

## Agenda Item 3-E

### Proposed Section 800 and Part 4B

1. This paper includes the Task Force's proposals to restructure:
  - (a) Extant material for independence requirements and application material that are applicable for engagements where the report includes a restriction on use and distribution<sup>1</sup> to the Task Force's proposals for Section 800 as set out in Section I of **Agenda Item 3-D**.
  - (b) Extant independence requirements and application material pertaining to other assurance engagements,<sup>2</sup> except for extant provisions related to:
    - (i) Long Association (LA) of senior personnel with an assurance client;<sup>3</sup> and
    - (ii) Providing non-assurance services to an assurance client.<sup>4</sup>
2. The proposed revisions are in accordance with drafting guidelines for restructuring the Code set out in **Agenda Item 3-J**. Text that is shaded in gray include conforming amendments as a result of the Safeguard ED-1.
3. The paper set out the following drafts of the Task Force's proposals at:
  - I. Section 800 mark-up from June 2016 discussion;
  - II. Section 800 clean version; and
  - III. Part 4B clean version.\*\*

<sup>1</sup> Extant Part B, *Independence – Audit and Review Engagements, Reports that Include a Restriction on Use and Distribution*, paragraphs 290.500-290.514 (proposed restructured Part 4A, *Independence–Audits and Reviews*, Section 800)

<sup>2</sup> Extant Part B, Section 291, *Independence – Other Assurance Engagements* (proposed restructured Part 4B, *Independence – Other Assurance Engagements*, Sections 900-999)

<sup>3</sup> Extant Part B, *Long Association of Senior Personnel with an Assurance Client*, paragraph 291.137. See proposed restructured LA proposals at **Agenda Item 5-G**.

<sup>4</sup> Extant Part B, *Provision of Non-assurance Services to an Assurance Client*, paragraphs 291.138–291.148. These paragraphs are subject to conforming amendments arising from proposed Section 600, *Provisions of Non-assurance Services to Audit Clients*

\*\* Certain proposed Sections within Part 4B were presented to IESBA at its June 2016 meeting. As discussed at **Agenda Item 3-D**, the Task Force has considered the input provided at the IESBA meeting and made revisions as deemed appropriate. Those sections are: 910, *Financial Interests*; 911, *Loans and Guarantees*; 920, *Business Relationships*; 921, *Family and Personal Relationships*; 922, *Recent Service with an Assurance Client*; 923, *Serving as a Director or Officer of An Assurance Client*; 924, *Employment with an Assurance Client*; and 999, *Reports that Include a Restriction on Use and Distribution*

## I. Proposed Sections 800 – Mark-up From June 2016 Discussion

The Conceptual Framework contained in Section 120 applies in all circumstances

### Part 4A—INDEPENDENCE FOR AUDITS AND REVIEWS

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#### Section 800

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

##### Introduction

800.1 ~~Section 800 sets out modifications to the requirements in C1 which are permitted in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution.~~

Commented [EH1]: New introductory material

800.12 For the purposes of this section, a restricted use and distribution report that is issued in the circumstances set out in paragraph R800.3 is referred to as an “eligible restricted use audit report”.

Commented [IESBA2]: New paragraph

800.2 ~~Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 800 sets out certain modifications to Sections 400 to 799 of this Part which are permitted in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution.~~

Commented [EH3]: New introductory material

##### Requirements and Application Material

R800.3 A report on an audit of special purpose financial statements which includes a restriction on use and distribution, shall ~~only not~~ be eligible for the modifications to Sections 400 to 799 that are permitted provided by this Section ~~if, to the requirements in Sections 400 to 799 unless:~~

(ab) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the audit engagement; and

Commented [IS4]: 290.502

(a)(b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications, ~~to the C1 requirements permitted by this Section.~~

(c) Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently makes such users aware of the modified independence requirements agreed to by their representative.

Commented [IS5]: 290.502

800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating in establishing the nature and scope of the engagement. Such participation might be direct, or might be indirect through a representative who has authority to act for the intended users. In either case, this participation helps the firm to communicate

with intended users about independence matters including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain agreement of the intended users to the modified independence requirements, ~~that are to be applied.~~

800.3 A2 For example, where the intended users are lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of group of the lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

**R800.4** ~~When the firm prepares an eligible restricted use audit report the firm shall apply the conceptual framework set out in Section 120 and any modifications to the requirements in C1 Sections 400 to 799 shall be limited to those set out in paragraphs R800.6 to R800.13. The firm shall not apply these modifications when an audit of financial statements is required by law or regulation.~~

Commented [IESBA6]: 290.500

**R800.5** ~~If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply the provisions of Sections 400 to 799 of C1 to that audit engagement.~~

Commented [IS7]: 290.503

#### *Public Interest Entities*

**R800.6** ~~When the firm prepares an eligible restricted use audit report, the firm does not need to may choose not to apply the additional independence requirements in C1 set out in Sections 400 to 799 that apply only to audit engagements for public interest entities.~~

Commented [IESBA8]: 290.505

#### *Related Entities*

**R800.7** ~~When the firm prepares an eligible restricted use audit report, references to audit client in C1 Sections 400 to 799 do not need to include its related entities. However, when the audit team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.~~

Commented [IESBA9]: 290.506

#### *Networks and Network Firms*

**R800.8** ~~When the firm prepares an eligible restricted use audit report, the specific requirements regarding references to interests and relationships of network firms set out in C1 Sections 400 to 799 do not need to be applied, may be disregarded. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.~~

Commented [IESBA10]: 290.507

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

**R800.9** ~~When the firm prepares an eligible restricted use audit report:~~

Commented [IESBA11]: 290.508

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and close family members;
- (b) The firm shall identify, evaluate and address ~~determine whether any~~ threats to independence ~~that might be~~ are created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525 between the audit client and the following audit team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

Commented [IESBA12]: 290.510

800.9 A1 Others within the firm who can directly influence the outcome of the audit engagement include:

- (a) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement partner in connection with the performance of the audit engagement; and
- (b) Those at all successively senior levels above the engagement partner through to the individual who is the firm's Chief Executive or equivalent.

**R800.10** When the firm prepares an eligible restricted use audit report the firm shall evaluate and address ~~the significance of any threats~~ that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.5(c) and (d), R510.6 and R510.11(c) and (d).

Commented [IS13]: 290.510, 290.511

**R800.11** When the firm prepares an eligible restricted use audit report, the firm, in applying the provisions set out in paragraphs R510.5(a), R510.7 and R510.8 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.

Commented [IS14]: 290.512

#### *Employment with an Audit Client*

**R800.12** When the firm prepares an eligible restricted use audit report, the firm shall evaluate and address ~~the significance of any threats~~ created by any employment relationships as set out in paragraphs 524.1 to 524.4.

Commented [IESBA15]: 290.513

800.12 A1 Examples of actions that might be safeguards to address the threats set out in paragraph R800.12 that might be appropriate include those set out in paragraph 524.3 A1.

Commented [SDS16]: 290.513

*Providing Non-Assurance Services*

**R800.13** If the firm prepares an eligible restricted use audit report and provides a non-assurance service to the audit client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.6 to R800.9.

Commented [IESBA17]: 290.514

## II. Proposed Sections 800 – Clean

### Part 4A–Independence for Audits and Reviews

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#### Section 800

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

##### Introduction

- 800.1 For the purposes of this section, a restricted use and distribution report that is issued in the circumstances set out in paragraph R800.3 is referred to as an “eligible restricted use audit report”.
- 800.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 800 sets out certain modifications to Sections 400 to 799 of this Part which are permitted in certain circumstances involving audits of special purpose financial statements where the report includes a restriction on use and distribution.

Commented [EH18]: New introductory material

##### Requirements and Application Material

**R800.3** A report on an audit of special purpose financial statements which includes a restriction on use and distribution shall only be eligible for the modifications to Sections 400 to 799 that are permitted by this section if:

- (a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the audit engagement; and
- (a)(b) The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.
- (c) Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by their representative.

Commented [IS19]: 290.502

Commented [IS20]: 290.502

800.3 A1 The intended users of the report might obtain an understanding of the purpose and limitations of the report by participating in establishing the nature and scope of the engagement. Such participation might be direct, or might be indirect through a representative who has authority to act for the intended users. In either case, this participation helps the firm to communicate with intended users about independence matters including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain agreement of the intended users to the modified independence requirements.

800.3 A2 For example, where the intended users are lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement

letter available to the members of group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

**R800.4** When the firm prepares an eligible restricted use audit report any modifications to Sections 400 to 799 shall be limited to those set out in paragraphs R800.6 to R800.13. The firm shall not apply these modifications when an audit of financial statements is required by law or regulation.

Commented [IESBA21]: 290.500

**R800.5** If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply Sections 400 to 799 to that audit engagement.

Commented [IS22]: 290.503

#### *Public Interest Entities*

**R800.6** When the firm prepares an eligible restricted use audit report, the firm does not need to apply the independence requirements set out in Sections 400 to 799 that apply only to audit engagements for public interest entities.

Commented [IESBA23]: 290.505

#### *Related Entities*

**R800.7** When the firm prepares an eligible restricted use audit report, references to audit client in Sections 400 to 799 do not need to include its related entities. However, when the audit team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Commented [IESBA24]: 290.506

#### *Networks and Network Firms*

**R800.8** When the firm prepares an eligible restricted use audit report, the specific requirements regarding interests and relationships of network firms set out in Sections 400 to 799 do not need to be applied. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

Commented [IESBA25]: 290.507

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

**R800.9** When the firm prepares an eligible restricted use audit report:

Commented [IESBA26]: 290.508

- (b) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence that might be created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525 between the audit client and the following audit team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and

(ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and

(c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

Commented [IESBA27]: 290.510

800.9 A1 Others within the firm who can directly influence the outcome of the audit engagement include:

(c) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement partner in connection with the performance of the audit engagement; and

(d) Those at all successively senior levels above the engagement partner through to the individual who is the firm's Chief Executive or equivalent.

**R800.10** When the firm prepares an eligible restricted use audit report the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.5(c) and (d), R510.6 and R510.11(c) and (d).

Commented [IS28]: 290.510, 290.511

**R800.11** When the firm prepares an eligible restricted use audit report, the firm, in applying the provisions set out in paragraphs R510.5(a), R510.7 and R510.8 to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.

Commented [IS29]: 290.512

#### *Employment with an Audit Client*

**R800.12** When the firm prepares an eligible restricted use audit report, the firm shall evaluate and address any threats created by any employment relationships as set out in paragraphs 524.1 to 524.4.

Commented [IESBA30]: 290.513

800.12 A1 Examples of actions that might be safeguards to address the threats set out in paragraph R800.12 include those set out in paragraph 524.3 A1.

Commented [SDS31]: 290.513

#### *Providing Non-Assurance Services*

**R800.13** If the firm prepares an eligible restricted use audit report and provides a non-assurance service to the audit client, the firm shall comply with Sections 410 to 430 and Section 600, including its subsections, subject to paragraphs R800.6 to R800.9.

Commented [IESBA32]: 290.514

### III. Proposed Part 4B<sup>^</sup>

#### Part 4B– INDEPENDENCE FOR OTHER ASSURANCE ENGAGEMENTS

##### Section 900

##### Applying the Conceptual Framework to Independence for Other Assurance Engagements

###### Introduction

900.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing assurance engagements. This Part applies to assurance engagements other than audit and review engagements

Commented [IESBA33]: 291.3

900.2 Independence standards for audit and review engagements are set out in Part 4A - *Independence for Audits and Reviews*.

900.3 In this Part the term “professional accountant” refers to professional accountants in public practice and their firms.

900.4 Firms are required by *International Standard on Quality Control 1* (ISQC 1) to establish policies and procedures designed to provide them with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethical standards. *International Standards on Assurance Engagements* (ISAEs) establish responsibilities for engagement partners and engagement teams. The allocation of certain responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of *International Independence Standards* do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to ‘firm’ for ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an assurance team) in accordance with ISQC 1. In addition, individual professional accountants remain responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.

Commented [IESBA34]: 291.11

900.5 Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

Commented [IESBA35]: 291.5

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

(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, that

<sup>^</sup> As noted in **Agenda Item 3-D**, material in this Part has been restructured using the extant Code language. Like the extant Code, it does not reflect the conforming amendments arising from the International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The IESBA has agreed that a consideration of those conforming amendments is outside the Structure of the Code project scope. The IESBA agreed that liaison with IAASB will be critical in progressing this work stream.

a firm's, or an assurance team member's, integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

900.6 When performing assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110.

900.7 This Part describes facts and circumstances, including professional activities, interests and relationships that create or might create threats to independence. Firms are required to apply the conceptual framework to threats to independence as well as to threats to the fundamental principles that are linked to independence. This Part describes potential threats, and safeguards that might be appropriate to address any such threats by eliminating them or reducing them to an acceptable level and identifies some situations where no safeguards could reduce the threats to an acceptable level

900.8 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) 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, refer to the Assurance Framework.

Commented [IESBA36]: 291.2

900.9 In an assurance engagement the professional accountant 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. For further explanation see the Assurance Framework.

900.10 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 Assurance 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 or CoCo (criteria), to internal control, a process (subject matter).

Commented [IESBA37]: 291.13

900.11 Assurance engagements might be assertion-based or direct reporting. In either case, they involve three separate parties: a professional accountant, a responsible party and intended users.

Commented [IESBA38]: 291.14

900.12 In an assertion-based assurance engagement, the evaluation or measurement of the subject matter is performed by the responsible party. The subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

Commented [IESBA39]: 291.15

- 900.13 In a direct reporting assurance engagement, the professional accountant either
- (a) Directly performs the evaluation or measurement of the subject matter, or
  - (b) 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.

Commented [IESBA40]: 291.16

*Reports that Include a Restriction on Use and Distribution*

- 900.14 An assurance report might include a restriction on use and distribution. If it does, the independence requirements in Sections 900 to 998 may be modified as provided in Section 999, if the conditions set out in Section 999 are met.

**Requirements and Application Material**

**R900.15** A firm performing an assurance engagement shall be independent.

**R900.16** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

Commented [IESBA41]: 291.6

**R900.17** When applying the conceptual framework to independence, if the firm determines that the identified threats to independence are not at an acceptable level, the firm shall address the threats by eliminating or reducing them to an acceptable level. The firm shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied; or
- (c) Declining or ending the assurance engagement or when applicable, the non-assurance service involved.

900.17 A1 There are some situations in which the circumstances creating the threats to independence cannot be eliminated and when there can be no safeguards to eliminate those threats created or reduce them to an acceptable level. In such situations, the professional accountant is required to decline or end the assurance engagement or when applicable, the non-assurance service involved.

*Network firms*

**R900.18** When the firm performing an assurance engagement has reason to believe that any threat to independence is created by a network firm's interests and relationships, the firm shall evaluate any such threat.

Commented [IESBA42]: 291.3

900.18 A1 Network firms are discussed in Paragraphs R400.50 to 400.52

*Related Entities*

**R900.19** When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's

Commented [IESBA43]: 291.3

independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

#### Types of Other Assurance Engagements

##### Assertion-Based Assurance Engagements

Commented [IESBA44]: Covered in R900.15

**R900.20** When performing an assertion-based assurance engagement,

Commented [IESBA45]: 291.17

(a) The members of the assurance team and the firm shall be independent, as set out in this Part of the assurance client (the party responsible for the subject matter information, and which might be responsible for the subject matter). Such independence requirements prohibit certain relationships between assurance team members and (i) directors or officers, and (ii) individuals at the client in a position to exert significant influence over the subject matter information.

(a) The firm shall apply the conceptual framework set out in Section 120 to relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement.

Commented [IESBA46]: 291.17

(b) The firm shall evaluate and address any threats that the firm has reason to believe are created by network firm interests and relationships.

Commented [SDS47]: 291.17

**R900.21** (a) When performing an assertion-based assurance engagement 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 shall be independent of the party responsible for the subject matter information (the assurance client).

Commented [IESBA48]: 291.19, 291.101

(b) The firm shall evaluate and address any threats the firm has reason to believe are created by interests and relationships between an assurance team member, the firm, a network firm and the party responsible for the subject matter.

Commented [IESBA49]: 291.19, 291.101

900.21 A1 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 might not be responsible for the subject matter. An example might be when a firm 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. In this case, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

Commented [IESBA50]: 291.18, 291.101

##### Direct Reporting Assurance Engagements

**R900.22** When performing a direct reporting assurance engagement:

Commented [IESBA51]: 291.20

(a) The members of the assurance team and the firm shall be independent of the assurance client (the party responsible for the subject matter); and

(b) The firm shall evaluate and address any threats to independence the firm has reason to believe are created by network firm interests and relationships.

Commented [IESBA52]: 291.20

#### Multiple Responsible Parties

900.23 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 Part to each responsible party in such engagements, the firm may take into account certain matters. These matters might include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

Commented [IESBA53]: 291.28

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

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

*[Paragraphs 900.24 to 900.29 are intentionally left blank]*

#### Period During which Independence is Required

R900.30 Independence, as required by this Part shall be maintained during both:

Commented [IESBA54]: 291.30

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the assurance team begins to perform assurance services. 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 ended or the issuance of the final assurance report.

Commented [IESBA55]: 291.30

R900.31 If 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 shall evaluate the level of any threats to independence are created by:

Commented [IESBA56]: 291.31

- (a) 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
- (b) Previous services provided to the assurance client.

R900.32 Subject to paragraph R900.33, 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 assurance team begins to perform assurance services and the service would not be permitted during the period of the assurance engagement, the firm shall evaluate and address any threat to independence created by the service. If any threat is not at an acceptable level, the firm shall only accept the assurance engagement if the threats are addressed.

Commented [IESBA57]: 291.32

- 900.32 A1 Examples of actions that might be safeguards to address threats to independence include:
- Not including personnel who provided the non-assurance service as members of the assurance team.
  - Having a professional accountant review the assurance and non-assurance work as appropriate.
  - 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.

Commented [IESBA58]: 291.32

- R900.33 As an exception to paragraph R900.32, if the non-assurance service has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:
- (a) The firm is satisfied that:
    - (i) The non-assurance service will be completed within a short period of time; or
    - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
  - (b) The firm applies safeguards when necessary during the service period; and
  - (c) The firm discusses the matter with those charged with governance.

Commented [IESBA59]: 291.32

[Paragraphs 900.34 to 900.39 are intentionally left blank]

#### General Documentation of Independence for Assurance Engagements

- R900.40 The firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. Accordingly:
- (a) When safeguards are required to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
  - (b) When a threat required significant analysis to determine whether safeguards are available and capable of being applied in order to address a threat, and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

Commented [IESBA60]: 291.29

- 900.40 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

Commented [IESBA61]: 291.29

Commented [IESBA62]: 291.29

[Paragraphs 900.41 to 900.49 are intentionally left blank]

#### Breach of a Provision of Independence for Other Assurance Engagements

- R900.50 If a firm concludes that a breach of this Part has occurred, the firm shall:

Commented [IESBA63]: 291.33

- (a) End, suspend or eliminate the interest or relationship that created the breach;
- (b) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and
- (c) Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised such that the firm is unable to issue an assurance report.

**R900.51** If the firm determines that it cannot take action to satisfactorily address the consequences of the breach, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate, and take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

Commented [IESBA64]: 291.34

**R900.52** If the firm determines that it can take action to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.

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**R900.53** If the party that engaged the firm does not, or those charged with governance do not, as appropriate, concur that the action proposed by the firm in accordance with R900.50(c) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to ending the assurance engagement.

Commented [IESBA66]: 291.36

**R900.54** In applying the provisions of R900.50 to R900.53, the firm shall document:

Commented [IESBA67]: 291.37

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made; and
- (d) All the matters discussed with the party that engaged the firm or those charged with governance.

**R900.556** If the firm continues with the assurance engagement, it shall also document the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

Commented [IESBA68]: 291.37

## Section 905

### Fees

#### Introduction

905.1 The level and nature of fees or other types of remuneration might create self-interest or intimidation threats.

Commented [IESBA69]: New paragraph

905.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 905 sets out specific requirements and application material relevant to applying the conceptual framework to fees or other remuneration.

#### Requirements and Application Material

##### *Fees—Relative Size*

905.2 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. Factors that are important in evaluating the level of those threats include:

Commented [IESBA70]: 291.149

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

905.2 A2 Examples of actions that might be safeguards to address such threats include:

Commented [SDS71]: 291.149

- Reducing dependence on the client.
- External quality control reviews.
- Consulting a third party, such as a professional body or a professional accountant, on key assurance judgments.

905.2 A3 A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.

Commented [IESBA72]: 291.150

905.2 A4 Having an additional professional accountant who was not an assurance team member review the work or otherwise advise as necessary, is an example of an action that might be a safeguard to address the threats set out in paragraph 905.2 A3.

Commented [SDS73]: 291.150

##### *Fees—Overdue*

**R905.3** When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and

(b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement because of the significance of the overdue fee.

905.3 A1 A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally appropriate for the firm to require payment of such fees before any such report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also be relevant to situations where such unpaid fees exist.

Commented [IESBA74]: 291.151

905.3 A2 Having another professional accountant, who did not take part in the assurance engagement, provide advice or review the work performed, is an example of an action that might be a safeguard to address the threats discussed in paragraph 905.3 A1.

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#### Contingent Fees

R905.4 A firm shall not charge, directly or indirectly, a contingent fee for an assurance engagement.

Commented [IESBA76]: 291.153

R905.5 A firm shall not charge directly or indirectly, a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

Commented [IESBA77]: 291.154

905.5 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. For the purposes of this section, fees are not regarded as being contingent if established by a court or other public authority.

Commented [IESBA78]: 291.152

905.5 A2 Paragraphs R905.4 and R905.5 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if such contingent fee arrangements are not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created. Factors that are important in evaluating the level of those threats include:

Commented [IESBA79]: 291.155

- 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.
- The effect of the event or transaction on the subject matter information.

905.5 A3 Examples of actions that might be safeguards to address a threat created by a contingent fee include:

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

## Section 906

### Gifts and Hospitality

#### Introduction

906.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Accepting gifts or hospitality from an assurance client might create self-interest and familiarity threats. Section 906 sets out a specific requirement relevant to applying the conceptual framework to evaluating gifts and hospitality.

Commented [IESBA81]: 291.156

#### Requirement

R906.2 A firm or an assurance team member shall not accept gifts or hospitality from an assurance client, unless the value is trivial and inconsequential.

Commented [IESBA82]: 291.156

## Section 907

### Actual or Threatened Litigation

#### Introduction

907.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. When litigation occurs, or appears likely, between an assurance client and the firm or an assurance team member, threats are created. Section 907 sets out specific application material relevant to applying the conceptual framework to such actual or threatened litigation.

Commented [IESBA83]: 291.157

#### Application Material

907.2 A1 The relationship between client management and the assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. The adversarial positions which could result from actual or threatened litigation might affect management's willingness to make complete disclosures and create self-interest and intimidation threats. Factors that are important to evaluating the level of such threats include:

Commented [IESBA84]: 291.157

(a) The materiality of the litigation.

(b) Whether the litigation relates to a prior assurance engagement.

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907.2 A2 Examples of actions that might be safeguards to address threats created by actual or threatened litigation include:

Commented [SDS86]: 291.157

- If the litigation involves an assurance team member, removing that individual from the assurance team.
- Having a professional review the work performed.

## Section 910

### Financial Interests

#### Introduction

910.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Holding a financial interest in an assurance client might create self-interest threats. Section 910 sets out specific requirements and application material on applying the conceptual framework to financial interest.

Commented [IESBA87]: 291.104

#### Requirements and Application Material

##### *Applying the Conceptual Framework to Financial Interests*

910.2 A1 Factors that are important in evaluating the level of threats created by holding financial interests in an assurance client include:

- (a) The role of the person holding the financial interest.
- (b) Whether the financial interest is direct or indirect.
- (c) The materiality of the financial interest.

910.2 A2 A financial interest might be held through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or the ability to influence investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

Commented [IESBA88]: 291.105

910.3 A1 Section 910 contains references to the "materiality" of a financial interest. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA89]: 291.103

##### *Financial Interests Held by the Firm, Assurance Team Members and Immediate Family*

R910.4 A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:

- (a) The firm; or
- (b) An assurance team member or any of that individual's immediate family.

Commented [IESBA90]: 291.106

R910.5 When an entity has a controlling interest in the assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Commented [IESBA91]: 291.108

R910.6 Paragraph R910.5 shall also apply to a financial interest in an assurance client held in a trust for which the firm or individual acts as trustee unless:

Commented [IESBA92]: 291.109

- (a) None of the following is a beneficiary of the trust: the trustee, the assurance team member or any of that individual's immediate family or the firm;

- (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) None of the following can significantly influence any investment decision involving a financial interest in the assurance client: the trustee, the assurance team member or any of that individual's immediate family or the firm.

*Unintended Acquisition of Interests*

**R910.7** If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance client by way of an inheritance, gift, as a result of a merger, or in similar circumstances and the interest would not be permitted to be held under this section, then:

Commented [IESBA93]: 291.111

- (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, or
- (b) If the interest is received by an assurance team member, or by any 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.

*Financial Interests – Other circumstances*

**R910.8** In the following circumstances related to financial interests, the firm shall apply the conceptual framework set out in Section 120:

- (a) If an assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the assurance client. (Ref: Para. 910.8 A1, 910.8 A2).
- (b) If an assurance team member knows that a financial interest is held by other individuals, such as:
  - (i) Partners and professional employees of the firm, in addition to those who are specifically not permitted to hold such financial interests by paragraph R910.5, or their immediate family members; or
  - (ii) Individuals with a close personal relationship with an assurance team member. (Ref: Para. 910.8 A3, 910.8 A4)

Commented [IESBA94]: 291.107

Commented [IESBA95]: 291.110

910.8 A1 A self-interest threat might be created if an assurance team member has a close family member who the assurance team member knows has a direct financial interest or a material indirect financial interest in the assurance client. Factors that are important in evaluating the level of such threats include:

Commented [IESBA96]: 291.107

- The nature of the relationship between the assurance team member and the close family member; and
- The materiality of the financial interest to the close family member.

910.8 A2 Examples of actions that might be safeguards to address threats created by having a financial interest as set out in paragraph 910.8 A1 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 assurance team member; or
- Removing the individual from the assurance team.

Commented [SDS97]: 291.107

910.8 A3 Whether the interests set out in paragraph R910.8(b) create a threat might depend on factors such as:

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

Commented [IESBA98]: 291.110

910.8 A4 Examples of actions that might be safeguards to address threats created by a financial interest as set out in paragraph 910.8 A3 include:

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

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## Section 911

### Loans and Guarantees

#### Introduction

911.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. A loan or a guarantee of a loan between a firm, an assurance team member or any of that individual's immediate family might create self-interest or other threats. Section 911 sets out specific requirements and application material relevant to applying the conceptual framework to loans and guarantees.

Commented [IESBA100]: 291.112

#### Requirements and Application Material

##### *Applying the Conceptual Framework to Loans and Guarantees*

911.2 A1 Section 911 contains references to the "materiality" of a loan or guarantee. For the purpose of determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account

Commented [IESBA101]: 291.103

*Loans and Guarantees with a Bank or Similar Institution*

**R911.3** A firm, an assurance team member or any of that individual's immediate family, shall not accept a loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution, unless the loan or guarantee is made under normal lending procedures, terms and conditions.

Commented [IESBA102]: 291.112

911.3 A1 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 might be possible to apply safeguards to reduce the self-interest threat to an acceptable level. Having the work reviewed by a professional accountant from a network firm that is neither involved with the assurance engagement nor received the loan is an example of an action that might be a safeguard to address such threats.

Commented [IESBA103]: 291.113

Commented [SDS104]: 291.113

911.3 A2 A loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution to an assurance team member, or any of that individual's immediate family, 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.

Commented [IESBA105]: 291.114

*Deposit or Brokerage Accounts*

**R911.4** A firm, an assurance team member or any of that individual's immediate family shall not have deposits or a brokerage account with an assurance client that is a bank, broker, or similar institution, unless the deposit or account is held under normal commercial terms.

Commented [IESBA106]: 291.117

*Loans and Guarantees with a Client that is not a Bank or Similar Institution*

**R911.5** A firm or an assurance team member, or any of that individual's immediate family members, shall not accept a loan from, or have a borrowing guaranteed by, an assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

Commented [IESBA107]: 291.115

- (a) The firm, or the assurance team member and the immediate family member receiving the loan or guarantee, as the case may be; and
- (b) The client.

**R911.6** A firm, or an assurance team member, or any of that individual's immediate family shall not make or guarantee a loan to an assurance client unless the loan or guarantee is immaterial to both:

Commented [IESBA108]: 291.116

- (a) The firm, or the assurance team member and the immediate family member making the loan or guarantee, as the case may be; and
- (b) The client.

## Section 920

### Business Relationships

#### Introduction

920.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. A close business relationship between an assurance client or its management and a firm, an assurance team member or any of that individual's immediate family might create self-interest or intimidation threats. Section 920 sets out specific requirements and application material relevant to applying the conceptual framework to business relationships.

Commented [IESBA109]: 291.118

#### Requirements and Application Material

##### *Applying the Conceptual Framework to Business Relationships*

920.2 A1 Section 920 contains references to the "materiality" of a business relationship. For the purpose of determining whether such a relationship is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

Commented [IESBA110]: 291.103

##### *Firm or Assurance Team Member Relationships*

**R920.3** The firm or an assurance team member shall not have a close business relationship with an assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the firm or the assurance team member and the client or its management, as the case may be.

Commented [IESBA111]: 291.118 (2<sup>nd</sup> and 3<sup>rd</sup> last paras)

920.3 A1 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

Commented [IESBA112]: 291.118

- 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.

##### *Buying Goods or Services*

920.4 A1 The purchase of goods and services from an assurance client by the firm, or an assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

Commented [IESBA113]: 291.119

920.4 A2 Examples of actions that might be safeguards to address threats created by purchasing goods and services from an assurance client include:

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

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## Section 921

### Family and Personal Relationships

#### Introduction

921.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Family or personal relationships between firm and client personnel might create self-interest, familiarity or intimidation threats. Section 921 sets out specific requirements and application material relevant to applying the conceptual framework to family and personal relationships.

Commented [IESBA115]: 291.120

#### Requirements and Application Material

##### *Applying the Conceptual Framework to Family and Personal Relationships*

921.2 A1 Factors that are important to evaluating the level of any self-interest, familiarity or intimidation threats created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client, include:

- The individual's responsibilities on the assurance team: and
- The role of the family member or other individual within the client, and the closeness of the relationship.

##### *Immediate Family of Assurance Team Member*

921.3 A1 Threats are created when an immediate family member of an assurance team member is an employee in a position to exert significant influence over the subject matter of the engagement. Factors that are important to evaluating the level of any threat created include:

- The position held by the immediate family member.
- The role of the assurance team member.

Commented [IESBA116]: 291.122

921.3 A2 Examples of actions that might be safeguards to address threats set out in paragraph 921.3 A1 include:

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

Commented [SDS117]: 291.122

**R921.4** An individual shall not participate as an assurance team member when any of that individual's immediate family:

Commented [IESBA118]: 291.121

- (a) Is a director or officer of the assurance client; or
- (b) Is an employee in a position to exert significant influence over the subject matter information of the assurance engagement; or
- (c) Was in such a position during any period covered by the engagement or the subject matter information.

*Close Family of Assurance Team Member*

921.5 A1 Threats are created when a close family member of an assurance team member is:

Commented [IESBA119]: 291.123

- A director or officer of the assurance client.
- An employee in a position to exert significant influence over the subject matter information of the assurance engagement.

Factors that are important to evaluating the level of any threat created by the relationships set out in paragraph 921.5 A1 include:

- The nature of the relationship between the assurance team member and the close family member.
- The position held by the close family member.
- The role of the assurance team member.

921.5 A2 Examples of actions that might be safeguards to address threats created by the relationships set out in paragraph 921.5 A1 include:

Commented [SDS120]: 291.123

- 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.

*Other Close Relationships of Assurance Team Member*

**R921.6** An assurance team member shall consult in accordance with firm policies and procedures if the assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:

Commented [IESBA121]: 291.124

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

921.6 A1 Factors that are important to evaluating the level of any threats created by such relationships include:

Commented [SDS122]: 291.124

- The nature of the relationship between the individual and the assurance team member.
- The position the individual holds with the client.

- The role of the assurance team member.

921.6 A2 Examples of actions that might be safeguards to address threats created by such relationships include:

Commented [SDS123]: 291.124

- Removing the individual from the assurance team.
- 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 the professional has a close relationship.

#### *Relationships of Partners and Employees of the Firm*

921.7 A1 Self-interest, familiarity or intimidation threats might be created by a personal or family relationship between (a) a partner or employee of the firm who is not an assurance team member 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. Factors that are important in evaluating the level of any threat created by such relationships include:

Commented [IESBA124]: 291.125

- 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.
- The role of the individual within the client.

921.7 A2 Examples of actions that might be safeguards to address threats created by such relationships include:

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Commented [SDS126]: 291.125

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

## **Section 922**

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

#### **Introduction**

922.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Self-interest, self-review or familiarity threats might be created if an assurance team member has recently served as a director, officer, or employee of the assurance client. Section 922 sets out specific requirements and application material relevant to applying the conceptual framework in circumstances where assurance team members have served with an assurance client.

Commented [SDS127]: 291.130

## Requirements and Application Material

**R922.2** The assurance team shall not include an individual who, during the period covered by the assurance report:

Commented [IESBA128]: 291.131

- (a) Had served as director or officer of the assurance client; or
- (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

922.2 A1 Self-interest, self-review or familiarity threats might be created if, before the period covered by the assurance report, an assurance team member:

Commented [IESBA129]: 291.132

- (a) Had served as director or officer of the assurance client, or
- (b) Was an employee in a position to exert significant influence over the subject matter information of the assurance engagement.

For example, a threat 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 assurance engagement.

922.2 A2 Factors that are important to evaluating the level of any threats created by such recent service with an assurance client include:

Commented [IESBA130]: 291.132

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the assurance team member.

922.2 A3 An example of an action that might be a safeguard to address the threats set out in paragraph 922.3 A1 is conducting a review of the work performed by the individual as an assurance team member.

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## Section 923

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

#### Introduction

923.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Self-review and self-interest threats are created if a partner or employee of the firm serves as a director or officer of an assurance client. Section 923 sets out specific requirements and application material relevant to applying the conceptual framework in these circumstances.

Commented [IESBA132]: New paragraph

#### Requirements and Application Material

**R923.2** A partner or employee of the firm shall not serve as a director or officer of an assurance client of the firm.

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**R923.3** A partner of employee of the firm shall not serve as Company Secretary for an assurance client of the firm unless:

Commented [IESBA134]: 291.135

- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all relevant decisions; and
- (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

A firm shall apply the conceptual framework set out in Section 120 if a partner or employee of the firm performs those duties and activities for an assurance client.

923.3 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might 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. Usually this position is seen to imply a close association with the entity.

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## Section 924

### Employment with an Assurance Client

#### Introduction

924.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Employment relationships between former partners or employees of firms and assurance clients might create familiarity or intimidation threats. Section 924 sets out specific requirements and application material relevant to applying the conceptual framework to these employment relationships.

Commented [IESBA136]: 291.126

#### Requirements and Application Material

924.2 A1 A familiarity or intimidation threat might be created if any of the following individuals have been an assurance team member or partner of the firm:

- 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.

**R924.3** If a former partner joins an assurance client of the firm or a former assurance team member joins the assurance client as:

Commented [IESBA137]: 291.127

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

the individual shall not continue to participate in the firm's business or professional activities.

924.3 A1 If one of those individuals has joined the assurance client in such a position and does not continue to participate in the firm's business or professional activities, the following factors are important in evaluating the level of any familiarity or intimidation threats created:

- 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 an assurance team member or partner of the firm.
- The former position of the individual within the assurance team or firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

924.3 A2 Examples of actions that might be safeguards to address threats created by such employment relationships 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 is not 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.
- Having a professional accountant review the work of the former assurance team member.

Commented [SDS138]: 291.127

924.3 A3 The requirement to apply the conceptual framework also applies if, prior to an entity becoming a client of the firm, a former partner of the firm has joined the entity in a position set out in paragraph R924.3.

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**R924.4** A firm shall have policies and procedures that require assurance team members to notify the firm when entering employment negotiations with an assurance client.

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924.4 A1 A self-interest threat is created when an assurance team member participates in the assurance engagement while knowing that the assurance team member will, or might, join the client some time in the future.

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924.4 A2 Examples of actions that might be safeguards to address a threat set out in paragraph 924.4 A1 include:

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

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## Section 940

### Long Association of Senior Personnel with an Assurance Client

[See **Agenda Item 5G** for full text of Section 940]

## Section 950

### Provision of Non-assurance Services to an Assurance Client

[This section is intentionally omitted and will be presented to IESBA at its December 2016 meeting, subject to the Safeguards Task Force's consideration of conforming amendments arising from its proposals in Section 600, *Provisions of Non-assurance Services to Audit Clients*.]

## Section 999

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

#### Introduction

999.1 For the purposes of this section, a restricted use and distribution assurance report that is issued in the circumstances set out in paragraph R999.3 is referred to as an "eligible restricted use assurance report".

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999.2 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. Section 999 sets out certain modifications to Sections 900 to 998 of this Part which are permitted in certain circumstances involving assurance engagements where the report includes a restriction on use and distribution. The requirements and application material in this section also apply to audits of specific elements, accounts or items of a financial statement.

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#### Requirements and Application Material

**R999.3** A report on an assurance engagement which includes a restriction on use and distribution shall only be eligible for the modifications that are provided to Sections 900 to 998 that are permitted by this section if:

(a) The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the assurance engagement; and

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(b) The intended users of the report understand the purpose, subject matter information and limitations of the report and explicitly agree to the application of the modifications.

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Where the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established, the firm shall subsequently make such users aware of the modified independence requirements agreed to by the representative.

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999.3 A1 The intended users of the report might obtain an understanding of the purpose, subject matter information, and limitations of the report by participating in establishing the nature and scope

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of the engagement. Such participation might be direct, or might be indirect through a representative who has authority to act for the intended users. In either case, this participation helps the firm to communicate with intended users about independence matters including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain agreement of the intended users to the modified independence requirements agreed to by their representative.

999.3 A2 For example, where the intended users are lenders in a syndicated loan arrangement, the firm might describe the modified independence requirements in an engagement letter to the representative of the lenders. The representative might then make the firm's engagement letter available to the members of the group of lenders to meet the requirement for the firm to make such users aware of the modified independence requirements agreed to by the representative.

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**R999.4** When the firm prepares an eligible restricted use assurance report, any modifications to Sections 900 to 998 shall be limited to those modifications set out in paragraphs R999.6 to R999.8.

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**R999.5** If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Sections 900 to 998 to that assurance engagement.

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#### *Networks and Network Firms*

**R999.6** When the firm prepares a qualifying restricted use assurance report, the firm shall evaluate and address any threats that the firm has reason to believe are created by network firm interests and relationships.

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

**R999.7** When the firm prepares an eligible restricted use assurance report:

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- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence that might be created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships, between the assurance client and

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others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

999.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

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R999.8 When the firm prepares a qualifying restricted use assurance report, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.

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The TF proposes to exclude the following extant material from the proposed restructured Code. The material will be further developed as part "additional tools" to assist users implement the restructured Code.

- *Interpretation 2005–01 (Revised July 2009 to conform to changes resulting from the IESBA's project to restructure improve the clarity of the Code)*
- *Application of Section 291 to Assurance Engagements that are Not Financial Statement Audit Engagements*