

## Financial Interests

290.102 Holding a financial interest in an audit client may create a self-interest threat. The existence and significance of any threat created depends on: (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.

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, this Code defines that financial interest to be a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest to be an indirect financial interest.

### **290.103A A member of the audit team, a member of that individual's immediate family, or the firm shall not have:**

- **a direct or material indirect financial interest in an audit client. [290.104]**
- **a direct or material indirect financial interest in an entity that has a controlling interest in an audit client where the client is material to the entity. [290.106]**
- **a financial interest in an entity in which an audit client also has an interest, if either interest is material and the audit client can exercise significant influence over the entity. [290.112]**

290.104 If a member of the audit team, a member of that individual's immediate family, 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 that no safeguards could reduce the threat to an acceptable level.

290.106 If a member of the audit team, a member of that individual's immediate family, 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.

290.112 A self-interest threat may be created if the firm or a member of the audit team, or a member of that individual's immediate family, has a financial interest in an entity and an audit client also has a financial interest in that entity. However, independence is deemed not to be 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. Any individual with such an interest 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.

**290.103B Partners in the office in which the engagement partner practices in connection with the audit engagement, and partners and managerial employees who provide non-audit services to the audit client, except those whose involvement is minimal, and their immediate family members, shall not have a direct or a material indirect financial interest in that audit client. [290.108 and 290.110]**

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.

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 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 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.

**290.103C A financial interest received as a result of the employment rights (e.g., through pension or share option plans) of an immediate family member of a partner in the office in which the engagement partner practices or a partner or managerial employee who provides non-audit services to the audit client is permitted if:**

- Safeguards are applied, when necessary, to eliminate the threat or reduce it to an acceptable level; and
- When the immediate family member has or obtains the right to dispose of the financial interest or exercise a stock option, the interest is disposed of or forfeited as soon as practicable. [290.111]

**290.103D The firm and individuals identified in 290.103A and 290.103B shall not have a direct or material indirect financial interest in the audit client as a trustee if the interest is material to the trust or:**

- (a) The trustee, an immediate family member of the trustee or the firm is a beneficiary of the trust;
- (b) The interest in the audit client held by the trust is material to the trust;
- (c) The interest in the audit client held by the trust is material to the trust; or
- (d) The trustee, an immediate family member of the trustee, or the firm can significantly influence any investment decision involving a financial interest in the audit client

290.114 The holding by a firm, or a member of the audit team, or a member of that individual's immediate family, of a direct financial interest or a material indirect financial interest in the audit client as a trustee creates a self-interest threat. Similarly, a self-interest threat 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 minimal, or (c) their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client as trustee. Such an interest shall not be held unless:

- (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 of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the audit client.

**290.103E The following requires an evaluation of threats and, when necessary, application of safeguards to eliminate the threats or reduce them to an acceptable level:**

- **A member of the audit team knows that a close family member has a direct or material indirect financial interest in the audit client. [290.105]**
- **The firm's retirement benefit plan holds a direct or material indirect financial interest in an audit client. [290.107]**
- **A member of the audit team, or a member of that individual's immediate family, or the firm, has a financial interest in an entity when a director, officer, or controlling owner of the audit client is known to have a financial interest in that entity. [290.113]**
- **Members of the audit team know that a financial interest in the audit client is held by other individuals including (i) partners and professional employees of the firm, other than those referred to in 290.103A and 290.103B, or their immediate family members and (ii) individuals with a close personal relationship with a member of the audit team. [290.115]**

290.105 When a member of the audit team has a close family member who the audit team member knows has a direct financial interest or a material indirect financial interest in the audit client, a self-interest threat is created. The significance of the threat will depend on factors such as:

- 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.

Examples of safeguards 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 audit team; or
- Removing the individual from the audit team.

290.107 The holding by a firm's retirement benefit plan of a direct or material indirect financial interest in an audit client creates a self-interest threat.

290.113 A self-interest, familiarity or intimidation threat may be created if a member of the audit team, or a member of that individual's immediate family, 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. The existence and significance of any 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.

Examples of safeguards include:

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

290.115 Members of the audit team shall determine whether a self-interest threat 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.

Examples of safeguards 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.

**290.103F A partner or employee, a member of their immediate family, or the firm shall not hold a direct or material indirect financial interest in the audit client received by**

**way of inheritance, gift, or a merger unless conditions specified in section are met [290.116].**

290.116 If a firm or a partner or employee of the firm, or a member of that individual's immediate family, 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 shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material;
- (b) If the interest is received by a member of the audit team, or a member of that individual's immediate family, the individual who received the financial interest 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
- (c) If the interest is received by an individual who is not a member of the audit team, or by an immediate family member of the individual, the financial interest shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material. Pending the disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary.

290.117 [Deleted text on inadvertent violations.]

### **Loans and Guarantees**

290.118A **A member of the audit team, a member of that individual's immediate family, and the firm shall not:**

- **Accept a loan, or a guarantee of a loan, from the audit client that is a bank or similar institution that is not made under normal lending procedures, terms, and conditions, or if made to a firm under normal lending procedures, terms, and conditions, is material to the client or the firm (but see 290.119). [290.118 and 290.119]**
- **Accept a loan, or a guarantee of a loan, from an audit client that is not a bank or similar institution if it is material to the parties involved (the firm, member of the audit team, the immediate family member, or the client). [290.121]**
- **Make, or guarantee, a loan to an audit client that is material to the parties involved (the firm, member of the audit team, the immediate family member, or the client). [290.122]**
- **Deposits or a brokerage account with an audit client that is a bank, broker, or similar institution that is not held under normal commercial terms. [290.123]**

- 290.118 If a loan, or a guarantee of a loan, to a member of the audit team, or a member of that individual's immediate family, or the firm from an audit client that is a bank or a similar institution is not made under normal lending procedures, terms and conditions, or a deposit or brokerage account with an audit client described above is not held under normal commercial terms, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level.
- 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 such a safeguard is having the work reviewed by a professional accountant from a network firm that is neither involved with the audit nor received the loan.
- 290.120 Examples of loans made under normal lending procedures, terms, and conditions include home mortgages, bank overdrafts, car loans and credit card balances.
- 290.121 If the firm or a member of the audit team, or a member of that individual's immediate family, 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 (a) the firm or the member of the audit team and the immediate family member, and (b) the client.
- 290.122 Similarly, if the firm or a member of the audit team, or a member of that individual's immediate family, 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 (a) the firm or the member of the audit team and the immediate family member, and (b) the client.

### **Business Relationships**

#### **290.124 A firm shall not:**

- **Enter into a close business relationship with an audit client or its management that is significant to the firm, the client, or its management; or**
- **Hold a material financial interest in a joint venture with the audit client or with a controlling owner, director, officer, or other individual who performs senior managerial activities for the client.**

A close business relationship arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Examples 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 insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.

**290.124A A member of the audit team shall not:**

- **Enter into a close business relationship with an audit client or its management that is significant to the member of the audit team; or**
- **Hold a material financial interest in a joint venture with the audit client or with a controlling owner, director, officer, or other individual who performs senior managerial activities for the client.**

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

**290.124B The following requires an evaluation of threats and, when necessary, application of safeguards to eliminate the threats or reduce them to an acceptable level:**

- **A business relationship between an immediate family member of a member of the audit team and the audit client or its management.**
- **A business relationship involving a financial interest in a closely-held entity by the firm, a member of the audit team, or a member of that individual's immediate family, if the audit client, or a director or officer of the client, also has an interest in the entity.**
- **The purchase of goods and services from an audit client by the firm, a member of the audit team, or a member of that individual's immediate family, depending on the nature or magnitude of the transaction.**

290.125 A business relationship involving the holding of an interest by the firm, or a member of the audit team, or a member of that individual's immediate family, 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 insignificant to the firm, the member of the audit team and the 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 a member of that individual's immediate family, 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.. Examples of safeguards include:
- Eliminating or reducing the magnitude of the transaction; or
  - 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 existence and significance of any 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.

290.128 **A professional accountant in public practice shall not be a member of the audit team if the accountant's immediate family member is:**

- **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, or was in such a position during any period covered by the engagement or the financial statements.**

The closeness of the immediate family relationship is such that no safeguards could reduce the threat to an acceptable level. Accordingly, no individual who has such a relationship shall be a member of the audit team.

**290.129A When a member of the audit team has:**

- **An immediate family member in a position to exert significant influence over the client's financial position, financial performance, or cash flows; [290.129]**
- **A close family member who is 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; [290.130] or**
- **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. The member of the audit team shall consult in accordance with firm policies and procedures; [290.131]**

**the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

290.129 Threats to independence are 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.

Examples of such safeguards 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 are 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 the close family member;
- The position held by the close family member; and
- The role of the professional on the audit team.

Examples of safeguards 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 are 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. 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.

Examples of safeguards 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 the professional has a close relationship.

**290.132A** When a partner or employee of the firm who is not a member of the audit team has a personal or family relationship with:

- A director or officer of the audit client; or
- An employee of the audit client in a position to exert significant influence over the preparation of the financial statements on which the firm will express an opinion;

the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level. Partners and employees of the firm who are aware of such relationships shall consult in accordance with firm policies and procedures.

290.132 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. 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.

Examples of safeguards 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 [Deleted text on inadvertent violations.]

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

290.134 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 a partner of the firm.

**290.135** If a former member of the audit team or partner joins the audit client in a role described in 290.134, independence would be deemed to be compromised unless the conditions described in 290.135 are met.

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 deemed to be compromised unless:

- (a) The individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements, and any amount owed to the individual is not 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 a partner joins the audit client in a role described in 290.134, and no significant connection remains between the firm and the individual, the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

**290.136A** The existence and significance of any 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, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

Examples of safeguards 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 **When a former partner of the firm previously joined an entity in one of the roles described in 290.134 and the entity subsequently becomes an audit client of the firm, the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level,**

**290.138A** Firm policies and procedures shall require members of an audit team to notify the firm when entering employment negotiations with the audit client. The firm shall evaluate the significance of any threat upon receiving notification and apply safeguards 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 the member of the audit team will, or may, join the client sometime in the future. On receiving notification by the member of the audit team, the firm shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Examples of safeguards include:

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

### **Temporary Staff Assignments**

**290.142A The lending of staff by a firm to an audit client shall meet the following conditions:**

- **The assistance is provided only for a short period of time;**
- **The firm's personnel providing the assistance is not involved in providing prohibited non-assurance services and does not assume management responsibilities;**
- **The audit client is responsible for directing and supervising the activities of the loaned staff; and**
- **The threats are evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

290.142 Examples of safeguards 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 the staff 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 director, officer, or employee of the audit client. This would be the case when, for example, a member of the audit team has to evaluate elements of the financial statements for which the member of the audit team had prepared the accounting records while with the client.

**290.144AA member of the audit team shall not, during the period covered by the audit report, have served as:**

- **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.**

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 safeguards could reduce the threat to an acceptable level. Consequently, such individuals shall not be assigned to the audit team.

290.145 **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**
- **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;**

**the threats shall be evaluated and, when necessary, safeguards applied to eliminate threats or reduce them to an acceptable level.**

Self-interest, self-review or familiarity threats may be created in such situations. 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 existence and significance of any 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.

An example of a safeguard 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 **A partner or employee shall not serve as a director or officer of an audit client.**

If a partner or employee of the firm serves 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.

290.147 **A partner or employee shall not serve as a Company Secretary for an audit client unless all of the following are met:**

- **The practice is specifically permitted under local law, professional rules or practice;**
- **Management of the audit client makes all relevant decisions;**
- **Duties and activities are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns;**
- **Threats are evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level. [290.148]**

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 association with the entity.

290.148 [This was incorporated into 290.147.]

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 create threats to independence, as long as client management makes all relevant decisions.

### **Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client**

290.150 **When using the same senior personnel on an audit engagement over a long period of time, the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

Familiarity and self-interest threats 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.

Examples of safeguards 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.

### **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 shall be applied when evaluating the particular circumstances.

290.158 **Before accepting an engagement to provide a non-assurance service to an audit client, the firm shall:**

- **Determine whether the service would create a threat to independence.**
- **Consider any threat the audit team has reason to believe is created by providing other related non-assurance services.**
- **Reduce the threats to an acceptable level by the application of safeguards or not provide the service.**

290.159 [Deleted text on inadvertent violations.]

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;
- (b) An entity, which is not an audit client, with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) 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 threats 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 applies safeguards when necessary to eliminate or reduce to an acceptable level any threats to independence arising from the service.

#### *Management Responsibilities*

**290.162A**When providing non-assurance services to an audit client, the firm shall:

- **Not assume a management responsibility for the audit client. [290.166]**

- **Be satisfied that a member of management is responsible for:**
  - **Making the significant judgments and decisions that are the proper responsibility of management,**
  - **Evaluating the results of the service; and**
  - **Accepting responsibility for the actions to be taken arising from the results of the service. [290.166]**

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 to implement;
- 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, generally are deemed not to be 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 is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.165 If a firm were to assume a management responsibility for an audit client, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement 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.

290.166 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall meet the conditions described in 290.162. 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, 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, which 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, 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, 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 shall not provide services related to the preparation of accounting records and financial statements to an audit client unless:**

- **The services are of a routine or mechanical nature; and**
- **Threats are evaluated and, when necessary, safeguards are applied to eliminate the threats or reduce them 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.

Examples of safeguards 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.

### **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).

**290.174A In situations described in 290.174, the following conditions shall be met:**

- (a) Those who provide the services are not members of the audit team;**
- (b) The services are provided for only a short period of time and are not expected to recur; and**
- (c) The situation is 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 When performing valuation services for an audit client, the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

Performing valuation services for an audit client may create a self-review threat. The existence and significance of 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.

Examples of safeguards include:

- Having a professional who was not involved in providing the valuation service 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 **The firm shall not provide a valuation service to the audit client if the valuation would:**

- **Have a material effect on the financial statements on which the firm will express an opinion; and**
- **Involve a significant degree of subjectivity.**

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 safeguards could reduce the self-review threat to an acceptable level.

#### *Taxation Services*

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

- Tax return preparation;

- Tax calculations for the purpose of preparing the 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 existence 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 **When providing tax return preparation services to an audit client, the following condition shall be met:**

- **Management of the audit client takes responsibility for the returns, including any significant judgments made.**

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 independence if management takes responsibility for the returns including any significant judgments made.

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

Audit Clients that are Not Public Interest Entities

290.184 **When preparing calculations of current and deferred tax assets or liabilities for an audit client for the purpose of preparing accounting entries that will be audited by the firm, the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

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 creates a self-review threat. The significance of the threat 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.

Examples of safeguards 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.

### **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 **When providing tax planning and other tax advisory services to an audit client, the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

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 independence.

290.189 Examples of safeguards include:

- Using professionals who are not members of the audit team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, 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 **A firm shall not provide tax advice to an audit client 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 in this situation would be so significant that no safeguards could reduce the threat to an acceptable level.

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 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 existence and significance of any threat created 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.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards 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 When providing assistance to an audit client in the resolution of tax disputes, the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

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 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.

Examples of safeguards include:

- Using professionals who are not members of the audit team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, 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 The firm shall not provide tax services to an audit client that involve the resolution of a tax matter if:**

- **The service would involve the firm acting as an advocate for the audit client before a public tribunal or court; and**
- **The amounts involved are material to the financial statements in which the firm will express an opinion.**

Where the tax 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 created would be so significant that no safeguards could eliminate or reduce the threat to an acceptable level. What constitutes a "public tribunal or court" 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*

#### General Provisions

290.195 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. Internal audit activities may include:

- (a) Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements thereto;
- (b) Examination of financial and operating information – reviewing the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures;
- (c) Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and
- (d) Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

290.196 Internal audit services involve assisting the audit client in the performance of its internal audit activities. The provision of internal audit services to an audit client creates a self-review threat to independence if the firm uses the internal audit work in the course of a subsequent external audit. Performing a significant part of the client's internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility. If the firm's personnel assume a management responsibility when providing internal audit services to an audit client, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level.

290.197 Examples of internal audit services that involve assuming management responsibilities include:

- (a) Setting internal audit policies or the strategic direction of internal audit activities;
- (b) Directing and taking responsibility for the actions of the entity's internal audit employees;
- (c) Deciding which recommendations resulting from internal audit activities shall be implemented;
- (d) Reporting the results of the internal audit activities to those charged with governance on behalf of management;
- (e) Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;

- (f) Taking responsibility for designing, implementing and maintaining internal control; and
- (g) Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm is responsible for determining the scope of the internal audit work and may have responsibility for one or more of the matters noted in (a)–(f).

290.198 **When providing an internal audit service to an audit client:**

- **The firm's personnel shall not assume a management responsibility; and**
- **The firm shall be satisfied that the conditions below are met.**
  - (a) The client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to acknowledge responsibility for designing, implementing, and maintaining internal control;
  - (b) The client's management or those charged with governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;
  - (c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
  - (d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
  - (e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

290.199 **When the firm accepts an engagement to provide internal audit services to an audit client, the threats shall be evaluated and, when necessary, safeguards applied to eliminate the threats or reduce them to an acceptable level.**

When a firm uses the work of an internal audit function, International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the external audit, a self-review threat is created because of the possibility that the audit team will use the results of the internal audit service without appropriately evaluating those results or exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The significance of the threat will depend on factors such as:

- The materiality of the related financial statement amounts;
- The risk of misstatement of the assertions related to those financial statement amounts; and
- The degree of reliance that will be placed on the internal audit service.

An example of a safeguard is using professionals who are not members of the audit team to perform the internal audit service.

### *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 IT 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 deemed not to create a threat to independence as long as the firm’s 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 **The firm shall apply safeguards when providing 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.**
- 290.204 The self-review threat is 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 When determining whether to provide such services, the firm shall:**

- **Determine whether to use only personnel who are not members of the audit team;**
- **Determine whether to use personnel who have different reporting lines within the firm; and**
- **Evaluate the remaining threats and, when necessary, apply safeguards to eliminate the threats or reduce them to an acceptable level.**

Depending on the degree of reliance that will be placed on the particular IT systems as part of the audit, a determination shall be made as to whether to provide such non-assurance services only with personnel who are not members of the audit team and who have different reporting lines within the firm. An example of a safeguard is having a professional accountant review the audit or non-assurance work.

*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 The valuation service provisions included in paragraphs 290.175 to 290.180 shall be followed 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.**

**In the case of other litigation support services, the significance of any threat created shall be evaluated and safeguards 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 When a firm performs legal services that support an audit client in executing a transaction, the significance of any threat shall be evaluated and safeguards**

**applied when necessary to eliminate the threat or reduce it to an acceptable level.**

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 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.

Examples of safeguards include:

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

**290.211 The firm shall not act in an advocacy role 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.**

When a firm acts in such an advocacy role, it would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level.

**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 shall evaluate the significance of any advocacy and self-review threats created and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.**

Examples of safeguards include:

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

**290.213 No member of the firm shall accept appointment as General Counsel for legal affairs of an audit client.**

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.

*Recruiting Services*

**General Provisions**

**290.214 When a firm provides recruiting services to an audit client:**

- **The firm shall not assume management responsibilities, including acting as a negotiator on the client's behalf;**
- **The hiring decision shall be left to the client; and**
- **The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.**

Providing recruiting services to an audit client may create self-interest, familiarity or intimidation threats. The existence and significance of any threat will depend on factors such as:

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

The firm may 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.

*Corporate Finance Services*

**290.216A A firm shall not provide corporate finance services to an audit client:**

- **That involve promoting, dealing in, or underwriting the audit client's shares; [290.219]**
- **Where the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and**
  - **The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and**
  - **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. [290.218]**

**In all other cases, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.**

Examples of safeguards include:

- Using professionals who are not members of the audit team to provide the services; or

- Having a professional who was not involved in providing the corporate finance service advise the audit team on the service and review the accounting treatment and any financial statement treatment.

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, particularly if the advice 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.

Examples of safeguards include:

- Using professionals who are not members of the audit team to perform the service; or
- Having a professional who was not involved in providing the corporate finance service to the client advise the audit team on the service and review the accounting treatment and any financial statement treatment.

290.217 Providing corporate finance services involving promoting, dealing in, or underwriting an audit client's shares would create an advocacy or self-review threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not provide such services to an audit client.

290.218[Incorporated into 290.216A.]

290.219[Incorporated into 290.216A.]

## **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 significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.**

The dependence on the client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- The operating structure of the firm;
- Whether the firm is well established or new; and
- The significance of the client qualitatively and/or quantitatively to the firm.

Examples of safeguards include:

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

290.221 **When the fees generated from an audit client represent a large proportion of the revenue from an individual partner's clients or a large proportion of the revenue of an individual office of the firm, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.**

The significance of the threat will depend upon factors such as:

- The significance of the client qualitatively and/or quantitatively to the partner or office; and
- The extent to which the remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client.

Examples of safeguards include:

- Reducing the dependency on the audit client;
- Having a professional accountant review the work or otherwise advise as necessary; or
- Regular independent internal or external quality reviews of the engagement.

290.222[PIEs]

#### *Fees—Overdue*

290.223 **If fees remain unpaid after the audit report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.**

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 is expected to require payment of such fees before such audit report is issued. The firm shall determine 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 or

continue the audit engagement. An example of a safeguard is having an additional professional accountant who did not take part in the audit engagement provide advice or review the work performed.

### *Contingent Fees*

290.224 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. For the purposes of this section, a fee is not regarded as being contingent if established by a court or other public authority.

290.225 **A firm shall not charge a contingent fee directly or indirectly for an audit engagement.**

A contingent fee charged directly or indirectly, for example, through an intermediary, by a firm in respect of an audit engagement creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level.

290.226 **A firm shall not charge a contingent fee directly or indirectly for a non-assurance service provided to an audit client if**

- (a) **The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;**
- (b) **The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm;**  
or
- (c) **The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.**

A contingent fee charged directly or indirectly, for example, through an intermediary, by a firm in respect of a non-assurance service provided to an audit client may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an acceptable level if any one of the conditions in (a), (b), or (c) exist.

290.227 **For other contingent fee arrangements charged by a firm for a non-assurance service to an audit client, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.**

The existence and significance of any threats will depend on factors such as:

- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the contingent fee will be determined;
- The nature of the service; and
- The effect of the event or transaction on the financial statements.

Examples of safeguards include:

- Having a professional accountant review the relevant audit work or otherwise advise as necessary; or
- Using professionals who are not members of the audit team to perform the non-assurance service.

### **Compensation and Evaluation Policies**

**290.228 When a member of the audit team who is not a key audit partner is evaluated on or compensated for selling non-assurance services to the audit client, the firm shall evaluate the significance of the threat and, if the threat is not at an acceptable level, revise the compensation plan or evaluation process for that individual or apply safeguards to eliminate the threat or reduce it to an acceptable level.**

A self-interest threat is created when a member of the audit team is evaluated on or compensated for selling non-assurance services to that audit client. 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.

Examples of safeguards include:

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

**290.229 A key audit partner shall not be evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's audit client.**

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

### **Gifts and Hospitality**

**290.230 The firm and a member of the audit team shall not accept gifts or hospitality from an audit client if the value is other than trivial and inconsequential.**

Accepting gifts or hospitality from an audit client may create self-interest and familiarity threats. If a firm or a member of the audit team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level.

### **Actual or Threatened Litigation**

**290.231 When the firm or a member of the audit team and the audit client are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, the significance of the threats shall**

**be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.**

When litigation takes place, or appears likely, between the firm or a member of the audit team and the audit client, self-interest and intimidation threats are 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. When the firm and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

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

Examples of safeguards 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 threats to an acceptable level, the only appropriate action is to withdraw from, or decline, the audit engagement.