

This Agenda Paper contains Section 290 and all of the definitions marked-up to show changes proposed by the Task Force.

The alignment of the Code to the Assurance Framework is the responsibility of another Task Force. The Independence Task Force has not addressed those paragraphs that address this issue. The paragraphs that are not addressed are presented in shaded text.

## Section 290

### Independence – Assurance Engagements

290.1 In the case of an assurance engagement it is in the public interest and, therefore, required by this Code of Ethics, that members of **assurance teams**,\* firms and, when applicable, **network firm**\*s be independent of assurance clients.

290.1a [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 \(the Framework\) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standards on Auditing \(ISAs\), International Standards on Review Engagements \(ISREs\) and International Standards on Assurance Engagements \(ISAEs\) apply. The Framework recognizes that not all engagements performed by professional accountants in public practice are assurance engagements and identifies frequently performed engagements that do not meet the definition of an assurance engagement. For a comprehensive description of the elements and objectives of an assurance engagement reference should be made to the Framework.](#)

290.2 Independence requires:

#### *Independence of Mind*

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

#### *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.

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\* See Definitions.

- 290.3 The use of the word “independence” on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.
- 290.4 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms and members of assurance teams to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

*A Conceptual Approach to Independence*

- 290.5 This section provides a conceptual framework for identifying, evaluating and responding to threats to independence. The framework requires members of assurance teams, firms and network firms to identify threats to independence, evaluate the significance of those threats, and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level. Judgment is needed to determine which safeguards are to be applied. Some safeguards may eliminate the threat while others may reduce the threat to an acceptable level. This section requires members of assurance teams, firms and network firms to apply the framework to the particular circumstances under consideration. In addition to identifying relationships between the firm, network firms, members of the assurance team and the assurance client, consideration should be given to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence.
- 290.6 The examples presented in this section are intended to illustrate the application of the framework and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to independence. Consequently, it is not sufficient for a member of an assurance team, a firm or a network firm merely to comply with the examples presented, rather they should apply the framework to the particular circumstances they face.
- 290.7 The nature of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level differ depending on the characteristics of the individual assurance engagement: whether it is a financial statement audit engagement or another type of assurance engagement; and in the latter case, the purpose, subject matter information and intended users of the report. A firm should, therefore, evaluate the relevant circumstances, the nature of the assurance

engagement and the threats to independence in deciding whether it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and whether a particular individual should be a member of the assurance team. Some safeguards assist in compliance with the fundamental principles of ethics, particularly many of the firm-wide safeguards noted in paragraph 200.12. For example, the appropriate environment is established when leadership of the firm re-enforces the expectation that members of an assurance team will act in the public interest. While such safeguards may not address a specific identified threat to independence they do foster an environment in which engagement specific safeguards will be more effective.

290.7a In an assurance engagement, the professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

290.7b 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 subject matter. For example:

- The recognition, measurement, presentation and disclosure represented in the financial statements (subject matter information) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as International Financial Reporting Standards, (criteria) to an entity's financial position, financial performance and cash flows (subject matter).
- An assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO<sup>1</sup> or CoCo<sup>2</sup>, (criteria) to internal control, a process (subject matter).

290.7c Assurance engagements involve three separate parties: a public accountant in public practice, a responsible party and intended users. There are two types of assurance engagements, assertion-based engagements and direct reporting engagements.

290.7d In an assertion-based engagement, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

290.7e In a direct reporting engagement the professional accountant in public practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or

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

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

measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

#### *Financial Statement Audit Engagements*

290.8 Financial statement audit engagements are relevant to a wide range of potential users; consequently, in addition to independence of mind, independence in appearance is of particular significance. Accordingly, for financial statement audit clients, the members of the assurance team, the firm and network firms are required to be independent of the financial statement audit client. Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client in a position to exert direct and significant influence over the subject matter information (the **financial statements**\*). Also, consideration should be given to whether threats to independence are created by relationships with employees of the client in a position to exert direct and significant influence over the subject matter (the financial position, financial performance and cash flows).

#### *Other Assurance Engagements*

290.9 In some assurance engagements that are not financial statement audit engagements there might be several responsible parties. In such engagements the subject matter, or subject matter information for which a particular party is responsible might be immaterial to the subject matter information taken as a whole. The firm may take these circumstances into account in determining the application of the requirements of this section. In an assertion-based engagement, the firm may take into account the materiality of the subject matter information for which a particular party is responsible when determining whether it is necessary to apply the provisions in this section to each party responsible for the subject matter information. In a direct reporting engagement, the firm may take into account the materiality of the subject matter for which a particular party is responsible when determining whether it is necessary to apply the provision in this section to each party responsible for the subject matter.

#### Assertion-based Engagements

290.9a In an ~~assurance~~-assertion-based engagement where the client is not a **financial statement audit client**\*, the members of the assurance team and the firm are required to be independent of the assurance client (the responsible party which is responsible for the subject matter information, and may be responsible for the subject matter). Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client in a position to exert direct and significant influence over the subject matter information. Also, consideration should be given to whether threats to independence are created by relationships with employees of the client in a position to exert direct and significant influence over the subject matter of the engagement. Consideration should also be

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\* See Definitions.

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

290.9b In the majority of assertion-based engagements that are not financial statement audit engagements the responsible party is responsible for the subject matter information and the subject matter. However the responsible party may not be responsible for the subject matter. For example, when a professional accountant in public practice is engaged by an environmental consultant to perform an assurance engagement regarding a report that the environmental consultant has prepared about a company's sustainability practices, for distribution to intended users, the environmental consultant is the responsible party but the company is responsible for the subject matter (the sustainability practices).

290.10 In ~~some assurance~~ those assertion-based engagements that are not financial statement audit engagements ~~there are two responsible parties~~ where the responsible party is responsible for the subject matter information but not the subject matter. In such engagements, the members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter information). In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

#### Direct Reporting Engagements

290.10a In a direct reporting engagement the members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter). In some direct reporting engagements the professional accountant in public practice is to directly evaluate or measure the subject matter, because no written representation from the responsible party that has performed the evaluation or measurement of the subject matter will be obtained. In such circumstances, before accepting the engagement the professional accountant in public practice should evaluate the significance of any self-review threat that may be created by directly evaluating or measuring the subject matter. If such a self-review threat would be other than clearly insignificant the professional accountant in public practice should determine whether appropriate safeguards would be available to eliminate the threat or reduce it to an acceptable level. In evaluating the threat the significance of the potential threat will depend upon the degree of judgment that is needed to evaluate or measure the subject matter against the identified criteria.

#### *Restricted Use Reports*

290.11 In the case of an assurance report in respect of a non-financial statement audit client expressly restricted for use by identified users, the users of the report are considered to be knowledgeable as to the purpose, subject matter information and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to deliver the services, including the criteria against which the subject

matter are to be evaluated or measured. This knowledge and the enhanced ability of the firm to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence in appearance. These circumstances may be taken into account by the firm in evaluating the threats to independence and considering the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level. At a minimum, it will be necessary to apply the provisions of this section in evaluating the independence of members of the assurance team and their immediate and close family. Further, if the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Limited consideration of any threats created by network firm interests and relationships may be sufficient.

*Other Considerations*

- 290.12 The threats and safeguards identified in this section are generally discussed in the context of interests or relationships between the firm, network firms, members of the assurance team and the assurance client. In the case of a financial statement audit client that is a listed entity, the firm and any network firms are required to consider the interests and relationships that involve that client's related entities. Ideally those entities and the interests and relationships should be identified in advance. For all other assurance clients, when the assurance team has reason to believe that a **related entity**\* of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards.
- 290.13 The evaluation of threats to independence and subsequent action should be supported by evidence obtained before accepting the engagement and while it is being performed. The obligation to make such an evaluation and take action arises when a firm, a network firm or a member of the assurance team knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence. There may be occasions when the firm, a network firm or an individual inadvertently violates this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to an assurance client provided the firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.
- 290.14 Throughout this section, reference is made to significant and clearly insignificant threats in the evaluation of independence. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is deemed to be both trivial and inconsequential.

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\* See Definitions.

*Objective and Structure of this Section*

290.15 The objective of this section is to assist firms and members of assurance teams in:

~~(a)(i)~~ Identifying threats to independence;

~~(b)(a)~~ Evaluating whether these threats are clearly insignificant; and

~~(c)(b)~~ In cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

Consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable. In situations when no safeguards are available to reduce the threat to an acceptable level, ~~the only possible actions are to eliminate~~ the activities or interest creating the threat should be eliminated, or ~~to the firm should~~ refuse to accept or continue the assurance engagement.

290.16 This section concludes with some examples of how this conceptual approach to independence is to be applied to specific circumstances and relationships. The examples discuss threats to independence that may be created by specific circumstances and relationships (paragraphs 290.100 onwards). Professional judgment is used to determine the appropriate safeguards to eliminate threats to independence or to reduce them to an acceptable level. In certain examples, the threats to independence are so significant ~~the only possible actions are to eliminate~~ the activities or interest creating the threat should be eliminated, or the firm should ~~to~~ refuse to accept or continue the assurance engagement. In other examples, the threat can be eliminated or reduced to an acceptable level by the application of safeguards. The examples are not intended to be all-inclusive.

290.17 Certain examples in this section indicate how the framework is to be applied to a financial statements audit engagement for a listed entity. When a member body chooses not to differentiate between listed entities and other entities, the examples that relate to financial statement audit engagements for listed entities should be considered to apply to all financial statement audit engagements.

~~290.18 When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.~~

290.19 The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threats to an acceptable level, takes into account the public interest. Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Examples of such entities may include listed companies, credit institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of listed entities, certain paragraphs in this section



deal with additional matters that are relevant to the financial statement audit of listed entities. Consideration should be given to the application of the framework in relation to the financial statement audit of listed entities to other financial statement audit clients that may be of significant public interest.

290.20 Audit committees can have an important corporate governance role when they are independent of client management and can assist the Board of Directors in satisfying themselves that a firm is independent in carrying out its audit role. There should be regular communications between the firm and the audit committee (or other governance body if there is no audit committee) of listed entities regarding relationships and other matters that might, in the firm's opinion, reasonably be thought to bear on independence. Such communication may be an effective safeguard when the audit committee considers the judgments made by the assurance team in identifying and evaluating threats to independence and the effectiveness of the safeguards applied to reduce the threat to independence to an acceptable level.

290.21 Firms should establish policies and procedures relating to independence communications with audit committees, or others charged with governance of the client. In the case of the financial statement audit of listed entities, the firm should communicate orally and in writing at least annually, all relationships and other matters between the firm, network firms and the financial statement audit client that in the firm's professional judgment may reasonably be thought to bear on independence. Matters to be communicated will vary in each circumstance and should be decided by the firm, but should generally address the relevant matters set out in this section.

#### Documentation

290.21b When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

#### *Engagement Period*

290.22 The members of the assurance team and the firm should be independent of the assurance client during the period of the assurance engagement. The period of the engagement starts when the assurance team begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement is of a recurring nature. If the assurance engagement is expected to recur, the period of the assurance engagement ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.

290.23 In the case of a financial statement audit engagement, the engagement period includes the period covered by the financial statements reported on by the firm. When an entity becomes a financial statement audit client during or after the period covered by the



financial statements that the firm will report on, the firm should consider whether any threats to independence may be created by:

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

Similarly, in the case of an assurance engagement that is not a financial statement audit engagement, the firm should consider whether any financial or business relationships or previous services may create threats to independence.

290.24 If a non-assurance service was provided to the financial statement audit client during or after the period covered by the financial statements but before the commencement of professional services in connection with the financial statement audit and the service would be prohibited during the period of the audit engagement, consideration should be given to the threats to independence, if any, arising from the service. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards may include:

- Discussing independence issues related to the provision of the non-assurance service with those charged with governance of the client, such as the audit committee;
- Obtaining the client's acknowledgement of responsibility for the results of the non-assurance service;
- Precluding personnel who provided the non-assurance service from participating in the financial statement audit engagement; and
- Engaging another firm to review 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.

290.25 A non-assurance service provided to a non-listed financial statement audit client will not impair the firm's independence when the client becomes a listed entity provided:

~~(a)~~ ( ) The previous non-assurance service was permissible under this section for non-listed financial statement audit clients;

~~(b)~~ (a) \_\_\_\_\_ The service will be terminated within a reasonable period of time of the client becoming a listed entity, if they are impermissible under this section for financial statement audit clients that are listed entities; and

~~(c)~~ (b) \_\_\_\_\_ The firm has implemented appropriate safeguards to eliminate any threats to independence arising from the previous service or reduce them to an acceptable level.

**Effective Date**

290.26 [This section is applicable to assurance engagements when the assurance report is dated on or after December 31, 2004. Earlier application is encouraged.] [To be revised](#)

## Application of Framework to Specific Situations

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## Introduction

- 290.100 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all-inclusive. In practice, the firm, network firms and the members of the assurance team will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 200.12 through 200.15 can be applied to satisfactorily address the threats to independence.
- 290.101 Some of the examples deal with financial statement audit clients while others deal with assurance engagements for clients that are not financial statement audit clients. The examples illustrate how safeguards should be applied to fulfill the requirement for the members of the assurance team, the firm and network firms to be independent of a financial statement audit client, and for the members of the assurance team and the firm to be independent of an assurance client that is not a financial statement audit client. The examples do not include assurance reports to a non-financial statement audit client expressly restricted for use by identified users. As stated in paragraph 290.11 for such engagements, members of the assurance team and their immediate and close family are required to be independent of the assurance client. Further, the firm should not have a material financial interest, direct or indirect, in the assurance client.
- 290.102 The examples illustrate how the framework applies to financial statement audit clients and other assurance clients. The examples should be read in conjunction with paragraphs 290.9-290.10 which explain that, in the majority of assurance engagements, there is one responsible party and that responsible party comprises the assurance client. However, in some assurance engagements there are two [or more](#) responsible parties. In such circumstances, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

## Financial Interests

- 290.103 A financial interest in an assurance client may create a self-interest threat. In evaluating the significance of the threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest. This includes an evaluation of the role of the person holding the financial interest, the materiality of the financial interest and the type of financial interest (direct or indirect).
- 290.104 When evaluating the type of financial interest, consideration should be given to the fact that financial interests range from those where the individual has no control over the investment vehicle or the financial interest held (e.g., a mutual fund, unit trust or similar intermediary vehicle) to those where the individual has control over the financial interest (e.g., as a trustee) or is able to influence

investment decisions. In evaluating the significance of any threat to independence, it is important to consider the degree of control or influence that can be exercised over the intermediary, the financial interest held, or its investment strategy. When control exists, the financial interest should be considered direct. Conversely, when the holder of the financial interest has no ability to exercise such control the financial interest should be considered indirect.

### Provisions Applicable to All Assurance Clients

290.105 If a member of the assurance team, or their immediate family member, has a **direct financial interest**<sup>\*</sup>, or a material **indirect financial interest**<sup>\*</sup>, in the assurance client, the self-interest threat created would be so significant no safeguards could eliminate or reduce the threat to an acceptable level. Therefore, a member of the assurance team or their immediate family member should not have a direct financial interest or a material indirect financial interest in the assurance client.

~~the only safeguards available to eliminate the threat or reduce it to an acceptable level would be to:~~

- ~~(-)Dispose of the direct financial interest prior to the individual becoming a member of the assurance team;~~
- ~~(a)Dispose of the indirect financial interest in total or dispose of a sufficient amount of it so that the remaining interest is no longer material prior to the individual becoming a member of the assurance team; or~~
- ~~(b)Remove the member of the assurance team from the assurance engagement.~~

290.106 If, however, a member of the assurance team, or their immediate family member receives, for example by way of, ~~for example~~, an inheritance or, gift or, as a result of a merger, a ~~direct~~ financial interest ~~or a material indirect financial interest~~ in the assurance client, ~~a self-interest threat would be created. The following safeguards should be applied to eliminate the threat or reduce it to an acceptable level.:~~

~~(a)( ) The individual should, at the earliest practical date; d~~Disposing~~g of the financial interest or dispose of a sufficient amount of a material indirect financial interest so that the remaining financial interest is not material at the earliest practical date; or~~

~~(b)(a)Removing~~The member of the assurance team should be removed~~from the assurance engagementteam.~~

During the period prior to disposal of the financial interest or the removal of the individual from the assurance team, consideration should be given to whether ~~additional~~ safeguards are necessary to reduce the self-interest threat to an acceptable level. Such safeguards might include:

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

- Discussing the matter with those charged with governance, such as the audit committee; or
- Involving an additional professional accountant to review the work done, or otherwise advise as necessary.

290.107 When a member of the assurance team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat may be created. In evaluating the significance of any threat, consideration should be given to the nature of the relationship between the member of the assurance team and the close family member and the materiality of the financial interest. Once the significance of the threat has been evaluated, safeguards should be considered and applied as necessary. Such safeguards might include:

- The close family member disposing of all or a sufficient portion of the financial interest at the earliest practical date;
- Discussing the matter with those charged with governance, such as the audit committee;
- Involving an additional professional accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team with the close family relationship or otherwise advise as necessary; or
- Removing the individual from the assurance engagement.

290.108 When a firm or a member of the assurance team, or their immediate family member, holds a direct financial interest or a material indirect financial interest in the assurance client as a trustee, a self-interest threat may be created by the possible influence of the trust over the assurance client. Accordingly, such an interest should only be held when:

~~(a)~~( ) The member of the assurance team, an immediate family member of the member of the assurance team, and the firm are not beneficiaries of the trust;

~~(b)~~(a) The interest held by the trust in the assurance client is not material to the trust;

~~(c)~~(b) The trust is not able to exercise significant influence over the assurance client; and

~~(d)~~(c) The member of the assurance team, or their immediate family member, or the firm does not have significant influence over any investment decision involving a financial interest in the assurance client.

290.109 Consideration should be given to whether a self-interest threat may be created by the financial interests of individuals outside of the assurance team and their immediate and close family members. Such individuals would include:



- Partners, and their immediate family members, who are not members of the assurance team;
- Partners and managerial employees who provide non-assurance services to the assurance client; and
- Individuals who have a close personal relationship with a member of the assurance team.

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

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

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

~~• Where appropriate, policies to restrict people from holding such interests;~~

- Discussing the matter with those charged with governance, such as the audit committee; or
- Involving an additional professional accountant ~~who did not take part in the assurance engagement~~ to review the work done or otherwise advise as necessary.

290.110 An inadvertent violation of this section as it relates to a financial interest in an assurance client would not impair the independence of the firm, the network firm or a member of the assurance team when:

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

~~(b)~~ (a) The firm, and the network firm, promptly notify the professional that the financial interest should be disposed of; and

~~(c)~~ (b) The disposal occurs at the earliest practical date after identification of the issue, or the professional is removed from the assurance team.

290.111 When an inadvertent violation of this section relating to a financial interest in an assurance client has occurred, the firm should consider whether any safeguards should be applied. Such safeguards might include:

- ~~\_\_\_~~ Involving an additional professional accountant ~~who did not take part in the assurance engagement~~ to review the work done by the member of the assurance team; or

- Excluding the individual from any substantive-significant decision-making concerning the assurance engagement.

### Provisions Applicable to Financial Statement Audit Clients

290.112 If a firm, or a network firm, has a direct financial interest or a material indirect financial interest in a financial statement audit client of the firm the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Therefore, a firm, or a network firm, should not have such a financial interest in a financial statement audit client. Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement.

~~290.113 If a firm, or a network firm, has a material indirect financial interest in a financial statement audit client of the firm a self interest threat is also created. The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.~~

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

~~The only actions appropriate to permit the firm to perform the engagement would be for the firm, or the network firm, either to dispose of the financial interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.~~

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

290.116 If other partners, including partners who do not perform assurance engagements, or their immediate family, in the **office**\* in which the **engagement partner**\* practices in connection with the financial statement audit hold a direct financial interest or a material indirect financial interest in that audit client, the

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\* See Definitions.

self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly/Therefore, such partners or their immediate family should not hold any such financial interests in such an audit client.

290.117 The office in which the engagement partner practices in connection with the financial statement audit 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 assurance team, judgment should be used to determine in which office the partner practices in connection with that audit.

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

290.119 Notwithstanding paragraphs 290.116 and 290.118, a ~~A~~ financial interest in a financial statement audit client that is held by an immediate family member of (a) a partner located in the office in which the engagement partner practices in connection with the audit, or (b) a partner or managerial employee who provides non-assurance services to the audit client is not considered to create an unacceptable threat provided it is received as a result of their employment rights (e.g., pension rights or share options) ~~and, it cannot be practicably disposed of, and where necessary,~~ appropriate safeguards are applied to reduce any threat to independence to an acceptable level.

290.120 A self-interest threat may be created if the firm, or the network firm, or a member of the assurance team has an interest in an entity and a financial statement audit client, or a director, officer or controlling owner thereof also has an investment in that entity. Independence is not compromised with respect to the audit client if the respective interests of the firm, the network firm, or member of the assurance team, and the audit client, or director, officer or controlling owner thereof are both immaterial and the audit client cannot exercise significant influence over the entity. If an interest is material, to either the firm, the network firm or the audit client, and the audit client can exercise significant influence over the entity, no safeguards are available to reduce the threat to an acceptable level and the firm, or the network firm, should either dispose of the interest or decline the audit engagement. Any member of the assurance team individual with such a material interest should, prior to becoming a member of the assurance team -either:

(a) ( ) Dispose of the interest; or

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

~~(b) Withdraw from the audit.~~

### Provisions Applicable to Non-Financial Statement Audit Assurance Clients

290.121 If a firm has a direct financial interest or a material indirect financial interest in an assurance client that is not a financial statement audit client the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. ~~Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement~~ Therefore, a firm should not have such a financial interest in an assurance client that is not a financial statement audit client.

- ~~• 290.122 If a firm has a material indirect financial interest in an assurance client that is not a financial statement audit client a self-interest threat is also created. The only action appropriate to permit the firm to perform the engagement would be for the firm to either dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.~~

290.123 If a firm has a material financial interest in an entity that has a controlling interest in an assurance client that is not a financial statement audit client, and the client is material to the entity, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Therefore, a firm should not have such a financial interest.

~~The only action appropriate to permit the firm to perform the engagement would be for the firm either to dispose of the financial interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.~~

290.124 When a restricted use report for an assurance engagement that is not a financial statement audit engagement is issued, exceptions to the provisions in paragraphs 290.105 through 290.109 and 290.121 through 290.123 are set out in 290.16. [cross references to be updated]

### Loans and Guarantees

290.125 A loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution, to the firm would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements and the loan is immaterial to both the firm and the assurance client. If the loan is material to the assurance client or the firm it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include:

- involving an additional professional accountant from outside the firm, or network firm, to review the work performed;

- [discussing the matter with those charged with governance, such as the audit committee.](#)

- 290.126 A loan, or a guarantee of a loan, from an assurance client that is a bank or a similar institution, to a member of the assurance team or their immediate family would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.
- 290.127 Similarly, deposits made by, or brokerage accounts of, a firm or a member of the assurance team with an assurance client that is a bank, broker or similar institution would not create a threat to independence provided the deposit or account is held under normal commercial terms.
- 290.128 If the firm, or a member of the assurance team, makes a loan to an assurance client, that is not a bank or similar institution, or guarantees such an assurance client's borrowing, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team and the assurance client.
- 290.129 Similarly, if the firm or a member of the assurance team accepts a loan from, or has borrowing guaranteed by, an assurance client that is not a bank or similar institution, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team and the assurance client.
- 290.130 The examples in paragraphs 290.125 through 290.129 relate to loans and guarantees between the firm and an assurance client. In the case of a financial statement audit engagement, the provisions should be applied to the firm, all network firms and the audit client.

### **Close Business Relationships With Assurance Clients**

- 290.131 A close business relationship between a firm or a member of the assurance team and the assurance client or its management, or between the firm, a network firm and a financial statement audit client, will involve a commercial or common financial interest and may create self-interest and intimidation threats. The following are examples of such relationships:
- [Having a material financial interest in a joint venture with the assurance client or a controlling owner, director, officer or other individual who performs senior managerial functions for that client.](#)
  - [Arrangements to combine one or more services or products of the firm with one or more services or products of the assurance client and to market the package with reference to both parties.](#)

- Distribution or marketing arrangements under which the firm acts as a distributor or marketer of the assurance client's products or services, or the assurance client acts as the distributor or marketer of the products or services of the firm.

In the case of a financial statement audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm, the network firm and the audit client, no safeguards could reduce the threat to an acceptable level. In the case of an assurance client that is not a financial statement audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm and the assurance client, no safeguards could reduce the threat to an acceptable level. Consequently, in both these circumstances ~~the only possible courses of action are to:~~

~~(a)( ) Terminate~~ The business relationship should be terminated;

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

~~(c)(b) Refuse to perform~~ The firm should refuse to perform the assurance engagement.

Unless any such financial interest is immaterial and the relationship is clearly insignificant to the member of the assurance team, the ~~only appropriate safeguard would be to individual should be removed the individual~~ from the assurance team.

290.132 In the case of a financial statement audit client, business relationships involving an interest held by the firm, a network firm or a member of the assurance team or their immediate family in a closely held entity when the audit client or a director or officer of the audit client, or any group thereof, also has an interest in that entity, do not create threats to independence provided:

~~(a)( )~~ The relationship is clearly insignificant to the firm, the network firm and the audit client;

~~(b)(a)~~ The interest held is immaterial to the investor, or group of investors; and

~~(c)(b)~~ The interest does not give the investor, or group of investors, the ability to control the closely held entity.

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

- Eliminating or reducing the magnitude of the transaction;

- Removing the individual from the assurance team; or
- Discussing the issue with those charged with governance, such as the audit committee.

## Family and Personal Relationships

290.134 Family and personal relationships between a member of the assurance team and a director, an officer or certain employees, depending on their role, of the assurance client, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors including the individual's responsibilities on the assurance engagement, the closeness of the relationship and ~~the role of the~~ whether the family member or other individual within the assurance client can exert significant influence over the preparation of the subject matter information of the assurance engagement. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to be applied to reduce the threat to an acceptable level.

290.135 When an immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert ~~direct and~~ significant influence over the preparation of the subject matter information of the assurance engagement, or was in such a position during any period covered by the engagement, the threats to independence can only be reduced to an acceptable level by removing the individual from the assurance team. The closeness of the relationship is such that no other safeguard could reduce the threat to independence to an acceptable level. If application of this safeguard is not used, the ~~only course of action is to~~ firm should withdraw from the assurance engagement. For example, in the case of an audit of financial statements, if the spouse of a member of the assurance team is an employee in a position to exert ~~direct and~~ significant influence over the preparation of the audit client's accounting records or financial statements, the threat to independence could only be reduced to an acceptable level by removing the individual from the assurance team.

290.135a In addition, in the case of an audit of the consolidated financial statements of a listed entity, if an immediate family member of a member of the assurance team is an employee in a position to exert significant influence over the preparation of the accounting records or financial statements of a material subsidiary of the financial statement audit client and that material subsidiary is not audited by another audit firm, that is not a network firm, the threat to independence could only be reduced to an acceptable level by removing the individual from the engagement team.

290.136 When an immediate family member of a member the assurance team is an employee in a position to exert ~~direct and~~ significant influence over the subject



matter of the engagement, threats to independence may be created. The significance of the threats will depend on factors such as:

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

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

- Removing the individual from the assurance team;
- Where possible, structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the immediate family member; or
- Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

290.137 When a close family member of a member of the assurance team is a director, an officer, or an employee of the assurance client in a position to exert ~~direct~~ and significant influence over the preparation of the subject matter information of the assurance engagement, threats to independence may be created. The significance of the threats will depend on factors such as:

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

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

- Removing the individual from the assurance team;
- Where possible, 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; or
- Policies and procedures to empower staff to communicate to senior levels within the firm any issue of independence and objectivity that concerns them.

290.138 In addition, self-interest, familiarity or intimidation threats may be created when a person who is other than an immediate or close family member of a member of the assurance team has a close relationship with the member of the assurance team and is a director, an officer or an employee of the assurance client in a position to exert ~~direct and~~ significant influence over the preparation of the subject matter information of the assurance engagement. Therefore, members of the assurance team are responsible for identifying any such persons and for consulting in accordance with firm procedures. The evaluation of the

significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship and the role of the individual within the assurance client.

290.139 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a partner or employee of the firm who is not a member of the assurance team and a director, an officer or an employee of the assurance client in a position to exert ~~direct and~~ significant influence over the preparation of the subject matter information of the assurance engagement. Therefore partners and employees of the firm are responsible for identifying any such relationships and for consulting in accordance with firm procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the firm professional with the assurance team, the position held within the firm, and the role of the individual within the assurance client.

290.140 An inadvertent violation of this section as it relates to family and personal relationships would not impair the independence of a firm or a member of the assurance team when:

~~(a)~~(c) The firm has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence;

~~(b)~~(a) Either the responsibilities of the assurance team are re-structured so that the professional does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or, if this is not possible, the firm promptly removes the professional from the assurance engagement; and

~~(c)~~(b) Additional care is given to reviewing the work of the professional.

290.141 When an inadvertent violation of this section relating to family and personal relationships has occurred, the firm should consider whether any safeguards should be applied. Such safeguards might include:

- Involving an additional professional accountant who did not take part in the assurance engagement to review the work done by the member of the assurance team; or
- Excluding the individual from any substantive decision-making concerning the assurance engagement.

## Employment with Assurance Clients

290.142 A firm or a member of the assurance team's independence may be threatened if a director, an officer or an employee of the assurance client in a position to exert ~~direct and~~ significant influence over the preparation of the subject matter information of the assurance engagement has been a member of the assurance team or partner of the firm. Such circumstances may create self-interest, familiarity and intimidation threats particularly when significant connections remain between the individual and his or her former firm. Similarly, a member of the assurance team's independence may be threatened when an individual participates in the assurance engagement knowing, or having reason to believe, that he or she is to, or may, join the assurance client some time in the future.

290.143 If a member of the assurance team, partner or former partner of the firm has joined the assurance client, the significance of the self-interest, familiarity or intimidation threats created will depend upon the following factors:

~~(a)~~( ) The position the individual has taken at the assurance client.

~~(b)~~(a) The amount of any involvement the individual will have with the assurance team.

~~(c)~~(b) The length of time that has passed since the individual was a member of the assurance team or firm.

~~(d)~~(c) The former position of the individual within the assurance team or firm.

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

- ~~Considering the appropriateness or necessity of M~~ modifying the assurance plan for the assurance engagement;
- Assigning an assurance team to the subsequent assurance engagement that is of sufficient experience in relation to the individual who has joined the assurance client;
- Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary; or
- Quality control review of the assurance engagement.

In all cases, all of the following safeguards are necessary to reduce the threat to an acceptable level:

~~(a)~~( ) The individual concerned is not entitled to any benefits or payments from the firm unless these are made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be of such significance to threaten the firm's independence.

~~(b)~~(a) The individual does not continue to participate or appear to participate in the firm's business or professional activities.

290.143a In addition, if a former engagement partner of a financial statement audit client that was a listed entity had joined the client before an audited financial statement for which another engagement partner was responsible had been filed with the appropriate registrar, stock exchange, securities commission or equivalent, the self review threat created would generally be so significant that no safeguards could reduce the threat to an acceptable level and, accordingly, the firm could not continue the engagement.

290.144 A self-interest threat is created when a member of the assurance team participates in the assurance engagement while knowing, or having reason to believe, that he or she ~~is to, or may,~~ join the assurance client some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

~~(a)( )~~ Policies and procedures to require the individual to notify the firm when entering serious employment negotiations with the assurance client.

~~(b)(a)~~ Removal of the individual from the assurance engagement.

When a member of the assurance team knows that he or she is to join the assurance client. In addition, consideration should be given to performing an independent review of any significant judgments made by that individual while on the that are significant to the engagement is required to reduce any threat to independence to an acceptable level.

### **Recent Service with Assurance Clients**

290.145 To have a former officer, director or employee of the assurance client serve as a member of the assurance team may create self-interest, self-review and familiarity threats. This would be particularly true when a member of the assurance team has to report-express a conclusion on, for example, subject matter information he or she had prepared or elements of the financial statements he or she had valued while with the assurance client.

290.146 If, during the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter information of the assurance engagement, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the assurance team.

290.147 If, prior to the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter information of the assurance engagement, this may create self-interest, self-review and familiarity threats. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the assurance client, is to be evaluated in the

current period as part of the current assurance engagement. The significance of the threats will depend upon factors such as:

- The position the individual held with the assurance client;
- The length of time that has passed since the individual left the assurance client; and
- The role the individual plays on the assurance team.

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

- Involving an additional professional accountant to review the work done by the individual as part of the assurance team or otherwise advise as necessary; or
- Discussing the issue with those charged with governance, such as the audit committee.

### **Serving as an Officer or Director on the Board of Assurance Clients**

290.148 If a partner or employee of the firm serves as an officer or as a director on the board of an assurance client the self-review and self-interest threats created would be so significant no safeguard could reduce the threats to an acceptable level. In the case of a financial statement audit engagement, if a partner or employee of a network firm were to serve as an officer or as a director on the board of the audit client the threats created would be so significant no safeguard could reduce the threats to an acceptable level. Consequently, if such an individual were to accept such a position the only course of action is to firm should refuse to perform, or to—should withdraw from the assurance engagement.

290.149 The position of Company Secretary has different implications in different jurisdictions. The duties may range from administrative duties such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally this position is seen to imply a close degree of association with the entity and may create self-review and advocacy threats.

290.150 If a partner or employee of the firm or a network firm serves as Company Secretary for a financial statement audit client the self-review and advocacy threats created would generally be so significant, no safeguard could reduce the threat to an acceptable level. When the practice is specifically permitted under local law, professional rules or practice, the duties and functions undertaken should be limited to those of a routine and formal administrative nature such as the preparation of minutes and maintenance of statutory returns.

290.151 Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters is generally not perceived to impair independence, provided client management makes all relevant decisions.

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

### **General Provisions**

290.152 Using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat. The significance of the threat will depend upon factors such as:

- The length of time that the individual has been a member of the assurance team;
- The role of the individual on the assurance team;
- The structure of the firm; and
- The nature of the assurance engagement.

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

- Rotating the senior personnel off the assurance team;
- Involving an additional professional accountant who was not a member of the assurance team to review the work done by the senior personnel or otherwise advise as necessary; or
- Independent internal quality reviews.

### **Financial Statement Audit Clients That are Listed Entities**<sup>3</sup>

290.153 Using the same engagement partner or the same individual responsible for the **engagement quality control review**\* on a financial statement audit over a prolonged period may create a familiarity threat. This threat is particularly relevant in the context of the financial statement audit of a listed entity and safeguards should be applied in such situations to reduce such threat to an acceptable level. Accordingly, in respect of the financial statement audit of listed entities:

(a) The engagement partner and the individual responsible for the engagement quality control review should be rotated after serving in either capacity, or a combination thereof, for a pre-defined period, normally no more than seven years; and

<sup>3</sup> See also Interpretation 2003-02 on page 84.

\* See Definitions.

~~(b)~~(a) Such an individual rotating after a pre-defined period should not participate in the audit engagement until a further period of time, normally two years, has elapsed.

290.154 A familiarity threat may also be created with respect to a financial statement audit client that is a listed entity by prolonged service of partners other than the engagement partner or the individual responsible for the engagement quality control review, such as partners serving as client relationship partners or those serving as partners responsible for material subsidiaries. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, the safeguards in paragraph 290.152 should be considered to reduce the threat to an acceptable level.

290.154a When a financial statement audit client becomes a listed entity the length of time the engagement partner or the individual responsible for the engagement quality control review has served the audit client in that capacity should be considered in determining when the individual should be rotated. However, the person may continue to serve as the engagement partner or as the individual responsible for the engagement quality control review for two additional years before rotating off the engagement.

290.155 While the engagement partner and the individual responsible for the engagement quality control review should be rotated after such a pre-defined period, some degree of flexibility over timing of rotation may be necessary in certain circumstances. Examples of such circumstances include:

- Situations when the person's continuity is especially important to the financial statement audit client, for example, when there will be major changes to the audit client's structure that would otherwise coincide with the rotation of the person's; and
- Situations when, due to the size of the firm, rotation is not possible or does not constitute an appropriate safeguard.

In all such circumstances when the person is not rotated after such a pre-defined period equivalent safeguards should be applied to reduce any threats to an acceptable level.

290.156 When a firm has only a few people with the necessary knowledge and experience to serve as engagement partner or individual responsible for the engagement quality control review on a financial statement audit client that is a listed entity, rotation may not be an appropriate safeguard. In these circumstances the firm should apply ~~other~~alternative safeguards to reduce the threat to an acceptable level. ~~Such safeguards would include~~ing involving an additional professional accountant who has the necessary knowledge and was not otherwise associated with the assurance team to review the work done or otherwise advise as necessary. This individual could be someone from outside



the firm or someone within the firm who was not otherwise associated with the assurance team.

### **Provision of Non-assurance Services to Assurance Clients**<sup>4</sup>

290.157 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Assurance clients value the benefits that derive from having these firms, who have a good understanding of the business, bring their knowledge and skill to bear in other areas. Furthermore, the provision of such non-assurance services will often result in the assurance team obtaining information regarding the assurance client's business and operations that is helpful in relation to the assurance engagement. The greater the knowledge of the assurance client's business, the better the assurance team will understand the assurance client's procedures and controls, and the business and financial risks that it faces. The provision of non-assurance services may, however, create threats to the independence of the firm, a network firm or the members of the assurance team, particularly with respect to perceived threats to independence. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards are available to reduce the threat to an acceptable level, and accordingly the non-assurance service should not be provided.

290.158 The following activities would generally create self-interest, ~~or~~ self-review or advocacy threats that are so significant that only avoidance of the activity or refusal to perform the assurance engagement would reduce the threats to an acceptable level:

- Acting in the capacity of management by a Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so, except when the matters involved are of a routine or administrative nature and are performed at the request of management.
- Making decisions on behalf of management such as determining which recommendation of the firm should be implemented, or
- Reporting, in a management role, to those charged with governance.
- ~~Determining which recommendation of the firm should be implemented.~~

~~—Reporting, in a management role, to those charged with governance.~~

290.159 The examples set out in paragraphs 290.165 through 290.204 are addressed in the context of the provision of non-assurance services to an assurance client. The potential threats to independence will most frequently arise when a non-assurance service is provided to a financial statement audit client. The financial

<sup>4</sup> See also Interpretation 2003-01 on page 84.

statements of an entity provide financial information about a broad range of transactions and events that have affected the entity. The subject matter information of other assurance services, however, may be limited in nature. Threats to independence, however, may also arise when a firm provides a non-assurance service related to the subject matter information, of a non-financial statement audit assurance engagement. In such cases, consideration should be given to the significance of the firm's involvement with the subject matter information, of the engagement, whether any self-review threats are created and whether any threats to independence could be reduced to an acceptable level by application of safeguards, or whether the engagement should be declined. When the non-assurance service is not related to the subject matter information, of the non-financial statement audit assurance engagement, the threats to independence will generally be clearly insignificant.

290.160 The following activities may also create self-review or self-interest threats:

- Having custody of an assurance client's assets.
- Supervising assurance client employees in the performance of their normal recurring activities.
- Preparing 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).

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

- Making arrangements so that personnel providing such services do not participate in the assurance engagement;
- Involving an additional professional accountant to advise on the potential impact of the activities on the independence of the firm and the assurance team; or
- Other relevant safeguards set out in national regulations.

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

290.162 The following safeguards may be particularly relevant in reducing to an acceptable level threats created by the provision of non-assurance services to assurance clients:

- Policies and procedures to prohibit professional staff from making management decisions for the assurance client, or assuming responsibility for such decisions.
- Discussing independence issues related to the provision of non-assurance services with those charged with governance, such as the audit committee.
- Policies within the assurance client regarding the oversight responsibility for provision of non-assurance services by the firm.
- Involving an additional professional accountant to advise on the potential impact of the non-assurance engagement on the independence of the member of the assurance team and the firm.
- Involving an additional professional accountant outside of the firm to provide assurance on a discrete aspect of the assurance engagement.
- Obtaining the assurance client's acknowledgement of responsibility for the results of the work performed by the firm.
- ~~Disclosing to~~Discussing with those charged with governance, such as the audit committee, the nature and extent of fees charged.
- Making arrangements so that personnel providing non-assurance services do not participate in the assurance engagement.

290.163 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, consideration should be given to whether the provision of such a service would create a threat to independence. In situations when a threat created is other than clearly insignificant, the non-assurance engagement should be declined unless appropriate safeguards can be applied to eliminate the threat or reduce it to an acceptable level.

290.164 The provision of certain non-assurance services to financial statement audit clients may create threats to independence so significant that no safeguard could eliminate the threat or reduce it to an acceptable level. However, the provision of such services to a related entity, division or discrete financial statement item of such clients may be permissible when any threats to the firm's independence have been reduced to an acceptable level by arrangements for that related entity, division or discrete financial statement item to be audited by another firm or when another firm re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.

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

290.165 Assisting a financial statement audit client in matters such as preparing accounting records or financial statements may create a self-review threat when the financial statements are subsequently audited by the firm.

290.166 It is the responsibility of financial statement audit client management to ensure that accounting records are kept and financial statements are prepared, although they may request the firm to provide assistance. If firm, or network firm, personnel providing such assistance make management decisions, the self-review threat created could not be reduced to an acceptable level by any safeguards. Consequently, personnel should not make such decisions. Examples of such managerial decisions include:

- Determining or changing journal entries, or the classifications for accounts or transactions or other accounting records without obtaining the approval of the financial statement audit client; and
- ~~Authorizing or approving transactions; and~~
- Preparing or changing source documents or originating data (including decisions on valuation assumptions), ~~or making changes to such documents or data.~~

Source documents are the documents upon which evidence of an accounting transaction are initially recorded, such as purchase orders, payroll time cards and customer orders.

290.167 The audit process involves extensive dialogue between the firm and management of the financial statement audit client. During this process, management requests and receives significant input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. Technical assistance of this nature and advice on accounting principles for financial statement audit clients are an appropriate means to promote the fair presentation of the financial statements. The provision of such advice does not generally threaten the firm's independence. Similarly, the financial statement audit process may involve assisting an audit client in resolving account reconciliation problems, analyzing and accumulating information for regulatory reporting, assisting in the preparation of consolidated financial statements (including the translation of local statutory accounts to comply with group accounting policies and the transition to a different reporting framework such as International Financial Reporting Standards), drafting disclosure items, proposing adjusting journal entries and providing assistance and advice in the preparation of local statutory accounts of subsidiary entities. These services are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.

#### *General Provisions*

290.168 The examples in paragraphs 290.169 through 290.172 indicate that self-review threats may be created if the firm is involved in the preparation of accounting records or financial statements and those financial statements are subsequently the subject matter information of an audit engagement of the firm. This notion may be equally applicable in situations when the subject matter information of

the assurance engagement is not financial statements. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this prospective financial information. Consequently, the firm should evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat is other than clearly insignificant safeguards should be considered and applied as necessary to reduce the threat to an acceptable level.

*Financial Statements Audit Clients That are Not Listed Entities*

290.169 The firm, or a network firm, ~~may~~ should not provide a financial statement audit client that is not a listed entity with accounting and bookkeeping services, including payroll services, unless the services are of a routine or mechanical nature, ~~provided any self-review threat created is reduced to an acceptable level~~. Examples of such services include:

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

The significance of any threat created by the provision of such services will depend upon the magnitude of the services provided. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

~~—making arrangements so such services are not performed by a member of the assurance team;~~

- ~~• Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the audit client;~~
- ~~• Requiring the source data for the accounting entries to be originated by the audit client;~~

In all cases the following safeguards are necessary to reduce the threat to an acceptable level:

- Requiring the underlying assumptions to be originated and approved by the audit client; or
- Obtaining audit client approval for any proposed journal entries or other changes affecting the financial statements.

*Financial Statement Audit Clients That are Listed Entities*

290.170 The provision of accounting and bookkeeping services, including payroll services and the preparation of financial statements or financial information

which forms the basis of the financial statements on which the audit report is provided, on behalf of a financial statement audit client that is a listed entity, may impair the independence of the firm or network firm, or at least give the appearance of impairing independence. Accordingly, ~~no safeguard other than the prohibition of such services, except in emergency situations and when the services fall within the statutory audit mandate or as noted in paragraph 290.171, no safeguard other than the prohibition of provision of accounting and bookkeeping services~~ could reduce the threat created to an acceptable level. Therefore, a firm or a network firm should not, with the limited exceptions below, provide such services to a listed entity that is a financial statement audit client.

290.171 The provision of accounting and bookkeeping services of a routine or mechanical nature to divisions or subsidiaries of a financial statement audit client that is a listed entity would not be seen as impairing independence with respect to the audit client provided that all of the following conditions are met:

~~(a)( )~~ The services do not involve the exercise of judgment;

~~(b)(a)~~ The divisions or subsidiaries for which the service is provided are collectively immaterial to the audit client, or the effect of services provided are collectively immaterial to the financial statements of the division or subsidiary.

~~(b)The fees to the firm, or network firm, from such services are collectively clearly insignificant.~~

If such services are provided, all of the following safeguards should be applied:

~~(a)( )~~ The firm, or network firm, should not assume any managerial role nor make any managerial decisions.

~~(b)(a)~~ The audit client should accept responsibility for the results of the work.

~~(e)(b)~~ Personnel providing the services should not participate in the audit ~~be members of the assurance team.~~

#### *Emergency Situations*

290.172 The provision of accounting and bookkeeping services to financial statement audit clients in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements, would not be considered to pose an unacceptable threat to independence provided:

~~(a)( )~~ The firm, or network firm, does not assume any managerial role or make any managerial decisions;

~~(b)(a)~~ The audit client accepts responsibility for the results of the work;

~~(e)(b)~~ and Personnel providing the services are not members of the assurance team.

### Valuation Services

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

290.174 A self-review threat may be created when a firm or network firms performs a valuation for a financial statement audit client that is to be incorporated into the client's financial statements.

290.175 If the valuation service involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any safeguard. Accordingly, such valuation services should not be provided or, alternatively, the ~~only course of action would be to~~ firm should withdraw from the financial statement audit engagement. 290.176

Performing valuation services for a financial statement audit client that are neither separately, nor in the aggregate, material to the financial statements, or that do not involve a significant degree of subjectivity, may also create a self-review threat. The significance of the threat will depend on factors such as that could be reduced to an acceptable level by the application of safeguards. Such safeguards might include:

- ~~• Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary;~~
- ~~• Confirming with the audit client their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;~~
- ~~• Obtaining the audit client's acknowledgement of responsibility for the results of the work performed by the firm; and~~
- ~~• Making arrangements so that personnel providing such services do not participate in the audit engagement.~~

~~In determining whether the above safeguards would be effective, consideration should be given to the following matters:~~

~~(a) ( )~~ The extent of the audit client's knowledge, experience and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgment.

~~(b) (a)~~ The degree to which established methodologies and professional guidelines are applied when performing a particular valuation service.

~~(c) (b)~~ For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.

~~(d) (c)~~ The reliability and extent of the underlying data.



(e)(d) The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved.

(f)(e) The extent and clarity of the disclosures in the financial statements.

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

- Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary;
- Confirming with the audit client their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;
- Obtaining the audit client's acknowledgement of responsibility for the results of the work performed by the firm; and
- Making arrangements so that personnel providing such services do not participate in the audit engagement.

290.177 When a firm, or a network firm, performs a valuation service for a financial statement audit client for the purposes of making a filing or return to a tax authority, computing an amount of tax due by the client, or for the purpose of tax planning, this would not create a significant threat to independence because such valuations are generally subject to external review, for example by a tax authority.

290.178 When the firm performs a valuation that forms part of the subject matter information of an assurance engagement that is not a financial statement audit engagement, the firm should consider any self-review threats. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

### **Provision of Taxation Services to Financial Statement Audit Clients**

290.179 In many jurisdictions, the firm may be asked to provide taxation services to a financial statement audit client. Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Many sSuch assignments are-do not generally not seen to create threats to independence, however, because of the broad range of possible taxation services, before accepting an engagement to provide a taxation service to a financial statement audit client consideration should be given to whether the provision of such a service would create a threat to independence.

290.179a The significance of the threat will depend on factors such as:

- The nature of the taxation service, for example whether it involves representing the audit client before a court;

- The degree of judgment or interpretation involved;
  - The materiality of the matter in relation to the financial statements;
  - The basis of remuneration for the services provided; and
  - The extent of the audit client's knowledge and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgment.
- —The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:
- Involving an additional professional accountant, or other expert, who was not a member of the assurance team to review the work done or otherwise advise as necessary;
  - Discussing the issue with those charged with governance, such as the audit committee;
  - Discussing the interpretation with the relevant taxation authority.

#### **Provision of Internal Audit Services to Financial Statement Audit Clients**

290.180 A self-review threat may be created when a firm, or network firm, provides internal audit services to a financial statement audit client. Internal audit services may comprise an extension of the firm's audit service beyond requirements of generally accepted auditing standards, assistance in the performance of a client's internal audit activities or outsourcing of the activities. In evaluating any threats to independence, the nature of the service will need to be considered. For this purpose, internal audit services do not include operational internal audit services unrelated to the internal accounting controls, financial systems or financial statements.

290.181 Services involving an extension of the procedures required to conduct a financial statement audit in accordance with International Standards on Auditing would not be considered to impair independence with respect to the audit client provided that the firm's or network firm's personnel do not act or appear to act in a capacity equivalent to a member of audit client management.

290.182 When the firm, or a network firm, provides assistance in the performance of a financial statement audit client's internal audit activities or undertakes the outsourcing of some of the activities, the conditions outlined in paragraph 290.184 should be in place to ensure any self-review threat created may be reduced to an acceptable level by ensuring that there is a clear separation between the management and control of the internal audit by client management and the internal audit activities themselves.

~~290.183 Performing a significant portion of the financial statement audit client's internal audit activities may create a self-review threat and a firm, or network firm, should consider the threats and proceed with caution before taking on such~~

~~activities. Appropriate safeguards should be put in place and the firm, or network firm, should, in particular, ensure that the audit client acknowledges its responsibilities for establishing, maintaining and monitoring the system of internal controls.~~

290.184 Subject to paragraph 290.181 a firm, or network firm, should not provide any internal audit services to a financial statement audit client unless~~Safeguards that should be applied in all circumstances to reduce any threats created to an acceptable level include ensuring that:~~

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

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

~~(c)~~(b) The audit client, the audit committee or supervisory body approves the scope, risk and frequency of internal audit work;

~~(d)~~(c) The audit client is responsible for evaluating and determining which recommendations of the firm should be implemented;

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

~~(f)~~(e) The findings and recommendations resulting from the internal audit activities are reported appropriately to the audit committee or supervisory body.

290.184a Before accepting an engagement to perform a significant portion of the financial statement audit client's internal audit activities consideration should be given to whether the safeguards in 290.184 would adequately address the threats to independence.

290.185 In addition, when providing internal audit services, c~~C~~onsideration should ~~also~~ be given to whether such non-assurance services should be provided only by personnel not involved in the financial statement audit engagement and with different reporting lines within the firm.

### **Provision of IT Systems Services to Financial Statement Audit Clients**

290.186 The provision of services by a firm or network firm to a financial statement audit client that involve the design and implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may create a self-review threat.

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

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

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

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

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

~~(e)~~(d) The audit client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.

290.188 Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the financial statement audit engagement and with different reporting lines within the firm.

290.189 The provision of services by a firm, or network firm, to a financial statement audit client which involve either the design or the implementation of financial information technology systems that are used to generate information forming part of a client's financial statements may also create a self-review threat. The significance of the threat, if any, should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

290.190 The provision of services in connection with the assessment, design and implementation of internal accounting controls and risk management controls are not considered to create a threat to independence provided that firm or network firm personnel do not perform management functions.

#### **Temporary Staff Assignments to Financial Statement Audit Clients**

290.191 The lending of staff by a firm, or network firm, to a financial statement audit client may create a self-review threat when the individual is in a position to influence the preparation of a client's accounts or financial statements. In practice, such assistance may be given (particularly in emergency situations) but only on the understanding that the firm's or network firm's personnel will not be involved in:

~~(a)~~( ) Making management decisions;

~~(b)~~(a) Approving or signing agreements or other similar documents; or

~~(c)~~(b) Exercising discretionary authority to commit the client.

~~Each situation should be carefully analyzed to identify whether any threats are created and whether appropriate safeguards should be implemented. The significance of any threat created should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. In Safeguards that should be applied in all circumstances the following safeguards should be applied: to reduce any threats to an acceptable level include:~~

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

### **Provision of Litigation Support Services to Financial Statement Audit Clients**

290.192 Litigation support services may include such activities as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a dispute or litigation.

290.193 A self-review threat may be created when the litigation support services provided to a financial statement audit client include the estimation of the possible outcome and thereby affects the amounts or disclosures to be reflected in the financial statements. The significance of any threat created will depend upon factors such as:

- The materiality of the amounts involved;
- The degree of subjectivity inherent in the matter concerned; and
- The nature of the engagement.

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

- ~~Policies and procedures to prohibit individuals assisting the audit client from making managerial decisions on behalf of the client;~~
- Using professionals who are not members of the assurance team to perform the service; or
- The involvement of others, such as independent experts.

290.194 If the role undertaken by the firm or network firm involved making managerial decisions on behalf of the financial statement audit client, the threats created could not be reduced to an acceptable level by the application of any safeguard.

Therefore, the firm or network firm should not perform this type of service for an audit client.

### **Provision of Legal Services to Financial Statement Audit Clients**

290.195 Legal services are defined as any services, other than tax services as described in paragraph 290.179, for which the person providing the services must either be admitted to practice law before the Courts of the jurisdiction in which such services are to be provided, or have the required legal training to practice law. Legal services encompass a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition advice and support and the provision of assistance to clients' internal legal departments. The provision of legal services by a firm, or network firm, to an entity that is a financial statement audit client may create both self-review and advocacy threats.

290.196 Threats to independence need to be considered depending on the nature of the service to be provided, whether the service provider is separate from the assurance team and the materiality of any matter in relation to the entities' financial statements. The safeguards set out in paragraph 290.162 may be appropriate in reducing any threats to independence to an acceptable level. In circumstances when the threat to independence cannot be reduced to an acceptable level the only available action is to firm should decline to provide such services or should withdraw from the financial statement audit engagement.

290.197 The provision of legal services to a financial statement audit client which involve matters that would not be expected to have a material effect on the financial statements are not considered to create an unacceptable threat to independence.

290.198 There is a distinction between advocacy and advice. Legal services to support a financial statement audit client in the execution of a transaction (*e.g.*, contract support, legal advice, legal due diligence and restructuring) may create self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Such a service would not generally impair independence, provided that:

(a)( ) Members of the assurance team are not involved in providing the service;  
and

(b)(a) In relation to the advice provided, the audit client makes the ultimate decision or, in relation to the transactions, the service involves the execution of what has been decided by the audit client.

290.199 Acting for a financial statement audit client in the resolution of a dispute or litigation in such circumstances when the amounts involved are material in relation to the financial statements of the audit client would create advocacy and self-review threats so significant no safeguard could reduce the threat to an

acceptable level. Therefore, the firm should not perform this type of service for a financial statement audit client.

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

- ~~Policies and procedures to prohibit individuals assisting the audit client from making managerial decisions on behalf of the client; or~~
- Using professionals who are not members of the assurance team to perform the service.

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

### **Recruiting Senior Management**

290.202 The recruitment of senior management for an assurance client, such as those in a position to affect the subject matter information of the assurance engagement, may create current or future self-interest, familiarity and intimidation threats. The significance of the threat will depend upon factors such as:

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

The firm could generally provide such services as reviewing the professional qualifications of a number of applicants and provide advice on their suitability for the post. In addition, the firm could generally produce a short-list of candidates for interview, provided it has been drawn up using criteria specified by the assurance client. However, the firm, or network firm, should not make a decision on behalf of management with respect to a particular candidate or commit the assurance client to such a decision.

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



**Provision of Corporate Finance and Similar Activities Services to Financial Statement Audit Clients**

290.203 The provision of corporate finance services, advice or assistance by a firm, or a network firm, to an assurance-financial statement audit client may create advocacy and self-review threats. In the case of certain corporate finance services, the independence threats created would be so significant no safeguards could be applied to reduce the threats to an acceptable level. ~~For example~~Examples of such services include:

- (a) ; promoting, dealing in, or underwriting of an a assurance-financial statement audit client's shares ~~is not compatible with providing assurance services. Moreover, ; and~~
- (b) committing the assurance-client to the terms of a transaction or consummating a transaction on behalf of the client. ~~would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level. In the case of a financial statement audit client the provision of those corporate finance services referred to above by a firm or a network firm would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level.~~

290.204 Other corporate finance services may create advocacy or self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Examples of such services include assisting a financial statement audit client in developing corporate strategies, assisting in identifying or introducing a-the client to possible sources of capital that meet the client specifications or criteria, and providing structuring advice and assisting a-the client in analyzing the accounting effects of proposed transactions. Safeguards that should be considered include using professionals who are not members of the assurance team to provide the services.

- ~~• Policies and procedures to prohibit individuals assisting the assurance client from making managerial decisions on behalf of the client;~~
- ~~• Using professionals who are not members of the assurance team to provide the services; and~~
- ~~• Ensuring the firm does not commit the assurance client to the terms of any transaction or consummate a transaction on behalf of the client.~~

**Fees, and Pricing and Partner Compensation**

**Fees—Relative Size**

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

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

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

- Discussing the extent and nature of fees charged with the audit committee, or others charged with governance;
- Taking steps to reduce dependency on the client;
- External quality control reviews; and
- Consulting a third party, such as a professional regulatory body or another professional accountant.

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

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

### **Fees—Overdue**

290.207 A self-interest threat may be created if fees due from an assurance client for professional services remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report for the following year. Generally the payment of such fees should be required before the report is issued. The following safeguards may be applicable:

- Discussing the level of outstanding fees with the audit committee, or others charged with governance.
- Involving an additional professional accountant who ~~did not take part in~~ was not a member of the assurance ~~engagement team~~ to provide advice or review the work performed.

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

### **Pricing**

290.208 When a firm obtains an assurance engagement at a significantly lower fee level than that charged by the predecessor firm, or quoted by other firms, the self-interest threat created will not be reduced to an acceptable level unless:

~~(a)~~( ) The firm is able to demonstrate that appropriate time and qualified staff are assigned to the task; and

~~(b)~~(a) All applicable assurance standards, guidelines and quality control procedures are being complied with.

### Contingent Fees

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

290.210 A contingent fee charged by a firm in respect of an assurance engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard. Accordingly, a firm should not enter into any fee arrangement for an assurance engagement under which the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter information of the assurance engagement.

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

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

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

- Disclosing to the audit committee, or others charged with governance, the extent and nature of fees charged;
- Review or determination of the final fee by an unrelated third party; or
- Quality and control policies and procedures.

### **Partner compensation**

290.211a Compensating an assurance partner on an assurance team for selling non-assurance services to the financial statement audit client may create a self-interest threat. The significance of the threat will depend on the proportion of the partner's compensation which is based on the sale of non-assurance services to the financial statement audit client.

The significance of the threat should be evaluated and, if the threats are other than clearly insignificant, the firm should either revise the compensation plan for that individual or apply safeguards to reduce the threats to an acceptable level. Such safeguards might include:

- Involving an additional professional accountant who did not take part in the assurance engagement to provide advice or review the work performed; or
- External quality control reviews.

If safeguards are not available to eliminate the threat or reduce it to an acceptable level an assurance partner who is member of the assurance team should not be compensated for the selling of non-assurance services to the financial statement audit client.

This does not preclude a partner from sharing in the profits of the audit practice and those of the overall firm. In addition, a partner's evaluation could take into account a number of factors directly or indirectly related to selling services to a financial statement audit client.

### **Gifts and Hospitality**

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

### **Actual or Threatened Litigation**

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

- The materiality of the litigation;
- The nature of the assurance engagement; and

- Whether the litigation relates to a prior assurance engagement.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, Once the significance of the threat has been evaluated the following safeguards should be considered and applied, ~~if necessary,~~ to reduce the threats to an acceptable level. Such safeguards might include:

(a)( ) Disclosing to Discussing with the audit committee, or others charged with governance, the extent and nature of the litigation;

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

(c)(b) Involving an additional professional accountant in the firm who was not a member of the assurance team to review the work done or otherwise advise as necessary.

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

## Definitions

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

Advertising	The communication to the public of information as to the services or skills provided by professional accountants in public practice with a view to procuring professional business.
Assurance client	<p>The <del>party</del> responsible <u>party that is the person (or persons) who:</u> (a) <u>In a direct reporting engagement, is responsible for the subject matter; or</u> (b) <u>In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.</u></p> <p><u>In engagements where there are multiple responsible parties, the firm may take into account the materiality of the subject matter or subject matter information for which a particular party is responsible into account when determining whether that particular responsible party should be considered to be included in the definition of assurance client.</u></p> <p>(For an assurance client that is a financial statement audit client see the definition of financial statement audit client.)</p>
Assurance engagement	<p>An engagement in which a professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.</p> <p>(For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)</p>
Assurance team	<p>(a) All <del>members of the engagement team</del> <u>for individuals performing the assurance engagement and any individuals contracted by the firm who perform roles substantially equivalent to a partner or employee of the firm.</u></p> <p>(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:</p> <p>(i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the</p>

assurance engagement partner in connection with the performance of the assurance engagement. For the purposes of a financial statement audit engagement this includes those at all successively senior levels above the engagement partner through the firm's chief executive;

- (ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
- (iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement; and



- (c) For the purposes of a financial statement audit client, all those within a network firm who can directly influence the outcome of the financial statement audit engagement.

Clearly insignificant	A matter that is deemed to be both trivial and inconsequential.
Close family	A parent, child or sibling, who is not an immediate family member.
Contingent fee	A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.
Direct financial interest	<p>A financial interest:</p> <ul style="list-style-type: none"><li>• Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</li><li>• Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.</li></ul>
Director or officer	Those charged with the governance of an entity, regardless of their title, which may vary from country to country.
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement quality control review	A process designed to provide an objective evaluation, before the report is issued, of the significant judgments the engagement team made and the conclusions they reached in formulating the report.
Engagement team	All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

Financial statements	The balance sheets, income statements or profit and loss accounts, statements of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements.
Financial statement audit client	An entity in respect of which a firm conducts a financial statement audit engagement. When the client is a listed entity, financial statement audit client will always include its related entities.
Financial statement audit engagement	A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared in all material respects in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is a financial statement audit required by legislation or other regulation.
Firm	<ul style="list-style-type: none"><li>• A sole practitioner, partnership or corporation of professional accountants;</li><li>• An entity that controls such parties; and</li><li>• An entity controlled by such parties.</li></ul>
Immediate family	A spouse (or equivalent) or dependant.
Independence	<p>Independence is:</p> <p>(a) Independence of mind – the states of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional judgment</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised.</p>
Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

Network firm	An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.
Office	A distinct sub-group, whether organized on geographical or practice lines.
Professional accountant	An individual who is a member of an IFAC member body.
Professional accountant in business	A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.
Professional accountant in public practice	A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.
Professional services	Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.
Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"><li>(a) An entity that has direct or indirect control over the client provided the client is material to such entity;</li><li>(b) An entity with a direct financial interest in the client provided that such entity has significant influence over the client and the interest in the client is material to such entity;</li><li>• An entity over which the client has direct or indirect control;</li><li>• An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and</li><li>• An entity which is under common control with the client (hereinafter a “sister entity”) provided the sister entity and the client are both material to the entity that controls both the client and sister entity.</li></ul>