

## Section 291

### Independence—Other Assurance Clients

#### Objectives and Structure of this Section

- 291.0 This section deals with independence requirements for assurance engagements that are not audit or review engagements. Independence requirements for audit and review engagements are addressed in Section 290.
- 291.1 Assurance engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The International Framework for Assurance Engagements (the Assurance Framework) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement, and identifies engagements to International Standards on Assurance Engagements (ISAEs) apply. For a description of the elements and objectives of an assurance engagement reference should be made to the Assurance Framework.
- 291.2 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**,<sup>\*</sup> firms and, when applicable, **network firm**<sup>\*</sup>s be independent of assurance clients.
- 291.3 The objective of this section is to assist firms and members of assurance teams in:
- (a) Identifying threats to independence;
  - (b) Evaluating whether these threats are clearly insignificant; and
  - (c) In cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.
- 290.4 Members of assurance teams and firms should apply the conceptual framework contained in Section 100 to the particular circumstances under consideration. The examples presented in this section impose requirements on the firm and individuals within the firm to “evaluate”, “consider”, “document” and “implement” depending upon the particular circumstances. Where a firm has such responsibility, this section is not prescriptive as to the specific responsibility of individuals within the firm or network firm for such actions, as responsibility may differ depending upon the size, structure and organization of a firm. In many cases, responsibility will lie with the engagement partner who is responsible for, among other things, evaluating circumstances and relationships

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\* See Definitions.

that create threats to independence and taking action to eliminate such threats or reduce them to an acceptable level. However, this section does not imply that responsibility for such activities lies solely with the engagement partner. Firms should have policies and procedures in place such that responsibility for such actions is clearly assigned.

- 291.5 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). In certain examples, the threats to independence are so significant the activities or interest creating the threat should be eliminated, or to the firm should 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. Professional judgment should be used to determine the appropriate safeguards to eliminate threats to independence or to reduce them to an acceptable level. The examples are not intended to be all-inclusive.

### **A Conceptual Approach to Independence**

- 291.6 Independence requires:

#### *Independence of Mind*

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

#### *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude based on the specific facts and circumstances available, that a firm's, or a member of the audit or review team's, integrity, objectivity or professional skepticism had been compromised.

- 291.7 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 members of society have 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 would be likely to conclude to be unacceptable.
- 291.8 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.

- 291.9 A firm should, therefore, evaluate the relevant circumstances, the nature of the assurance engagement and the threats to independence, as well as the nature of the safeguards required, in deciding whether it is appropriate to accept or continue an engagement and whether a particular individual should be a member of the assurance team. The evaluation 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 or a member of the audit or review team knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence.
- 291.10 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, an 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 are more effective.

### **Assurance Engagements**

- 291.11 As further explained in the Assurance Framework, in an assurance engagement the professional accountant in public practice expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.
- 291.12 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: an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO or CoCo, (criteria) to internal control, a process (subject matter).
- 291.13 Assurance engagements may be assertion-based or direct reporting. In either case they involve three separate parties: a public accountant in public practice, a responsible party and intended users.

- 291.14 In an assertion-based assurance engagement the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.
- 291.15 In a direct reporting assurance engagement the professional accountant in public practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

### ***Assertion-based Assurance Engagements***

- 291.16 In an assertion-based assurance engagement the members of the assurance team and the firm are required to be independent of the assurance client (the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter). Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client in a position to exert significant influence over the subject matter information. Also, consideration should be given to whether threats to independence are created by relationships with employees of the client in a position to exert significant influence over the subject matter of the engagement. Consideration should also be given to any threats that the firm has reason to believe may be created by network firm interests and relationships.
- 290.17 In the majority of assertion-based assurance engagements the responsible party is responsible for the subject matter information and the subject matter. However, in some engagements the responsible party may not be responsible for the subject matter. For example, when a professional accountant in public practice is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices, for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).
- 291.18 In those assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter the members of the assurance team and the firm are required to be independent of the party responsible for the subject matter information (the assurance client). In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

### ***Direct Reporting Assurance Engagements***

- 291.19 In a direct reporting assurance engagement the members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter).

***Restricted Use Reports***

- 291.20 An assurance report in respect of an assurance client that is not an audit or review client may be expressly restricted for use by only the intended users specified in the report. In such engagements, 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.

- 291.21 Members of the engagement team are required to be independent of the assurance client, accordingly it will be necessary to apply the provisions of this section to the members of the engagement team and their immediate and close family. Also, consideration should be given to whether threats to independence are created by interests and relationships between the following members of the assurance team and the assurance client:

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

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

- 290.22 If the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, the firm should not have such a financial interest. In addition, the firm is required to

comply with the other applicable provisions of this section described in paragraphs 290.126 – 290.214. Limited consideration of any threats created by network firm interests and relationships may be sufficient.

### ***Multiple Responsible Parties***

291.23 In some assurance engagements, whether assertion-based or direct reporting there might be several responsible parties. In such engagements, in determining whether it is necessary to apply the provisions in this section to each responsible party, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is other than clearly insignificant in the context of the subject matter information. This will take into account factors such as:

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

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

### **Performing Management Functions**

291.24 Management of an entity performs many functions in order to carry out their responsibility to manage the entity in the best interests of stakeholders. It is not possible to specify every function which is a management responsibility. However, management functions involve leading and directing an entity including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

291.25 The determination of whether an activity is the proper responsibility of management and therefore a management function will depend on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered management functions include:

- Authorizing transactions.
- Deciding which recommendations of the firm or other third parties should be implemented.
- Preparing source documents or originating data or making changes to such documents or data
- Establishing and maintaining internal controls.
- Setting policies and strategic direction.

- 291.26 Performing management functions for an assurance client that is not an audit or review client may create threats to independence. If a firm performs management functions as part of the assurance service the threats created could not be reduced to an acceptable level by any safeguard. Accordingly, in providing assurance services to an assurance client that is not an audit or review client, a firm should not perform management functions as part of the assurance service. The firm should ensure that any services being provided to the assurance client considered to be a management function does not involve the subject matter of the assurance engagement.
- 291.27 Some activities would not be considered management functions because they are routine and administrative, involve matters that are clearly insignificant or do not otherwise represent a management responsibility. For example, executing a clearly insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit or review client of such forthcoming dates would not be considered management functions. Further providing advice and recommendations to assist management in performing their functions would not be considered a management function.

### **Documentation**

- 291.28 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 document. 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**

- 291.29 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.
- 291.30 When an entity becomes an assurance client the firm should consider whether any financial or business relationships or previous services may create threats to independence.

### **Other Considerations**

- 291.31 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 the client provided the firm has appropriate quality control policies and procedures in

place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

- 291.32 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.



## **APPLICATION OF FRAMEWORK TO SPECIFIC SITUATIONS**

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## Introduction

- 291.100 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 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.
- 291.101 The examples do not include assurance reports expressly restricted for use by identified users. As stated in paragraph 290.19 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.
- 291.102 The examples illustrate how the framework applies to assurance engagements. The examples should be read in conjunction with paragraphs 290.20 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.
- 291.103 Interpretation 2005-01 to this section provides further guidance on the application of the independence requirements contained in this section to assurance engagements.

## Financial Interests

- 291.104 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).
- 290.105 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 nature of the financial interest held

and the degree of control or influence that can be exercised over the intermediary and 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.

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

291.107 When a member of the assurance team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat may be created. In evaluating the significance of any threat, consideration should be given to the nature of the relationship between the member of the assurance team and the close family member and the materiality of the financial interest. 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, as soon as practicable, of all or a sufficient portion of the financial interest such that the remaining interest is no longer material;
- Performing a review of the work done by the member of the audit or review team with the close family relationship; or
- Removing the individual from the assurance engagement.

291.109 If a firm has a material financial interest in an entity that has a controlling interest in an assurance 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.

Financial interests held as trustees – to be developed and discussed by TF.

291.110 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 involving an additional professional accountant who did not take part in the assurance engagement to review the work done or otherwise advise as necessary:

291.114 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 290.106 through 290.110 and 290.122 through 290.124 are set out in 290.19.

291.115 An inadvertent violation of this section as it relates to a financial interest in an assurance client would not impair the independence provided:

- (a) The firm has 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) The individual, in the case of a purchase, is advised that the financial interest should be disposed or at the disposal takes place at the earliest date after the identification of the issue or in other circumstances the actions prescribed in paragraph 291.111 are taken; and; and

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

- Involving an additional professional accountant to review the work done by the member of the assurance team;
- Excluding the individual from any significant decision-making concerning the assurance engagement; or
- Discussing the matter with the audit committee.

## **Loans and Guarantees**

291.116 A loan, or a guarantee of a loan, to the firm from an assurance client that is a bank or a similar institution, 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.

- 291.117 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.
- 291.118 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.
- 291.119 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.
- 291.120 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.

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

- 291.121 A close business relationship between a firm or a member of the assurance team and the assurance client or its management, 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.

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. Therefore on such circumstances:

- (a) The business relationship should be terminated;
- (b) The magnitude of the relationship should be reduced so that the financial interest is immaterial and the relationship is clearly insignificant; or
- (c) 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 remove the individual from the assurance team.

291.122 The purchase of goods and services from an assurance client by the 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; or
- Removing the individual from the assurance team.

### **Family and Personal Relationships**

291.123 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 family member or other individual within the assurance client. 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.

291.124 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 significant influence over 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 firm should withdraw from the assurance engagement.

291.125 When an immediate family member of a member the assurance team is an employee in a position to exert 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.

291.126 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 significant influence over 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.

- 291.127 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 significant influence over 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.
- 291.128 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 significant influence over 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.
- 291.129 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) 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) 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 team; and
  - (c) Additional care is given to reviewing the work of the professional.
- 291.130 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**

291.131 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 significant influence over 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.

291.132 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 client.
- (b) The amount of any involvement the individual will have with the assurance team.
- (c) The length of time that has passed since the individual was a member of the assurance team or firm.
- (d) 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:

- 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; or
- Involving an additional professional accountant who was not a member of the assurance team to review the work done or otherwise advise as necessary.

In all cases, all of the following safeguards are necessary to ensure that no significant connections remain between the firm and the individual 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) The individual does not continue to participate or appear to participate in the firm's business or professional activities.

291.133 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. Firms should have policies and procedures to require the individual to notify the firm when entering serious employment negotiations with the client. Upon receiving such notification, any threats to independence should be evaluated and safeguards should be applied as necessary to reduce any threat that is other than clearly insignificant to an acceptable level. Such safeguards should include:

- (a) Removal of the individual from the assurance engagement; and
- (b) An independent review of any significant judgments made by that individual while on the engagement.

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

291.134 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 on, for example, subject matter information he or she had prepared while with the assurance client.

291.135 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 significant influence over the subject matter information of the assurance engagement, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the assurance team.

291.136 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 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.

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

291.137 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. Therefore, if such an individual were to accept such a position the firm should refuse to perform, or to withdraw from the assurance engagement.

291.138 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.

291.139 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**

291.140 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;
- The nature of the assurance engagement;
- Whether a new management team has been installed at the assurance client; and

- Whether there has been a change in the nature or complexity of the assurance client's accounting and reporting issues.

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.

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

291.145 Firms have traditionally provided to their clients a range of non-assurance services that are consistent with their skills and expertise. The provision of non-assurance services to an assurance client may, however, create threats to the independence of the firm or the members of the assurance team. 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

291.150 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 that are other than clearly insignificant have been reduced to an acceptable level.

291.151 Threats to independence might be created when a firm provides a non-assurance service related to the subject matter information of an assurance engagement. In such cases, consideration should be given to the significance of the firm's involvement with the subject matter information of the engagement, whether any self-review threats are created and whether any threat to independence that is other than clearly insignificant can be reduced to an acceptable level by the application of safeguards.

291.152 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 within the 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 engagement.
- Obtaining the client's acknowledgement of responsibility for the results of the work performed by the firm.
- Making arrangements so that personnel providing non-assurance services do not participate in the assurance engagement.

## **Fees and Pricing**

### **Fees–Relative Size**

291.153 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:

- 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.

291.154 A self-interest threat may also be created when the fees generated from an assurance client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat should be evaluated and, if the threat is 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 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**

291.155 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 audit or review report for the following year. Generally the payment of such fees should be required before the report is issued. The following safeguard may be applicable involving an additional professional accountant who did not take part in the assurance engagement 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**

291.156 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) All applicable assurance standards, guidelines and quality control procedures are being complied with.

### **Contingent Fees**

291.157 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.

291.158 A contingent fee charged by a firm in respect of an 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 a financial statement audit or review engagement under which the amount of the fee is contingent on the result of the audit or review work or on items that are incorporated in the financial statements.

290.212 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 the assurance engagement, the threats could not be reduced to an acceptable level by the application of any safeguard. Accordingly, 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:

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

### **Gifts and Hospitality**

290.213 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.