) that is intended to provide a conclusion in positive or negative form that the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework, including, in the case of a fair presentation framework, that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework, and (b) where the audit report includes a restriction on use and distribution. The modifications are not permitted in the case of an audit of financial statements required by law or regulation.
- 290.501 The modifications to the requirements of section 290 are permitted if the intended users of the report (a) are knowledgeable as to the purpose and limitations of the report, and (b) explicitly agree to the application of the modified independence requirements. Knowledge as to the purpose 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, and to obtain their agreement to the modified independence requirements that are to be applied.
- | 290.502 The firm ~~should~~shall 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~~shall 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).
- 290.503 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 290.514 do not change the requirements to apply the provisions of paragraphs 290.1 to 290.229 to that audit engagement.

290.504 The modifications to the requirements of section 290 that may be permitted in the circumstances set out above are described in paragraphs 290.505 to 290.514. Compliance in all other respects with the provisions of section 290 is required.

### **Public Interest Entities**

290.505 When the conditions set out in paragraphs 290.500 to 290.502 are met, it is not necessary to apply the additional requirements in paragraphs 290.100 to 290.230 that apply to audit engagements for public interest entities.

### **Related Entities**

290.506 When the conditions set out in paragraphs 290.500 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~~ shall include that related entity when evaluating threats to independence and applying appropriate safeguards.

### **Networks and Network Firms**

290.507 When the conditions set out in paragraphs 290.500 to 290.502 are met, reference to the firm does not include network firms. However, when the firm knows or has reason to believe that threats may be created by any interests and relationships of a network firm, they ~~should shall~~ be ~~considered~~ included in the evaluation of threats to independence.

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

290.508 When the conditions set out in paragraphs 290.500 to 290.502 are met, the relevant provisions set out in paragraphs 290.101 to 290.145 apply only to the members of the engagement team, their immediate family members and close family members.

290.509 In addition, ~~consideration should be given~~ a determination shall be made as to whether threats to independence are created by interests and relationships, as described in paragraphs 290.101 to 290.145, between the audit client and the following members of the audit team:

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

~~Consideration should also be given~~ An evaluation shall be made of the significance of ~~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

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\* See Definitions.

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

290.510 ~~Consideration should~~ An evaluation shall also ~~be given to~~ of the significance of 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 290.108 to 290.111 and paragraphs 290.114 to 290.114.

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

290.512 In applying the provisions set out in paragraphs 290.106 and 290.115 to interests of the firm, if the firm has 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~~ shall not have such a financial interest.

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

290.513 ~~Consideration should be given to~~ An evaluation shall be made of the significance of any threats from any employment relationships as described in paragraphs 290.134 to 290.138. Where a threat exists that is not ~~clearly insignificant~~ at an acceptable level, safeguards ~~should~~ shall be applied ~~when necessary~~ to eliminate the threat or reduce it to an acceptable level. ~~Examples of Appropriate~~ safeguards might be appropriate include those set out in paragraph 290.136.

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

290.514 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 the audit client, the provisions of paragraphs 290.156 to 290.230 ~~should~~ shall be complied with, subject to paragraphs 290.504 and 290.507.



## SECTION 291 This section has not yet been redrafted

### Independence – Other Assurance Engagements

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## Objective and Structure of 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 certain circumstances involving assurance engagements where the assurance 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 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 which International Standards on Assurance Engagements (ISAEs) 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 that~~ any threats that the firm has reason to believe may be created by network firm interests and relationships be evaluated. 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 framework 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 framework approach to achieving and maintaining independence involves using professional judgment to:
- Identifying threats to independence;
  - Evaluateing ~~whether~~ these significance of the threats ~~are clearly insignificant~~;
  - When necessary, ~~the threats are not clearly insignificant, identifying and~~ appropriate safeguards to eliminate the threats or reduce them to an acceptable level; and
  - When safeguards are not applied to eliminate the threats or reduce them to an acceptable level, eliminateing the activity or relationship 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 to 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 describe~~demonstrate~~ how the conceptual framework approach to independence is to be applied. The paragraphs do not address~~describe~~ all the circumstances and relationships that create or may create threats to independence~~could be experienced~~. Therefore, in any situation not explicitly addressed in these paragraphs, the conceptual framework shall~~ould~~ be applied~~used~~ when evaluating the particular circumstances and relationships.
- 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 any threats to independence and consider the availability of appropriate safeguards to eliminate such threats or reduce them 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.
- 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>2</sup> or CoCo<sup>3</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 party responsible for the subject matter information, and which may be responsible for the subject matter). Such independence requirements prohibit certain relationships between members of the assurance team and (a) directors or officers, and (b) 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

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<sup>2</sup> “Internal Control – Integrated Framework” The Committee of Sponsoring Organizations of the Treadway Commission.

<sup>3</sup> “Guidance on Assessing Control – The CoCo Principles” Criteria of Control Board, The Canadian Institute of Chartered Accountants.

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>4</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 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 In certain circumstances where the assurance report includes a restriction on use and distribution, and provided the conditions in this paragraph and in 290.22 are met, the independence requirements in this section may be modified. The modifications to the requirements of section 291 are permitted if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report, and (b) 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, and to obtain their agreement to the modified independence requirements that are to be applied.

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<sup>4</sup> See paragraphs 290.10 to 290.21 for guidance on what constitutes a network firm.

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 does not include a restriction on use and distribution for the same client, 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. If the firm also issues an audit report, whether or not it includes a restriction on use and distribution, for the same client, the provisions of section 290 apply to that audit 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 291.27. Compliance in all other respects with the provisions of Section 291 is required.

291.25 When the conditions set out in paragraphs 291.21 to 291.22 are met, the relevant provisions set out in paragraphs 291.103 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 291.103 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 291.21 to 291.22 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 291.113 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 not be permitted 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 be applied to reduce the threat to an acceptable level. Such safeguards might include:

- Not including personnel who provided the non-assurance service as members of the assurance team;
- Having a professional review the 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.

However, if the non-assurance service has not been completed and it is not practical to complete or terminate the service before the commencement of professional services in connection with the assurance engagement, the firm should only accept the assurance engagement if it is satisfied:

- The non-assurance service will be completed within a short period of time; or
- The client has arrangements in place to transition the service to another provider within a short period of time.

During the service period, safeguards should be considered and applied as necessary. In addition the matter should be discussed with those charged with governance.

### **Other Considerations**

291.33 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally does 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.



EXPOSURE DRAFT:  
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### **Application of a Conceptual Framework Approach to Independence**

- 291.100 Paragraphs 291.101 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.
- 291.101 The paragraphs illustrate how the conceptual framework approach 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.
- 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**

- 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 role of the person holding the financial interest, (b) whether the financial interest is direct or indirect, and (c) the materiality of the financial interest.
- 291.105 Financial interests may be held through an intermediary (e.g. a collective investment vehicle, estate or trust). The determination of whether such financial interests are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, the financial interest should be considered direct. Conversely, when the beneficial owner of

the financial interest has no control over the investment vehicle or ability to influence its investment decisions, the financial interest should be considered indirect.

- 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 safeguard 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.
- 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 review the work of the member of the assurance team; or
  - Removing the individual from the assurance team.
- 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.
- 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:
- (a) Neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust;
  - (b) The interest in the assurance client held by the trust is not material to the trust;
  - (c) The trust is not able to exercise significant influence over the assurance client;
- and

- (d) The trustee, an immediate family member of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the assurance client.

291.110 Consideration should be given by members of 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 review the work of the 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:

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; or

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.

291.112 An inadvertent violation of this section as it relates to a financial interest in an assurance client does not compromise independence as long as:

The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client;

The actions taken in paragraph 291.111(a) – (b) are taken as applicable; and

The firm considers whether any other safeguards should be applied. Such safeguards might include:

- Having a professional accountant 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**

291.113 A loan, or a guarantee of a loan, to the firm, or a member of the assurance team, or his or her immediate family member, 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 conditions, 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, nor his or her immediate family member, should accept such a loan or guarantee.

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 conditions and it is material to the assurance 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 a professional accountant from a network firm that is not involved with the assurance engagement and did not receive the loan review the work.

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 conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.

291.116 If the firm or a member of the assurance team, or his or her immediate family member, accepts a loan from, or has a borrowing guaranteed by, 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 and his or her immediate family member, and the client.

- 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, 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 and his or her immediate family member, and the client.
- 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**

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, 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 or 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:

The business relationship should be terminated; or

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.

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 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.

### **Family and Personal Relationships**

291.121 Family and personal relationships between a member of the assurance team and a director or officer or certain employees (depending on their role) of the assurance 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 in the assurance team, and the closeness of the relationship. Consequently, the particular circumstances will need to be evaluated in assessing the significance of these threats.

291.122 When an immediate family member of a member of the assurance team is:

- (a) A director or officer of the assurance client, or
- (b) An employee 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 an acceptable level. If this safeguard is not applied, the firm should withdraw from the assurance engagement.

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 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 immediate family member.

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

- A director or officer of the assurance client; or
- 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 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.

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 (a) has a close relationship with the member of the assurance team and (b) is a director or officer or an employee in a position to exert significant influence over the subject matter information of the assurance engagement. 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 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.

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.

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 officer of the assurance client or an 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 or 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 a professional accountant review the relevant assurance work performed.

291.127 An inadvertent violation of this section as it relates to family and personal relationships does not compromise independence if:

- The firm has established policies and procedures that require prompt notification to the firm of 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;
- The inadvertent violation relates to an immediate family member of a member of the assurance team becoming a director or officer of the assurance client or being in a position to exert significant influence over the subject matter information of the assurance engagement, and the relevant professional is removed from the assurance team; and
- The firm considers and applies other safeguards, as appropriate. Such safeguards might include:
  - Having a professional accountant review the work of the member of the assurance team; or
  - Excluding the professional from any significant decision-making concerning the engagement.

### **Employment with Assurance Clients**

291.128 Self-interest, familiarity or intimidation threats may be created if a director or officer of the assurance client, or an 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.

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:

The position the individual has taken at the client;

Any involvement the individual will have with the assurance team;

The length of time since the individual was a member of the assurance team or partner of the firm; and

The former position of the individual within the assurance team or firm, such as for example, whether the individual was responsible for maintaining contact with the client's management or 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 individuals to the assurance team who have sufficient experience in relation to the individual who has joined the client; or
- Having a professional accountant review the work performed.

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.

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 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:

- Removal of the individual from the assurance team; or
- A review of any significant judgments made by that individual while on the team.

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

291.132 Self-interest, self-review or familiarity threats may be created if a former director or 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.

291.133 If, during the period covered by the assurance report, a member of the assurance team had served as director or officer 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.

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 director or officer 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 a review of the work performed by the individual as part of the assurance team.

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

291.135 If a partner or employee of the firm serves at the same time as a director or 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.

- 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 regulation 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.
- 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 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.
- 291.138 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally threaten independence, as long as client management makes all relevant decisions.

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

- 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 a 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**

- 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.
- 291.141 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.
- 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 assurance 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**

- 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.
- 291.145 Activities 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, making all the significant judgments and decisions that are the proper responsibility of management, evaluates the results of the service 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 judgments or decisions on behalf of management. 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 Considerations**

- 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.
- 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.
- 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**

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.

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**

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 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**

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.

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.

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.

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:

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

### **Gifts and Hospitality**

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**

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:



- The materiality of the litigation; and
- 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:

If the litigation involves a member of the assurance team, removing that individual from the assurance team; or

Having a 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.

## **Interpretation 2005-01**

### *Application of Section 290 to Assurance Engagements that are Not Financial Statement Audit Engagements*

This interpretation provides guidance on the application of the independence requirements contained in Section 290 to assurance engagements that are not financial statement audit engagements.

This interpretation focuses on the application issues that are particular to assurance engagements that are not financial statement audit engagements. There are other matters noted in Section 290 that are relevant in the consideration of independence requirements for all assurance engagements. For example, paragraph 290.15 states that ~~consideration should be given to an~~ evaluation shall be made of any threats the firm has reason to believe may be created by network firms' interests and relationships. Similarly, paragraph ~~290.21~~291.3 states that ~~for assurance clients, that are other than listed entity financial statement audit clients,~~ when the assurance team has reason to believe that a related entity of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team ~~shall~~should consider include that related entity when evaluating independence and applying appropriate safeguards. These matters are not specifically addressed in this interpretation.

As explained in the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board, 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.

### *Assertion-Based Assurance Engagements*

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.

In an assertion-based assurance engagement independence is required from the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter.

In those assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter, independence is required from the responsible party. In addition an evaluation shall be made of, ~~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*

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.

In a direct reporting assurance engagement independence is required from the responsible party, which is responsible for the subject matter.

### *Multiple Responsible Parties*

In both assertion-based assurance engagements and direct reporting assurance engagements there may be several responsible parties. For example, a public accountant in public practice may be asked to provide assurance on the monthly circulation statistics of a number of independently owned newspapers. The assignment could be an assertion based assurance engagement where each newspaper measures its circulation and the statistics are presented in an assertion that is available to the intended users. Alternatively, the assignment could be a direct reporting assurance engagement, where there is no assertion and there may or may not be a written representation from the newspapers.

In such engagements, when determining whether it is necessary to apply the provisions in Section 290 to each responsible party, 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 other than clearly insignificant~~ in the context of the subject matter information. This will take into account:

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

If the firm determines that the threat to independence created by any such relationships with a particular responsible party would be ~~clearly insignificant~~ at an acceptable level it may not be necessary to apply all of the provisions of this section to that responsible party.

### *Example*

The following example has been developed to demonstrate the application of Section 290. It is assumed that the client is not also a financial statement audit client of the firm, or a network firm.

A firm is engaged to provide assurance on the total proven oil reserves of 10 independent companies. Each company has conducted geographical and engineering surveys to determine their reserves (subject matter). There are established criteria to determine when a reserve may be considered to be proven which the professional accountant in public practice determines to be suitable criteria for the engagement.

The proven reserves for each company as at December 31, 20X0 were as follows:

	Proven oil reserves thousands barrels
Company 1	5,200
Company 2	725
Company 3	3,260
Company 4	15,000
Company 5	6,700
Company 6	39,126
Company 7	345
Company 8	175
Company 9	24,135
Company 10	9,635
<b>Total</b>	<b>104,301</b>

The engagement could be structured in differing ways:

#### Assertion-Based Engagements

A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

#### Direct Reporting Engagements

D1 Each company measures the reserves and provides the firm with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

D2 The firm directly measures the reserves of some of the companies.

#### Application of Approach

A1 Each company measures its reserves and provides an assertion to the firm and to intended users.

There are several responsible parties in this engagement (companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm

may take into account whether an interest or relationship with a particular company would create a threat to independence that is ~~other than clearly insignificant~~not at an acceptable level. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (Paragraph 290.20.)

For example Company 8 accounts for 0.16% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties which would be considered to be the assurance client (paragraph 290.20).

A2 An entity other than the companies measures the reserves and provides an assertion to the firm and to intended users.

The firm would be required to be independent of the entity that measures the reserves and provides an assertion to the firm and to intended users (paragraph 290.17). That entity is not responsible for the subject matter and so ~~consideration should be given to an evaluation shall be made of~~ any threats the firm has reason to believe may be created by interests/relationships with the party responsible for the subject matter (paragraph 290.17). There are several parties responsible for subject matter in this engagement (Companies 1-10). As discussed in example A1 above, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence that is ~~other than clearly insignificant~~not at an acceptable level.

D1 Each company provides the firm with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (Companies 1-10). When determining whether it is necessary to apply the independence provisions to all of the companies, the firm may take into account whether an interest or relationship with a particular company would create a threat to independence ~~that is other than clearly insignificant~~. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (paragraph 290.20).

For example Company 8 accounts for 0.16% of the reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6 that accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence requirements apply, the assurance team and the firm are required to be independent of those responsible parties which would be considered to be the assurance client (paragraph 290.20).

D2 The firm directly measures the reserves of some of the companies.

The application is the same as in example D1.

**PART C—PROFESSIONAL ACCOUNTANTS IN BUSINESS**

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## SECTION 300

### Introduction

- 300.1 This Part of the Code ~~illustrates~~describes how the conceptual framework contained in Part A ~~is to~~shall be applied by professional accountants in business.
- 300.2 Investors, creditors, employers and other sectors of the business community, as well as governments and the public at large, all may rely on the work of professional accountants in business. Professional accountants in business may be solely or jointly responsible for the preparation and reporting of financial and other information, which both their employing organizations and third parties may rely on. They may also be responsible for providing effective financial management and competent advice on a variety of business-related matters.
- 300.3 A professional accountant in business may be a salaried employee, a partner, director (whether executive or non-executive), an owner manager, a volunteer or another working for one or more employing organization. The legal form of the relationship with the employing organization, if any, has no bearing on the ethical responsibilities incumbent on the professional accountant in business.
- 300.4 A professional accountant in business has a responsibility to further the legitimate aims of their employing organization. This Code does not seek to hinder a professional accountant in business from properly fulfilling that responsibility, but ~~considers~~addresses circumstances in which conflicts may be created with the absolute duty to comply with the fundamental principles.
- 300.5 A professional accountant in business often holds a senior position within an organization. The more senior the position, the greater will be the ability and opportunity to influence events, practices and attitudes. A professional accountant in business is expected, therefore, to encourage an ethics-based culture in an employing organization that emphasizes the importance that senior management places on ethical behavior.
- 300.6 The examples presented in the following sections are intended to ~~illustrate~~demonstrate how the conceptual framework is to be applied and are not intended to be ~~, nor should they be interpreted as,~~ an exhaustive list of all circumstances experienced by a professional accountant in business that may create threats to compliance with the principles. Consequently, it is not sufficient for a professional accountant in business merely to comply with the examples; rather, the framework shall ~~should~~ be applied to the particular circumstances faced.
- 300.7 Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:
- (a) Self-interest;
  - (b) Self-review;
  - (c) Advocacy;
  - (d) Familiarity; and



(e) Intimidation.

These threats are discussed further in Part A of this Code.

- 300.8 Examples of circumstances that may create self-interest threats for a professional accountant in business include, but are not limited to:
- Financial interests, loans or guarantees.
  - Incentive compensation arrangements.
  - Inappropriate personal use of corporate assets.
  - Concern over employment security.
  - Commercial pressure from outside the employing organization.
- 300.9 Circumstances that may create self-review threats include, but are not limited to, business decisions or data being subject to review and justification by the same professional accountant in business responsible for making those decisions or preparing that data.
- 300.10 When furthering the legitimate goals and objectives of their employing organizations professional accountants in business may promote the organization's position, provided any statements made are neither false nor misleading. Such actions generally would not create an advocacy threat.
- 300.11 Examples of circumstances that may create familiarity threats include, but are not limited to:
- A professional accountant in business in a position to influence financial or non-financial reporting or business decisions having an immediate or close family member who is in a position to benefit from that influence.
  - Long association with business contacts influencing business decisions.
  - Acceptance of a gift or preferential treatment, unless the value is clearly insignificant.
- 300.12 Examples of circumstances that may create intimidation threats include, but are not limited to:
- Threat of dismissal or replacement of the professional accountant in business or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported.
  - A dominant personality attempting to influence the decision making process, for example with regard to the awarding of contracts or the application of an accounting principle.
- 300.13 Professional accountants in business may also find that specific circumstances ~~give rise to~~create unique threats to compliance with one or more of the fundamental principles. Such unique threats obviously cannot be categorized. In all professional and business

relationships, professional accountants in business ~~should-shall always~~ be on the alert for such circumstances and threats.

300.14 Safeguards that may eliminate or reduce to an acceptable level the threats faced by professional accountants in business fall into two broad categories:

- (a) Safeguards created by the profession, legislation or regulation; and
- (b) Safeguards in the work environment.

300.15 Examples of safeguards created by the profession, legislation or regulation are detailed in paragraph 100.12 of Part A of this Code.

300.16 Safeguards in the work environment include, but are not restricted to:

- The employing organization's systems of corporate oversight or other oversight structures.
- The employing organization's ethics and conduct programs.
- Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
- Strong internal controls.
- Appropriate disciplinary processes.
- Leadership that stresses the importance of ethical behavior and the expectation that employees will act in an ethical manner.
- Policies and procedures to implement and monitor the quality of employee performance.
- Timely communication of the employing organization's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.
- Policies and procedures to empower and encourage employees to communicate to senior levels within the employing organization any ethical issues that concern them without fear of retribution.
- Consultation with another appropriate professional accountant.

300.17 In circumstances where a professional accountant in business believes that unethical behavior or actions by others will continue to occur within the employing organization, the professional accountant in business ~~should-shall consider-determine whether to~~ seeking legal advice. In those extreme situations where all available safeguards have been exhausted and it is not possible to reduce the threat to an acceptable level, a professional accountant in business may conclude that it is appropriate to resign from the employing organization.

## SECTION 310

### Potential Conflicts

- 310.1 A professional accountant in business ~~has a professional obligation to~~shall comply with the fundamental principles. There may be times, however, when their responsibilities to an employing organization and the professional obligations to comply with the fundamental principles are in conflict. ~~Ordinarily, a~~ professional accountant in business ~~should be expected to~~ support the legitimate and ethical objectives established by the employer and the rules and procedures drawn up in support of those objectives. Nevertheless, where compliance with the fundamental principles is threatened, a professional accountant in business ~~must~~shall consider ~~determine~~ a response to the circumstances.
- 310.2 As a consequence of responsibilities to an employing organization, a professional accountant in business may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from a supervisor, manager, director or another individual within the employing organization. A professional accountant in business may face pressure to:
- Act contrary to law or regulation.
  - Act contrary to technical or professional standards.
  - Facilitate unethical or illegal earnings management strategies.
  - Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:
    - The auditors of the employing organization; or
    - Regulators.
  - Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for example:
    - The financial statements;
    - Tax compliance;
    - Legal compliance; or
    - Reports required by securities regulators.
- 310.3 The significance of any threats arising from such pressures, such as intimidation threats, ~~should~~shall be evaluated and, ~~if they are other than clearly insignificant,~~ safeguards ~~should be considered and~~ applied as when necessary to eliminate them or reduce them to an acceptable level. Examples of such ~~Such~~ safeguards ~~may~~ include:
- Obtaining advice where appropriate from within the employing organization, an independent professional advisor or a relevant professional body.

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- The existence of a formal dispute resolution process within the employing organization.
- Seeking legal advice.

## SECTION 320

### Preparation and Reporting of Information

- 320.1 Professional accountants in business are often involved in the preparation and reporting of information that may either be made public or used by others inside or outside the employing organization. Such information may include financial or management information, for example, forecasts and budgets, financial statements, management discussion and analysis, and the management letter of representation provided to the auditors as part of an audit of financial statements. A professional accountant in business ~~shall should~~ prepare or present such information fairly, honestly and in accordance with relevant professional standards so that the information will be understood in its context.
- 320.2 A professional accountant in business who has responsibility for the preparation or approval of the general purpose financial statements of an employing organization ~~shall should~~ ensure that those financial statements are presented in accordance with the applicable financial reporting standards.
- 320.3 A professional accountant in business ~~shall should~~ maintain information for which the professional accountant in business is responsible in a manner that:
- (a) Describes clearly the true nature of business transactions, assets or liabilities;
  - (b) Classifies and records information in a timely and proper manner; and
  - (c) Represents the facts accurately and completely in all material respects.
- 320.4 Threats to compliance with the fundamental principles, for example, self-interest or intimidation threats to objectivity or professional competence and due care, ~~may be~~ created where a professional accountant in business ~~may is be~~ pressured (either externally or by the possibility of personal gain) to become associated with misleading information or to become associated with misleading information through the actions of others.
- 320.5 The significance of such threats will depend on factors such as the source of the pressure and the degree to which the information is, or may be, misleading. The significance of the threats ~~shall should~~ be evaluated and, ~~if they are other than clearly insignificant,~~ safeguards ~~should be considered and~~ applied ~~as when~~ necessary to eliminate them or reduce them to an acceptable level. Such safeguards ~~may~~ include consultation with superiors within the employing organization, for example, the audit committee or other body responsible for governance, or with a relevant professional body.
- 320.6 Where it is not possible to reduce the threat to an acceptable level, a professional accountant in business ~~shall should~~ refuse to remain associated with information ~~they he or she consider determines~~ is or may be misleading. ~~Should If~~ the professional accountant in business ~~comes~~ aware that the issuance of misleading information is either significant or persistent, the professional accountant in business ~~shall should consider determine whether to~~ inform~~ing~~ appropriate authorities in line with the guidance in

Section 140. The professional accountant in business ~~may also wish~~ shall also consider whether it is necessary to seek legal advice or resign.

## SECTION 330

### Acting with Sufficient Expertise

- 330.1 The fundamental principle of professional competence and due care requires that a professional accountant in business ~~should~~ only undertakes significant tasks for which the professional accountant in business has, or can obtain, sufficient specific training or experience. A professional accountant in business ~~should~~ shall not intentionally mislead an employer as to the level of expertise or experience possessed, nor ~~shall~~ should a professional accountant in business fail to seek appropriate expert advice and assistance when required.
- 330.2 Circumstances that threaten the ability of a professional accountant in business to perform duties with the appropriate degree of professional competence and due care include:
- Insufficient time for properly performing or completing the relevant duties.
  - Incomplete, restricted or otherwise inadequate information for performing the duties properly.
  - Insufficient experience, training and/or education.
  - Inadequate resources for the proper performance of the duties.
- 330.3 The significance of such threats will depend on factors such as the extent to which the professional accountant in business is working with others, relative seniority in the business and the level of supervision and review applied to the work. The significance of the threats ~~shall~~ should be evaluated and, ~~if they are other than clearly insignificant,~~ safeguards ~~should be considered and~~ applied as when necessary to eliminate them or reduce them to an acceptable level. Examples of such s~~Safeguards that may be considered~~ include:
- Obtaining additional advice or training.
  - Ensuring that there is adequate time available for performing the relevant duties.
  - Obtaining assistance from someone with the necessary expertise.
  - Consulting, where appropriate, with:
    - Superiors within the employing organization;
    - Independent experts; or
    - A relevant professional body.
- 330.4 Where threats cannot be eliminated or reduced to an acceptable level, professional accountants in business ~~shall~~ should consider determine whether to refuse to perform the duties in question. If the professional accountant in business determines that refusal is appropriate the reasons for doing so ~~shall~~ should be clearly communicated.

## SECTION 340

### Financial Interests

340.1 Professional accountants in business may have financial interests, or may know of financial interests of immediate or close family members, that ~~could~~, in certain circumstances, ~~give rise to~~may create threats to compliance with the fundamental principles. For example, self-interest threats to objectivity or confidentiality may be created through the existence of the motive and opportunity to manipulate price sensitive information in order to gain financially. Examples of circumstances that may create self-interest threats include, ~~but are not limited to,~~ situations where the professional accountant in business or an immediate or close family member:

- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest could be directly affected by decisions made by the professional accountant in business;
- Is eligible for a profit related bonus and the value of that bonus could be directly affected by decisions made by the professional accountant in business;
- Holds, directly or indirectly, share options in the employing organization, the value of which could be directly affected by decisions made by the professional accountant in business;
- Holds, directly or indirectly, share options in the employing organization which are, or will soon be, eligible for conversion; or
- May qualify for share options in the employing organization or performance related bonuses if certain targets are achieved.

340.2 In evaluating the significance of ~~any such a~~ threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, professional accountants in business ~~must~~shall examine the nature of the financial interest. This includes an evaluation of the significance of the financial interest and a determination of whether it is direct or indirect. ~~Clearly, W~~what constitutes a significant or valuable stake in an organization will vary from individual to individual, depending on personal circumstances.

340.3 ~~The significance of the threat shall be evaluated If threats are other than clearly insignificant, and~~ safeguards ~~should be considered and~~ applied ~~as when~~ necessary to eliminate ~~the threat~~ or reduce ~~them it~~ to an acceptable level. Examples of such ~~Such~~ safeguards ~~may~~ include:

- Policies and procedures for a committee independent of management to determine the level ~~or~~if form of remuneration of senior management.
- Disclosure of all relevant interests, and of any plans to trade in relevant shares to those charged with the governance of the employing organization, in accordance with any internal policies.
- Consultation, where appropriate, with superiors within the employing organization.



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- Consultation, where appropriate, with those charged with the governance of the employing organization or relevant professional bodies.
  - Internal and external audit procedures.
  - Up-to-date education on ethical issues and on the legal restrictions and other regulations around potential insider trading.
- 340.4 A professional accountant in business ~~shall should~~ neither manipulate information nor use confidential information for personal gain.

## SECTION 350

### Inducements

#### Receiving Offers

- 350.1 A professional accountant in business or an immediate or close family member may be offered an inducement. Inducements may take various forms, including gifts, hospitality, preferential treatment and inappropriate appeals to friendship or loyalty.
- 350.2 Offers of inducements ~~may~~ create threats to compliance with the fundamental principles. When a professional accountant in business or an immediate or close family member is offered an inducement, the situation ~~shall~~ ~~should~~ be ~~carefully considered~~ ~~evaluated~~. Self-interest threats to objectivity or confidentiality are created where an inducement is made in an attempt to unduly influence actions or decisions, encourage illegal or dishonest behavior or obtain confidential information. Intimidation threats to objectivity or confidentiality are created if such an inducement is accepted and it is followed by threats to make that offer public and damage the reputation of either the professional accountant in business or an immediate or close family member.
- 350.3 The significance of such threats will depend on the nature, value and intent behind the offer. If a reasonable and informed third party, ~~having knowledge of all relevant information~~ ~~weighing the specific facts and circumstances~~, would consider the inducement insignificant and not intended to encourage unethical behavior, then a professional accountant in business may conclude that the offer is made in the normal course of business and may generally conclude that there is no significant threat to compliance with the fundamental principles.
- 350.4 ~~If evaluated threats are other than clearly insignificant, The significance of the threats shall be evaluated and~~ safeguards ~~should be considered and~~ applied ~~as when~~ necessary to eliminate them or reduce them to an acceptable level. When the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards, a professional accountant in business ~~shall~~ ~~should~~ not accept the inducement. As the real or apparent threats to compliance with the fundamental principles do not merely arise from acceptance of an inducement but, sometimes, merely from the fact of the offer having been made, additional safeguards ~~shall~~ ~~should~~ be adopted. A professional accountant in business ~~shall~~ ~~should~~ assess the risk associated with all such offers and ~~consider~~ ~~determine~~ whether ~~to take~~ the following actions ~~should be taken~~:
- (a) Where such offers have been made, immediately inform~~ing~~ higher levels of management or those charged with governance of the employing organization;
  - (b) Inform~~ing~~ third parties of the offer – for example, a professional body or the employer of the individual who made the offer; a professional accountant in business ~~should~~ ~~shall~~ however, consider ~~whether to~~ seek~~ing~~ legal advice before taking such a step; and
  - (c) Advise~~ing~~ immediate or close family members of relevant threats and safeguards where they are potentially in positions that might result in offers of inducements, for example, as a result of their employment situation; and

- (d) Informing higher levels of management or those charged with governance of the employing organization where immediate or close family members are employed by competitors or potential suppliers of that organization.

### **Making Offers**

- 350.5 A professional accountant in business may be in a situation where ~~the professional accountant in business~~ he or she is expected ~~to~~, or is under other pressure, ~~to~~ offer inducements to ~~subordinate the judgment of another individual or organization~~ influence ~~a~~ the judgment or decision-making process of an individual or organization, or obtain confidential information.
- 350.6 Such pressure may come from within the employing organization, for example, from a colleague or superior. It may also come from an external individual or organization suggesting actions or business decisions that would be advantageous to the employing organization possibly influencing the professional accountant in business improperly.
- 350.7 A professional accountant in business ~~should~~ shall not offer an inducement to improperly influence professional judgment of a third party.
- 350.8 Where the pressure to offer an unethical inducement comes from within the employing organization, the professional accountant shall ~~should~~ follow the principles and guidance regarding ethical conflict resolution set out in Part A of this Code.

## DEFINITIONS

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

<u>Acceptable level</u>	<u>An acceptable level is a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that compliance with the fundamental principles is not compromised.</u>
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>(a) In a direct reporting engagement, is responsible for the subject matter; or</p> <p>(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	<ul style="list-style-type: none"><li>(a) All members of the engagement team for the assurance engagement;</li><li>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:<ul style="list-style-type: none"><li>(i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;</li><li>(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and</li><li>(iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.</li></ul></li></ul>
Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. 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 financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects,), in accordance with an applicable 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
- (a) All members of the engagement team for the audit engagement; and
  - (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
    - (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);
    - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
    - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
  - (c) All those within a network firm who can directly influence the outcome of the audit engagement.

Clearly  
insignificant

~~A matter that is deemed to be both trivial and inconsequential.~~

Close family      A parent, child or sibling who is not an immediate family member.

Contingent fee      A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established or required to be approved by a court or other public authority is not a contingent fee.

Direct financial interest      A financial interest:

- Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.

Director or officer      Those charged with the governance of an entity, regardless of their title, which may vary from ~~country jurisdiction~~ to ~~country jurisdiction~~.

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 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.
External expert <sup>5</sup>	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 professional accountant to obtain sufficient appropriate evidence.
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.

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<sup>5</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.

Financial statements on which the firm will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	<ul style="list-style-type: none"><li>(a) A sole practitioner, partnership or corporation of professional accountants;</li><li>(b) An entity that controls such parties, through ownership, management or other means; and</li><li>(c) An entity controlled by such parties, through ownership, management or other means.</li></ul>
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	<p>Independence is:</p> <ul style="list-style-type: none"><li>(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</li><li>(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.</li></ul>
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 or ability to influence investment decisions.



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	<p>A larger structure:</p> <ul style="list-style-type: none"><li>(a) That is aimed at co-operation; and</li><li>(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.</li></ul>
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	<ul style="list-style-type: none"><li>(a) A listed entity; and</li><li>(b) An entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any regulator, including an audit regulator.</li></ul>
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 that such entity has significant influence over the client and the interest in the client is material to such entity;</li><li>(c) An entity over which the client has direct or indirect control;</li><li>(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and</li><li>(e) An entity which is under common control with the client (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.

## **EFFECTIVE DATE**

~~The Code is effective on June 30, 2006. Section 290 is applicable to assurance engagements when the assurance report is dated on or after June 30, 2006. Earlier application is encouraged.~~

~~-To be determined.~~



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