

## Section 290

### **Independence—~~Assurance Engagements~~Audit and Review Engagements**

#### **Objective and Structure of this Section**

290.1 This section addresses the independence requirements for audit and review engagements. Independence requirements for assurance engagements that are not audit or review engagements are addressed in Section 291.

290.2 Throughout this section, the term(s):

- “financial statements” also includes other historical financial information when such information is the subject matter information of the engagement;
- “audit team”, “audit engagement”, “audit client” and “audit report” also includes review teams, review engagements, review clients and review reports;
- “firm” also includes network firm except where otherwise stated; and
- “entities of significant public interest” includes listed entities.

290.3 In the case of audit engagements, it is in the public interest and, therefore, required by this Code of Ethics, that members of **audit teams**,\* firms and **network firms**\* be independent of audit clients.

290.4 The objective of this section is to assist firms and members of audit teams in applying a conceptual approach to achieving and maintaining independence that involves:

- (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 safeguards to eliminate the threats or reduce them to an acceptable level.

Professional judgment should be used to determine the appropriate safeguards to eliminate any threats or to reduce them to an acceptable level. If appropriate safeguards are not available, the audit engagement should be declined or terminated.

290.5 This section is not prescriptive as to the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending upon the size, structure and organization of a firm. Accordingly, it is necessary for firms to have policies and procedures, appropriately documented and communicated, to assign responsibility for identifying and evaluating threats to independence and applying appropriate safeguards to eliminate any threats or reduce them to an acceptable level.

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\* See Definitions.

290.6 This section concludes with some examples (paragraphs 290.100 onwards) of how the conceptual approach to independence is to be applied to specific circumstances and relationships. The examples are not intended to be all-inclusive.

~~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.~~

~~290.2 Assurance engagements are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The International Framework for Assurance Engagements (the Assurance Framework) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and 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.~~

~~290.3 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.~~

~~290.4 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 <sup>\*</sup> (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 or CoCo, (criteria) to internal control, a process (subject matter).~~

~~290.5 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.~~

~~290.6 In an assertion-based assurance engagement, which includes a financial statement audit engagement <sup>\*</sup>, the evaluation or measurement of the subject matter is performed by~~

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

~~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.~~

~~290.7 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.~~  
A Conceptual Approach to Independence

290.78 Independence requires:

*Independence of Mind*

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

*Independence in Appearance*

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

~~290.9 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.~~

290.810 Many different circumstances, or combination of circumstances, may be relevant in assessing independence. ~~and~~ A 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 audit 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

~~290.11 Members of assurance teams, firms and network firms are required to apply the conceptual framework contained in Section 100 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.~~

~~290.12 The examples presented in this section are intended to illustrate the application of the conceptual 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.~~

~~290.13 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. In deciding whether it is appropriate to accept or continue an engagement, or whether a particular individual should be a member of the audit team, 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. The evaluation should be supported by information obtained before accepting the engagement and while it is being performed.~~

### **Networks and Network Firms**

~~290.104~~ An entity that belongs to a network might be a firm, which is defined in this Code as a sole practitioner, partnership or corporation of professional accountants and an entity that controls or is controlled by such parties, or the entity might be another type of entity, such as a consulting practice or a professional law practice. The independence requirements in this section that apply to a network firm apply to any entity that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm. If a firm is considered to be a network firm, the firm is required to be independent of the audit clients of the other firms within the network.

~~290.12 If a firm is considered to be a network firm, the firm is required to be independent of the financial statement audit clients of the other firms within the network. In addition, for assurance clients that are not financial statement audit clients, consideration should be given to any threats the firm has reason to believe may be created by financial interests in the client held by other entities in the network or by relationships between the client and other entities in the network.~~

~~290.113~~ To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network

depends upon the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is considered to be a network.

- 290.1<sup>24</sup> The judgment as to whether the larger structure is a network should be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. This judgment should be applied consistently throughout the network
- 290.1<sup>35</sup> Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is considered to be a network. However, the sharing of immaterial costs would not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product would not in itself create a network.
- 290.1<sup>46</sup> Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is considered to be a network. This could be achieved by contract or other means.
- 290.1<sup>57</sup> Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is considered to be a network. For this purpose common quality control policies and procedures would be those designed, implemented and monitored across the larger structure.
- 290.1<sup>68</sup> Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is considered to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not considered to be a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service.
- 290.1<sup>79</sup> Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is considered to be a network. A common brand name includes common initials or a common name. A firm is considered to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name, when a partner of the firm signs an [assurance-audit](#) report.

290.1820 Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, a firm should carefully consider how it describes any such memberships in order to avoid the perception that it belongs to a network.

290.1921 If a firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm, or an element of the name, even though it is no longer connected to the firm. In such circumstances, while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at co-operation and are, therefore, not network firms. -Those entities should carefully consider how to disclose that they are not network firms when presenting themselves to outside parties.

290.202 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources, it is considered to be a network. Professional resources include:

- Common systems that enable firms to exchange information such as client data, billing and time records;
- Partners and staff;
- Technical departments to consult on technical or industry specific issues, transactions or events for assurance engagements;
- Audit methodology or audit manuals; and
- Training courses and facilities.

290.213 The determination of whether the professional resources shared are significant, and therefore the firms are network firms, should be made based on the relevant facts and circumstances. Where the shared resources are limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information, it is unlikely that the shared resources would be considered to be significant. The same applies to a common training endeavor. Where, however, the shared resources involve the exchange of people or information, such as where staff are drawn from a shared pool, or a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared resources are significant.

~~as well as the nature of the safeguards required and whether a particular individual should be a member of the assurance audit or review team.~~

## **Assertion-based Assurance Engagements**

### ***Financial Statement Audit Engagements***

~~290.14—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 Assertion-based Assurance Engagements***

~~290.15—In an assertion-based assurance 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 given to any threats that the firm has reason to believe may be created by network firm interests and relationships.~~

~~290.16—In the majority of assertion-based assurance engagements, that are not financial statement audit 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).~~

~~290.17—In those assertion-based assurance engagements that are not financial statement audit 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**

~~290.18 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**

~~290.19 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.~~

#### **Multiple Responsible Parties**

~~290.20 In some assurance engagements, whether assertion-based or direct reporting, that are not financial statement audit engagements, 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.~~

### ~~Other Considerations~~

~~290.21 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 audit or review team and the assurance audit or review client. In the case of an 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 audit or review assurance clients, when the assurance audit or review 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 audit or review team should consider that related entity when evaluating independence and applying appropriate safeguards.~~

~~290.22 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 audit or review 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.~~

~~290.23 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.~~

### ~~Objective and Structure of This Section~~

~~290.24 The objective of this section is to assist firms and members of assurance teams in:~~

- ~~•Identifying threats to independence;~~
- ~~•Evaluating whether these threats are clearly insignificant; and~~

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\* See Definitions.

- ~~•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, or to refuse to accept or continue the assurance engagement.~~

~~290.25 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, or 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.~~

~~290.26 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.~~

~~290.27 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.~~

### **Entities of Significant Public Interest**

~~290.2228 The evaluation of the significance of threats to independence and the safeguards necessary to eliminate them or reduce them to an acceptable level takes into account the extent of public interest in the entity. Entities of significant public interest are listed entities and certain other entities that, because of their business, size or number of employees, have a large number and wide range of stakeholders. The extent of the public interest in these entities is significant, this section, therefore, contains enhanced safeguards to eliminate threats or reduce them to an acceptable level.~~

~~290.23 In some countries, the scope of all entities considered to be of significant public interest for independence purposes is defined by statute or regulation. In such cases, that definition should be used in applying the requirements in this section. In the absence of~~

such a definition, member bodies should determine the types of entities that are of significant public interest and, thus, subject to the enhanced safeguards referred to above. Entities of significant public interest will always include listed entities, will normally include banks, insurance companies and other regulated financial institutions, and may, depending on the facts and circumstances, include pension funds, government-agencies, government-owned entities and not-for-profit entities. 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.

### -Related Entities

290.24 In the case of an audit client that is a listed entity, references to an audit client in this section include related entities of the client. In the case of other entities of significant public interest that are audit clients, references to “audit client” will generally include its related entities. However, in certain circumstances, having regard to the nature and structure of the client’s organization, it may not be necessary to apply the more extensive requirements referred to above to all related entities in order to maintain independence from the audit client. This might be the case in an audit of a government-owned entity.

290.25 For audit clients that are not entities of significant public interest, when the audit team knows or has reason to believe that a **related entity**\* of the client is relevant to the evaluation of the firm’s independence of the client, the audit team should consider that related entity when evaluating threats independence and applying appropriate safeguards.

### Those Charged with Governance

290.2629 ~~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~~those charged with governance (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 is encouraged, even when not required

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\* See Definitions.

by applicable auditing standards. Such communication enables those charged with governance to consider the judgments made by the firm in identifying and evaluating threats to independence and the appropriateness of the safeguards applied to eliminate the threats or reduce them to an acceptable level. Such communication can be particularly helpful with respect to intimidation and familiarity threats.

~~290.30 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

290.27 While documentation is not, of itself, a determinant of whether a firm is independent, when threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the audit engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level.

### **Engagement Period**

~~290.2831~~ The members of the assurance-audit team and the firm should be independent of the assurance-audit client during the period of the assurance engagement period and the period covered by the financial statements. The period of the engagement period starts when the assurance-audit team begins to perform assurance-audit services. and The engagement period ends when the assurance-audit report is issued, except when the assurance engagement is of a recurring nature. In such a case it: If the assurance engagement is expected to recur, the period of the assurance engagement ends at the later of with the notification by either party that the professional relationship has terminated or the issuance of the final assurance-audit report, whichever is later.

~~290.2932~~ 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 an financial statement audit client during or after the period covered by the financial statements that the on which the firm will report on express an opinion, 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.~~

290.30<sup>3</sup> 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:

~~(a) 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;~~

~~(b) Obtaining the client's acknowledgement of responsibility for the results of the non-assurance service;~~

~~(c) Precluding personnel who provided the non-assurance service from participating in the financial statement being members of the audit team engagement; and/or~~

~~(d) Engaging another firm to review-evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.~~

### Other Considerations

290.33a-

#### Audit Client Becomes a Listed Entity

~~290.34 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:~~

~~• The previous non-assurance service was permissible under this section for non-listed financial statement audit client that is not a listed entity;~~

~~• The service will be terminated as soon as practicable, but no later than 60 days after 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~~

~~• The firm has implemented appropriate safeguards to eliminate any threats to independence arising from the previous service or reduce them to an acceptable level.~~

290.31<sup>22</sup> There may be occasions when ~~the firm, a network firm or an individual inadvertently violates~~ there is an inadvertent violation of this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to ~~an assurance~~

| [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.

| 290.[3223](#) 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

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-audit~~ 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 290.19 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.~~

~~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 290.20 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 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.~~

~~290.103 Interpretation 2005-01 to this section provides further guidance on the application of the independence requirements contained in this section to assurance engagements that are not financial statement audit engagements.~~

## Financial Interests

290.101<sup>4</sup> A financial interest in ~~an assurance-an audit~~ client may create a self-interest threat. In evaluating the significance of ~~the-any~~ 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 ~~whether~~ the ~~type of~~ financial interest ~~is~~ (direct or indirect).

290.10~~25~~<sup>25</sup> 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-it holds~~ (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 it holds, and whether degree of control or influence that~~ can be exercised over the intermediary ~~and, 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**

290.10~~36~~<sup>36</sup> If a member of the ~~assurance-audit~~ team, ~~or their-his or her~~ immediate family member, ~~or a firm~~ has a **direct financial interest**<sup>\*</sup>; or a material **indirect financial interest**<sup>\*</sup>; in the ~~assurance-audit~~ 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 audit team, his or her immediate family member, or a firm should not have a direct financial interest or a material indirect financial interest in the 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;~~
- ~~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~~
- ~~Remove the member of the assurance team from the assurance engagement.~~

290.10~~7~~<sup>7</sup> ~~If, however, a member of the assurance audit or review team, or their immediate family member, receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest or a material indirect financial interest in the assurance audit or review 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:~~

- ~~The individual should immediately d~~~~Disposing of the financial interest, at the earliest practical date~~~~or immediately dispose of a sufficient amount of a material indirect financial interest so that the remaining indirect financial interest is no longer material; or~~
- ~~Removing T~~~~the member of the assurance audit or review team should be removed from the assurance engagement~~~~team.~~

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\* See Definitions.

~~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 threat to an acceptable level. Such safeguards might include:~~

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

290.1048 When a member of the assurance-audit team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the assurance-audit 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-audit team and the close family member, and the materiality of the financial interest to the close family member. The significance of any threat should be ~~Once the significance of the threat has been 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:

- The close family member disposing-, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest the financial interest such that the remaining interest is no longer material at the earliest practical date;
- ~~Discussing the matter with those charged with governance, such as the audit committee;~~
- Involving an additional a professional accountant ~~who did not take part in the assurance engagement to perform an additional review of the work done performed~~ by the relevant member of the assurance-audit team ~~with the close family relationship or otherwise advise as necessary;~~ or
- Removing the individual from the assurance-audit team engagement.

~~290.109 When a firm or a member of the assurance team 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:~~

- ~~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;~~
- ~~The interest held by the trust in the assurance client is not material to the trust;~~
- ~~The trust is not able to exercise significant influence over the assurance client; and~~

- ~~The member of the assurance team or the firm does not have significant influence over any investment decision involving a financial interest in the assurance client.~~

~~290.110 Consideration should be given to whether a self-interest threat may be created by the financial interests of individuals outside of the assurance audit or review team and their immediate and close family members. Such individuals would include:~~

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

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

- ~~(a) The firm's organizational, operating and reporting structure; and~~
- ~~(b) The nature of the relationship between the individual and the member of the assurance audit or review 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:~~

- ~~(a) Where appropriate, policies to restrict people from holding such interests;~~
- ~~(b) 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 audit or review engagement to review the work done or otherwise advise as necessary.~~

~~290.111 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:~~

- ~~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;~~
- ~~The firm, and the network firm, promptly notify the professional that the financial interest should be disposed of; and~~
- ~~The disposal occurs at the earliest practical date after identification of the issue, or the professional is removed from the assurance team.~~

~~290.112 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 decision-making concerning the assurance engagement.~~

### **Provisions Applicable to Financial Statement Audit Clients**

~~290.113 If a firm, or a network firm, has a direct 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. Consequently, disposal of the financial interest would be the only action appropriate to permit the firm to perform the engagement.~~

~~290.114 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.~~

~~290.1045 If a member of the audit team, his or her immediate family member, or a firm, or a network firm, has a material financial interest in an entity that has a controlling interest in a financial statement the 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 audit team, his or her immediate family member or a firm, should not have such a financial interest.~~

~~If an individual receives such a financial interest by way of, for example, inheritance or gift, or as the result of a merger, the individual should dispose of the financial interest immediately, or a sufficient amount that the so that the remaining interest is no longer material, or the member of the audit or review team should be removed from the team. 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.~~

~~290.1046 If the a retirement benefit plan of a firm, or network firm, has a financial interest in an 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.~~

290.10177 If other partners, ~~including partners who do not perform assurance engagements,~~ or their immediate family members, in the **office**<sup>\*</sup> in which the **engagement partner**<sup>\*</sup> practices in connection with the ~~financial statement~~-audit engagement hold a direct financial interest or a material indirect financial interest in that audit client, the 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 members should not hold any such financial interests in such an ~~audit or review~~ client. ~~If such an individual receives such a financial interest by way of, for example, inheritance or gift, or as the result of a merger, the individual should dispose of the financial interest as soon as possible. During the period prior to the disposal of the financial interest, consideration should be given to whether safeguard are necessary to reduce the self-interest threat to an acceptable level.~~

290.10188 The office in which the engagement partner practices in connection with the ~~financial statement~~-audit engagement is not necessarily the office to which that partner is assigned. Accordingly, when the engagement partner is located in a different office from that of the other members of the ~~assurance audit~~ team, judgment should be used to determine in which office the partner practices in connection with that engagement audit or review.

290.10199 If other partners and managerial employees who provide non-~~assurance audit~~ services to the ~~financial statement~~-audit client, except those whose involvement is clearly insignificant, or their immediate family members, hold a direct financial interest or a material indirect financial interest in the audit client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, such personnel or their immediate family members should not hold any such financial interests in such an audit client. ~~If such an individual receives such a financial interest by way of, for example, inheritance or gift, or as the result of a merger, the individual should as soon as possible dispose of the financial interest, or dispose of a sufficient amount of a material indirect financial interest so that the remaining indirect financial interest is no longer material.~~

~~During the period prior to the disposal of the financial interest, consideration should be given to whether any safeguards are necessary to reduce the self interest threat to an acceptable level.~~

290.11020 Notwithstanding paragraphs 290.107 and 290.109, a ~~A~~-financial interest in an ~~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 engagement, or (b) a partner or managerial employee who provides non-~~assurance audit~~ services to the audit client, is not considered to create an unacceptable

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\* See Definitions.



threat provided it is received as a result of ~~their~~his or her employment rights (e.g., pension rights or share options) and, where necessary, appropriate safeguards are applied to ~~reduce-eliminate~~or reduce it any threat to independence to an acceptable level. However if the immediate family member has the right to dispose of the financial interest or, in the case of a financial interest such as a stock option, the right to exercise the option, the financial interest should be disposed of or forfeited as soon as practicable.

290.1 ~~1121~~ A self-interest threat may be created if the firm, ~~or the network firm, or~~ a member of the ~~assurance-audit~~ team, ~~or his or her immediate family member,~~ has ~~a~~a financial interest in an entity and ~~an financial-statement~~ audit client, or a director, officer or controlling owner thereof also has ~~an investment~~financial interest in that entity. Independence is not compromised with respect to the audit client if the respective interests ~~of the firm, the network firm, or the member of the assurance audit or review team, or the immediate family member, and the audit or review 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 or review client, any party,~~ and the ~~audit or review~~ 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 ~~individual member of the assurance team~~individual member of the audit team with such a material interest should, prior to becoming a member of the audit team, either:

~~—(a) Dispose of the interest; or~~

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

290.112 When a firm or a member of the audit team, or his or her immediate family member, holds a direct financial interest or a material indirect financial interest in the audit client as a trustee, a self-interest threat may be created. Accordingly, such an interest should only be held when:

- The member of the audit team, the immediate family member of the member of the audit team, and the firm are not beneficiaries of the trust;
- The interest held by the trust in the audit client is not material to the trust;
- The trust is not able to exercise significant influence over the audit client; and
- The member of the audit team, the immediate family member, or the firm does not have significant influence over any investment decision involving a financial interest in the audit client.

Similarly a self-interest threat may be created when a partner in the office in which the engagement partner practices in connection with the audit, other partners and managerial employees who provide non-assurance services to the audit client, except

those whose involvement is clearly insignificant, or their immediate family members hold a direct financial interest or a material indirect financial interest in the audit client as trustee. Accordingly such an interest should only be held under the conditions noted above.

290.11<sup>30</sup> Consideration should be given by members of the audit team 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~~ may be created by any known the financial interests in the audit ~~or review client of~~ held by other individuals. Such individuals would include:

- ~~Partners, and their immediate family members, who are not members of the assurance team~~ Partners and professional employees of the firm, other than those referred to above, and their immediate family members; and

~~and~~

- Individuals who have a close personal relationship with a member of the assurance-audit 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-audit team.

The significance of ~~the any~~ threat 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 ~~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;~~

- ~~Involving an additional professional accountant who did not take part in the assurance engagement to review the done or otherwise advise as necessary.~~
- Removing the member of the audit team with the personal relationship from the audit team;
- Excluding the member of the audit team with the personal relationship from the audit team from any significant decision-making concerning the audit engagement; or
- Involving a professional accountant to perform an additional review of the work performed by the relevant member of the audit team.

290.114 If a firm or a member of the audit team, a partner in the officer in which the engagement partner practices in connection with the audit engagement, a partner or managerial employee who provides non-audit services to the audit client (except those whose involvement is clearly insignificant) or his or her immediate family member, receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest or a material indirect financial interest in an audit client and such interest would not be permitted to be held under this section then:

- (a) If the interest is received by the firm, the financial interest should be disposed of immediately, or a sufficient amount of an indirect financial interest should be disposed of so that the remaining interest is no longer material, or the firm should withdraw from the audit engagement;
- (b) If the interest is received by a member of the audit team, or his or her immediate family member, the individual should immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material, or the individual should be removed from the team; or
- (c) If the interest is received by a professional who is not a member of the audit team, or by his or her immediate family member, the individual should dispose of the financial interest as soon as possible, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material. During the period prior to the disposal of the financial interest, consideration should be given to whether any safeguards are necessary to reduce the self-interest threat to an acceptable level.

◆~~Withdraw from the audit.~~

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

- (a) The firm, and the network firm, have 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-audit client;
- (b) The firm, and the network firm, promptly notify the professional that the financial interest should be disposed of; and
- (c) The disposal occurs at the earliest practical date after the identification of the issue, or the professional is removed from the assurance team. In the case of a purchase by an individual, the individual is advised that the financial interest should be disposed of and the disposal takes place at the earliest date after the

identification of the issue or in other circumstances the actions prescribed in paragraph 290.114 are taken;

(c) In the case of a purchase by the firm, the disposal takes place at the earliest date after the identification of the issue; and ~~and~~

(d) ~~T~~the firm ~~should~~ considers whether any other safeguards should be applied. Such safeguards might include:

- Involving an additional professional accountant to review the work performed by the relevant member of the audit team; ~~or~~
- Excluding the individual from any significant decision-making concerning the audit engagement; ~~or~~
- Discussing the matter with those charged with governance

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

~~290.122 If a firm has a direct 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.~~

~~290.123 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.~~

~~290.124 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, the self interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. 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.~~

~~290.125 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.~~

### **Loans and Guarantees**

~~290.116~~<sup>26</sup> A loan, or a guarantee of a loan, to the firm from an ~~assurance~~ audit client that is a bank or a similar institution, may ~~would not~~ create a threat to independence. If

~~provided~~ the loan, or guarantee, is not made under normal lending procedures, terms and requirements the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, a firm should not accept such a loan or guarantee of a loan and the loan is immaterial to both the firm and the assurance client.

290.117 If the loan is made under normal lending procedures, terms and requirements and is material to the audit assurance-client, or to the firm that has received the loan, 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 performing the audit and outside of the firm that has received the loan, or network firm, to review the work performed.

290.1 1827 A loan, or a guarantee of a loan, from an ~~assurance~~audit client that is a bank or a similar institution, to a member of the ~~assurance-audit~~ team, or ~~their~~his or her immediate family member, 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.

~~290.128 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.~~

290.1 1929 If the firm, or a member of the ~~assurance-audit~~ team, or his or her immediate family member, makes a loan to an ~~assurance audit~~ 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-audit~~ team, or the immediate family member, and the ~~assurance~~ client. However, deposits made by, or brokerage accounts of, a firm or a member of the audit team, or his or her immediate family member, with an audit client that is a bank, broker or similar institution would not create a threat to independence provided the deposit or account is held under normal commercial terms.

290.1 2030 Similarly, if the firm or a member of the ~~assurance-audit~~ team, or his or her immediate family member, accepts a loan from, or has a borrowing guaranteed by, an ~~assurance audit~~ 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-audit~~ team, or the immediate family member, and the ~~assurance~~ client.

~~290.131 The examples in paragraphs 290.126 through 290.130 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~~**

290.1~~2132~~ A close business relationship between a firm, or a member of the ~~assurance-audit~~ team, ~~or his or her immediate family member,~~ and the ~~assurance-audit~~ client or its management, ~~or between the firm, a network firm and a financial statement audit client,~~ will involve a commercial relationship or common financial interest and may create self-interest and intimidation threats. The following are examples of such relationships:

- ~~(a)~~• 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.
- ~~(b)~~• 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.
- ~~(c)~~• 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 any 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~~Therefore, in such, in both these circumstances if the magnitude of the relationship cannot be reduced so that the financial interest is immaterial and the relationship is clearly insignificant the only possible courses of action are to:

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

- ~~Reduce the magnitude of the relationship so that the financial interest is immaterial and the relationship is clearly insignificant; or~~

~~—(b) The firm should r~~Refuse to perform the ~~assurance-audit~~ engagement.

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

If the close business relationship is between an immediate family member of a member of the audit team and the audit client or its management, the significance of the threat 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.

290.1~~2233~~ ~~In the case of a financial statement audit client, A~~ business relationships involving an interest held by the firm, ~~a network firm~~ or a member of the ~~assurance-audit~~ team, or ~~their~~ his or her immediate family ~~member~~, 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, ~~does~~ not create threats to independence provided:

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

290.1~~2334~~ The purchase of goods and services from an ~~assurance-audit~~-client by the firm, ~~(or from a financial statement audit client by a network firm)~~ or a member of the ~~assurance-audit~~ team, or his or her immediate family member, 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-eliminate~~ the threat or reduce it to an acceptable level. Such safeguards might include:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the ~~assurance-audit~~ team; or
- ~~Discussing the issue with those charged with governance, such as the audit committee.~~

## Family and Personal Relationships

290.1~~2435~~ Family and personal relationships between a member of the ~~assurance-audit~~ team and a director, an officer or certain employees, depending on ~~their~~ his or her role, of the ~~assurance-audit~~ 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 of any threats will depend upon a number of factors, including the individual's responsibilities on the ~~assurance-audit~~ 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 to assess the significance of the threats, and safeguards to be applied to reduce the threat to an acceptable level.

290.1~~2536~~ When an immediate family member of a member of the ~~assurance-audit~~ team is a director or, an officer of the audit client, or an employee of the assurance client in a position to exert ~~direct and~~ significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an



~~opinions~~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 audit 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~~applied, the ~~only course of action is to firm should~~ withdraw from the assurance audit 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.~~

290.1~~26~~37 When an immediate family member of a member of the assurance audit team is an employee in a position to exert ~~direct and~~ significant influence over the ~~subject matter of the engagement~~client's financial position, financial performance and cash flows, 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 audit 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 eliminate the threat or reduce ~~the threat~~it to an acceptable level. Such safeguards might include:

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

290.1~~27~~38 When a close family member of a member of the assurance audit team is a director or; an officer of the audit client, or an employee ~~of the assurance client~~ in a position to exert ~~direct and~~ significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an ~~opinions~~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 nature of the relationship between the member of the audit team and his or her close family member;
- ~~(a)~~• The position the close family member holds with the client; and

~~(b)~~• The role of the professional on the assurance-audit team.

The significance of ~~the any~~ threat 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 ~~the threat~~ to an acceptable level. Such safeguards might include:

- Removing the individual from the assurance-audit team; or
- ~~Where possible, S~~ structuring the responsibilities of the assurance-audit team so that the professional does not deal with matters that are within the responsibility of the close family member. 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.~~

290.12839 ~~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-audit team has a close relationship with the member of the assurance audit team and is a director or; an officer or an employee of the assurance client in a position to exert direct and significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion subject matter information of the assurance engagement, threats to independence may be created. The significance of the threats will depend upon:

- The nature of the relationship between the individual and the member of the audit team;
- The position the individual holds with the client; and
- The role of the professional on the audit team.

~~Therefore, M~~members of the assurance-audit team are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures. The significance of any threat 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:

- Removing the professional from the audit team; or
- Structuring the responsibilities of the audit team so that the professional does not deal with matters that are within the responsibility of the individual with whom he or she has a close relationship.

~~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.~~

290.1~~2940~~ 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-audit~~ team and a director ~~or~~, an officer of the audit client or an employee ~~of the assurance client in a~~ position to exert ~~direct and~~ significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion~~subject matter information of the assurance engagement. Therefore partners and employees of the firm are responsible for identifying any such relationships~~The -and for consulting in accordance with firm procedures. The evaluation of the significance of any threat created will depend upon factors such as:

- The nature of the relationship between the partner or employee of the firm the client director, officer or employee;
- The interaction of the partner of employee of the firm with the audit team;
- The position of the partner or employee within the firm; and
- The role of the individual within the client.

Partner and employees of the firm are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures. The significance of any threat 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:

- Structuring the partners or employee's responsibilities to reduce the level of interaction with the audit team; or
- Involving another professional accountant to review the work performed or otherwise advise as necessary~~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.~~

290.1~~3041~~ An inadvertent violation of this section as it relates to family and personal relationships would not ~~impair-compromise the~~ independence ~~of a firm or a member of the assurance team when provided:~~

- ~~—(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 engagement. If the inadvertent violation relates to an immediate family member of a member of the audit team becoming a director or an officer of the audit client or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, the relevant professional is removed from the audit team; and~~

~~•Additional care is given to reviewing the work of the professional.~~

~~(c) The firm 290.142 — When an inadvertent violation of this section relating to family and personal relationships has occurred, the firm should consider~~ whether any other safeguards should be applied. Such safeguards might include:

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

~~•Discussing the matter with the audit committee.~~

## Employment with an Audit Assurance Clients

290.1~~34~~13 A firm or a member of the assurance-audit team's independence may be threatened if a director, or an officer of the audit client, or an employee ~~of the assurance client~~ in a position to exert ~~direct and~~ significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, ~~subject matter information of the assurance engagement~~ has been a member of the assurance-audit 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 audit or review team's independence may be threatened when an individual participates in the assurance audit or review engagement knowing, or having reason to believe, that he or she is to~~they will, or may, join the assurance client some time in the future.

290.1~~32~~44 If a member of the assurance-audit team, partner or former partner of the firm has joined the assurance-audit client in such a position, the significance of the self-interest, familiarity or intimidation threats created will depend upon ~~the following~~ factors such as:

~~—(a) The position the individual has taken at the assurance client;-~~

~~—(b) The amount of any involvement the individual will have with the assurance-audit team;-~~

~~—(c) The length of time that has passed since the individual was a member of the assurance-audit team or firm; and;~~

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

~~The significance of the threat should be evaluated~~In all cases the following safeguards are necessary to ensure that no significant connection remains between the firm and the individual:

~~(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 material to the firm;~~

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

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

~~•• Considering the appropriateness or necessity of M~~modifying the assurance-audit plan for the assurance engagement;

~~•• Assigning an assurance-audit 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 performed 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:~~

~~•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.~~

~~•The individual does not continue to participate or appear to participate in the firm's business or professional activities.~~

290.133 If a former partner of the firm has previously joined an entity in such a position and the entity subsequently becomes an audit client of the firm, any threats to independence should be evaluated and if the threats are other than clearly insignificant, safeguards should be considered and applied, as necessary, to eliminate the threat or reduce it to an acceptable level.

290.134~~45~~ A self-interest threat is created when a member of the ~~assurance-audit~~ team participates in the ~~assurance-audit~~ engagement while knowing, ~~or having reason to believe,~~ that ~~he or she is to~~ they will, or may, join the ~~assurance~~-client some time in the future. Firms should have policies and procedures to require members of an audit team to notify the firm when entering employment negotiations with the client. Upon receiving such notification 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 eliminate the threat or reduce it to an acceptable level. Such safeguards might include:~~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.~~

(a) Removal of the individual from the ~~assurance-audit team engagement;~~ or

~~(b) —.~~

~~(b) In addition, consideration should be given to performing~~ An independent additional review of any significant judgments made by that individual while on the engagement.

#### *Audit Clients of Significant Public Interest*

290.135 If a key audit partner joins an audit client that is an entity of significant public interest as a director or an officer, or an employee in a position to exert significant influence over the preparation of the accounting records or the financial statements on which the firm will express an opinion, self-interest, familiarity and intimidation threats will be created. If a key audit partner joins a related entity of such an audit client in a position to exert significant influence over the preparation of those accounting records or those financial statements self-interest, familiarity and intimidation threats will be created. The significance of the threats would be such no safeguards would be available to reduce the threats or eliminate them to an acceptable level unless audited financial statements of the entity of significant public interest covering a period of not less than twelve months, for which the partner was not a member of the audit team during any part of the period, have been issued.

290.136 If a former key audit partner is, as a result of a business combination, in a position as described in paragraph 290.138, the threats to independence are not considered unacceptable provided:

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

(b) Any benefits or payments due to the partner from the firm have been settled in full, unless these are made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm;

(c) The partner does not continue to participate or appear to participate in the firm's business or professional activities; and

(d) The position taken by the partner with the audit client is discussed with those charged with governance.

290.137 The employment or association of a current or former senior partner of the firm, such as the firm's managing partner, with an audit client that is an entity of significant public interest may, in particular, create intimidation threats. If the senior partner joins such an audit client as a director or an officer, or employee in a position to exert significant influence over the preparation of the accounting records of the audit client or the financial statements on which the firm will express an opinion, the significance of any threat created should be evaluated. 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:

- Modifying the audit plan for the engagement;
- Assigning an audit team to the engagement that is of sufficient experience in relation to the individual who has joined the client; or
- Involving an additional professional accountant to review the work performed or otherwise advise as necessary.

## **Temporary Staff Assignments**

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

- Providing non-assurance services that the firm would not otherwise be able to provide in accordance with the requirements of this section ~~are not permissible under this section;~~ or
- ~~Making~~ Performing management decisions functions, such as, for example, authorizing transactions, preparing source documents or originating data or making changes to such documents or data.
- ~~Approving or signing agreements or other similar; or~~
- ~~Exercising discretionary authority to commit the client~~

In all circumstances, the following safeguards should be applied:



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

~~Each situation should be carefully analyzed to identify whether any threats are created and whether appropriate safeguards should be implemented. Safeguards that should be applied in all circumstances to reduce any threats to an acceptable level include~~ 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. ~~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.~~

### **Recent Service with an Audit Assurance Clients**

290.13~~946~~ ~~To have~~If a former officer, director or employee of the assurance-audit client serves as a member of the assurance-audit team ~~may create~~ self-interest, self-review and familiarity threats may be created. This would be particularly true when, for example, a member of the assurance-audit team has to ~~report on~~evaluate ~~subject matter information he or she had prepared or~~ elements of the financial statements for which he or she had prepared the accounting records he or she had valued while with the assurance client.

290.14~~07~~ If, during the period covered by the assurance-audit report, a member of the assurance-audit team had served as ~~an officer or a~~ director or an officer of the audit assurance client, or had been an employee in a position to exert ~~direct and~~ significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion ~~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-audit team.

290.14~~18~~ If, prior to the period covered by the assurance-audit report, a member of the assurance-audit team had served as ~~an officer or a~~ director or an officer of the assurance audit client, or had been an employee in a position to exert ~~direct and~~ significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion ~~subject matter information of the assurance engagement, this may create~~ self-interest, self-review and familiarity threats may be created. 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-audit 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~~ of the professional on the ~~assurance-audit~~ 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:<sup>i</sup>

~~—Involving an conducting an additional review of the work performed by professional accountant to review the work done by the individual as part of the assurance-audit 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~~ or Officer of an Audit on the Board of Assurance Clients**

290.14<sup>29</sup> If a partner or employee of the firm serves at the same time as ~~an officer or as a~~ director ~~on the board or an officer~~ of ~~an assurance~~ an audit -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~~ Therefore, if such an individual were to accept such a position the ~~only course of action is firm should either to refuse to perform, or to should decline or~~ withdraw from the ~~assurance-audit~~ engagement.

290.1<sup>4350</sup> 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.

290.1<sup>4451</sup> If a partner or employee of the firm ~~or a network firm~~ serves as Company Secretary for ~~an financial statement~~ an 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.

290.1<sup>4552</sup> Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters are ~~is~~

generally not perceived to ~~impair~~compromise independence, provided client management makes all relevant decisions.

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

### **General Provisions**

290.1~~4653~~ Using the same senior personnel on an ~~assurance~~audit engagement over a long period of time may create a familiarity threat, ~~and a self-review and self-interest 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~~audit team;
- The role of the individual on the ~~assurance~~audit team;
- The structure of the firm; ~~and~~
- The nature of the ~~assurance~~audit engagement;
- Whether there have been changes in the client's management team; and
- Whether there has been a change in the nature or complexity of the 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 as necessary to eliminate the threat or reduce ~~the threat~~it to an acceptable level. Such safeguards might include:

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

### **Financial Statement Audit Clients of Significant Public Interest That are Listed Entities<sup>2</sup>**

290.1~~4754~~ ~~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, and a self-interest 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 In respect of the financial statement audit of listed entities entities of significant public interest a key audit partner should be rotated off the audit team after serving for no more than seven years as key audit partner. After rotating off the audit team, the individual should not be a member of the audit team for two years.~~

<sup>2</sup> See also Interpretation 2003-02 on page 73.

\* See Definitions.

During that period, the individual should not engage in activities with respect to the audit of the entity, other than those which are clearly insignificant.:

- ~~—— The engagement partner and the individual responsible for the engagement quality control review should be rotated after serving for seven years in either capacity, or a combination thereof, for a pre-defined period, normally no more than seven years; and, and~~
- ~~Other partners should be rotated if they have served the audit client for seven years in a capacity that raises threats that are other than clearly insignificant. For example, this will be the case for partners who (i) regularly interact with management, the board, or the audit committee of the client, depending on the nature, frequency, and extent of those interactions, or (ii) are responsible for the audit of subsidiaries or divisions of the audit client, depending on the significance of the subsidiary or division to the client or the extent to which that responsibility results in the partner having regular interactions with management, the board, or the audit committee of the client. 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.~~

~~290.155 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.~~

~~290.148 Notwithstanding paragraph 290.147, if the individual's continuity is especially important to audit quality, limited flexibility, equal to no more than one additional year on the audit team, is permitted regarding the rotation of key audit partners other than the engagement partner and the individual responsible for the engagement quality control review, provided any threat to independence that is other than clearly insignificant can be eliminated or reduced to an acceptable level by the application of safeguards. For example, if there will be major changes to the audit client's management or structure that would coincide with the rotation of the partner and those changes are determined to be sufficient to mitigate the familiarity and self-review threats, that partner may remain on the audit team for up to one additional year.~~

~~290.149 The long association of other partners with an audit client that is an entity of significant public interest may create a familiarity threat, a self-review threat and self-interest threat. The significance of the threat will depend upon factors such as:~~

- ~~The length of time the individual has been associated with the audit client;~~
- ~~The role, if any, of the individual on the audit team; and~~
- ~~The nature, frequency, and extent of the individual's interactions with the client, its board or those charged with governance.~~

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 eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Rotating the individual off the audit team; or
- Regular independent internal or external quality reviews of the engagement.

290.150 When an audit client becomes an entity of significant public interest, the length of time the individual has served the audit client as a key audit partner prior to the client becoming an entity of significant public interest should be considered in determining when the individual should be rotated. If the individual has served the audit client as a key audit partner for five years or less at the time the client becomes an entity of significant public interest, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is the difference between seven years and the number of years already served. If the individual has served the audit client as a key audit partner for six or more years at the time the client becomes an entity of significant public interest, the partner may continue to serve in that capacity for two additional years before rotating off the engagement.

~~290.156 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.~~

~~290.157 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 safeguards to reduce the threat to an acceptable level. Such safeguards would include involving an additional professional accountant who 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 Audit Clients<sup>1</sup>**

290.15~~18~~ Firms have traditionally provided to their ~~assurance-audit~~ 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, which 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-audit~~ 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. Before the firm accepts an engagement to provide a non-assurance service to an audit client, consideration should be given to whether the provision of such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration should be given to any additional threat that the audit team has reason to believe may be created by the provision of other non-assurance services. In some cases it may be possible to eliminate or reduce the threat created by the 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.

~~290.159 The following activities would generally create self interest or self review 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:~~

- ~~•Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so.~~
- ~~•Determining which recommendation of the firm should be implemented.~~
- ~~•Reporting, in a management role, to those charged with governance.~~

~~290.160 The examples set out in paragraphs 290.166 through 290.205 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 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~~

<sup>1</sup> See also Interpretation 2003-01 on page 73.

~~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.~~

~~290.161 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.~~

~~290.15262 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 audit 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.~~

~~290.163 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 its 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 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~~ are not members of the assurance audit or review team ~~engagement.~~

~~290.164 Before the firm accepts an engagement to provide a non-assurance service to an assurance audit or review 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.~~

290.15365 The provision of certain non-assurance services to an 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 inadvertent the provision of such a services to a related entity, division or in respect of a discrete financial statement item of such clients may be permissible ~~not compromise independence provided 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.

290.154 A firm may be able to provide certain non-assurance services to related entities of the audit client if the firm is able to reasonably conclude that the results of the services will not be subject to audit procedures and consequently does not create a self-review threat. This would be the case if the firm provides certain non-assurance services to:

- (i) an entity, which is not an audit client, which has direct or indirect control over the audit client, or



- (ii) an entity, which is not an audit client, which is under common control with the audit client,

290.155 A non-assurance service provided to an audit client will not compromise the firm's independence when the client becomes an entity of significant public interest provided:

- (a) The previous non-assurance service was provided in accordance with the provisions of this section that relate to audit clients that are not entities of significant public interest;
- (b) If the services are impermissible under this section for audit clients that are entities of significant public interest The service will be terminated as soon as practicable after the client becomes an entity of significant public interest; and
- (c) The firm implements appropriate safeguards to eliminate or reduce to an acceptable level any threats to independence arising from the service that are other than clearly insignificant.

### **Management Responsibilities**

290.156 Management of an entity performs many functions in order to carry out its responsibility to manage the entity in the best interests of stakeholders of the entity. 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.

290.157 The determination of whether an activity is 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:

- Setting policies and strategic direction;
- Authorizing transactions;
- Deciding which recommendations of the firm or other third parties should be implemented;
- Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
- Taking responsibility for designing, implementing and maintaining internal control.

290.158 Performing management functions for an audit client creates threats to independence. For example, deciding which recommendations of the firm should be implemented will create self-review and self-interest threats. Further, performing management functions creates a familiarity threat because the firm becomes too closely aligned with the views

and interests of management. If a firm performs management functions for an audit client, the threats created could not be reduced to an acceptable level by any safeguard. Accordingly, in providing professional services to an audit client, a firm should not perform management functions.

290.159 Some activities may not be management functions because they are routine and administrative, involve matters that are insignificant or do not otherwise represent a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit client of such forthcoming dates would not be considered management functions. Further, providing advice and recommendations to assist management in performing its functions or providing elements of a client's internal training program would not be considered a management function.

290.160 In order to avoid the risk of performing management functions when providing non-assurance services to an audit client, the firm should be satisfied that a member of management of the client has been designated to make all significant judgments and decisions connected with the performance of the services and to accept responsibility for the results of the service received. This reduces the risk of the firm inadvertently making any significant judgment or decision. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions on the basis of an objective and transparent analysis and presentation of the issues.

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

290.161 ~~6~~ Assisting an 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.

290.167 ~~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:~~

~~(a)Determining or changing journal entries, or the classifications for accounts or transaction or other accounting records without obtaining the approval of the financial statement audit client;~~

~~(b)Authorizing or approving transactions; and~~

~~(c)Preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data.~~

290.162 ~~8~~ The audit process involves extensive dialogue between the firm and management of the financial statement-audit client. During this process, Mmanagement may requests and receives technical assistance and advice from members of the audit team significant

~~input~~ regarding such matters as implementation of new accounting standards or policies principles and financial statement disclosure requirements, the appropriateness of financial and accounting controls and the methods used in determining the stated amounts of assets and liabilities. ~~Technical assistance~~ServicesAssistance and advice of this nature ~~and advice on accounting principles for financial statement audit clients are an appropriate means to promote~~ the fair presentation of the client's financial statements. ~~and accordingly, The provision of such advice~~ does not generally threaten the firm's independence.

290.163 Similarly, ~~the financial statement audit process~~the firm may be requested to involve assisting an audit the client in resolving account reconciliation problems, analyzing and accumulating information for regulatory reporting, ~~assisting in the preparation of consolidated financial statements (including the translation converting financial statements from one financial reporting framework to another, (for example, of local statutory accounts to comply with group accounting policies and the or to transition to a different financial reporting framework such as International Financial Reporting Standards), drafting disclosure items and; proposing adjusting journal entries, and providing assistance and advice in the preparation of local statutory accounts, of subsidiary entities.~~ These services activities are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.

290.164 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. To discharge this responsibility management is responsible for:

- Determining or changing journal entries, or the account classifications of transactions; and
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

#### *General Provisions*

290.169 The examples in paragraphs 290.170 through 290.173 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 of Significant Public Interest~~

290.1~~6570~~ The firm, ~~or a network firm,~~ may provide services related to the preparation of a financial statements should not accounting records -and financial statements for an audit client that is not an listed entity of significant public interest with accounting and bookkeeping services, including payroll unless such where 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:

- Providing payroll services based on client originated data
- ~~(e)~~• Recording transactions for which the ~~audit~~ client has determined or approved the appropriate account classification;
- ~~(f)~~• Posting ~~coded~~ transactions coded by the client to the ~~audit~~ client's general ledger;
- Posting client approved entries to the trial balance; and
- ~~(g)~~• Preparing financial statements based on information in the trial balance; ~~and~~
- ~~(h) Posting the audit client approved entries to the trial balance.~~

In all cases ~~T~~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 reduce the threat of reduce it to an acceptable level. Such safeguards might include:

- ~~(x)~~• Making arrangements so that such services are not performed by a member of the ~~assurance-audit~~ team; or
- If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to conduct and additional review of the work performed.
- ~~(d) Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the audit client;~~
- ~~(e) Requiring the source data for the accounting entries to be originated by the audit client;~~
- ~~(f) Requiring the underlying assumptions to be originated and approved by the audit client; or~~
- ~~(g) Obtaining audit client approval for any proposed journal entries or other changes affecting the financial statements.~~

~~Financial Statement Audit Clients That are Listed Entities of Significant Public Interest~~

290.1~~6671~~ Except in emergency situations, a firm should not provide to an audit client that is an entity of significant public interest The provision of accounting and bookkeeping services, including payroll services, and or the preparation of financial statements on

~~which the firm will express an opinion 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, 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.~~

~~(b)290.1672 Notwithstanding paragraph 290.166 a firm may provide accounting and bookkeeping services, including payroll servicesThe and the preparation of financial statements, provision of accounting and bookkeeping services of a routine or mechanical nature for to divisions or subsidiariesrelated entities of an financial statement audit client that is a listed entityof significant public interest would not be seen as impairing independence with respect to the audit client provided the personnel providing the services are not members of the audit team and that the following conditions are met:~~

- ~~•The services do not involve the exercise of judgment.~~
- ~~• tThe related divisions or subsidiariesentities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinionaudit client, or~~
- ~~• the services provided relate to matters that are collectively immaterial to the financial statements of the division or subsidiaryrelated entity.~~
- ~~•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:~~

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

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

~~(c)Personnel providing the services should not participate in the audit.~~

~~290.172a Assistance in the preparation of the financial statements of other subsidiaries of an audit client that is a listed entity may be provided in the following circumstances because those financial statements do not form the basis of the financial statements of the listed audit client:~~

~~Where the financial statements are prepared from information in the financial reporting package (prepared by the client), after making such further adjustments to enable compliance with the relevant financial reporting framework.~~

~~Where the financial statements are prepared from the underlying accounting records under a separate procedure from that used for the preparation of the group reporting package, or~~

~~Where no instructions are received from the firm or network firm responsible for the audit of the group financial statements and the firm is satisfied that the financial statements will not form the basis of the financial statements of the listed entity on which the group audit report is given.~~

### Emergency Situations

290.1~~68~~<sup>73</sup> The provision of accounting and bookkeeping services, including payroll services and the preparation of financial statements, ~~provision of accounting and bookkeeping services to financial statements~~to audit clients may be provided 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:

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

~~(d)The audit client accepts responsibility for the results of the work; and~~

(a) Personnel providing the services are not members of the assurance-audit team;

(b) The emergency situation arose as a result of unforeseeable events; and

~~(e)~~(c)The services are provided for only a short period of time and are not expected to recur.

### Valuation Services

290.1~~69~~<sup>74</sup> 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.

~~290.175 A self-review threat may be created when a firm or network firm performs a valuation for a financial statement audit client that is to be incorporated into the client's financial statements.~~

290.17~~06~~<sup>6</sup>If a firm provides a valuation service to an audit client a self-review threat may be created. If the valuation service involves the valuation of mattershas a material to-effect on the financial statements on which the firm will express an opinion 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 firm should only course of action would be to withdraw from the financial statement audit engagement.

290.171 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case where the underlying assumptions are determined by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

290.172 Performing valuation services for an 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 create a self-review threat. The significance of the threat will depend on factors such as:

- (a) The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- (b) The degree to which established methodologies and professional guidelines are available when performing a particular valuation service.
- (c) For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.
- (d) The reliability and extent of the underlying data.
- (e) The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved.
- (f) 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 eliminate the threat or that could be reduced it to an acceptable level by the application of safeguards. Such safeguards might include:

- (x) • Involving an additional professional accountant ~~who was not a member of the assurance team~~ to review the work ~~done performed~~ or otherwise advise as necessary; or
- Making arrangements so that personnel providing such services do not participate in the audit engagement.
- (d) 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;
- (e) 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.~~

*Audit Clients that are Entities of Significant Public Interest*

290.173 A firm should not provide valuation services to an audit client that is an entity of significant public interest if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.

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

- ~~•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.~~
- ~~•The degree to which established methodologies and professional guidelines are applied when performing a particular valuation service.~~
- ~~•For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.~~
- ~~•The reliability and extent of the underlying data.~~
- ~~•The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved.~~
- ~~•The extent and clarity of the disclosures in the financial statements.~~

~~290.178 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.~~

~~290.179 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**

290.17480 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. Such assignments are generally not seen to create threats to independence. Taxation services comprise a broad range of services, including:

- Tax return preparation;



- Preparation of tax calculations intended to be used as the basis for the accounting entries in the financial statements;
- Tax planning and other tax advisory services; and
- Assistance in the resolution of tax disputes

While taxation services are considered separately under each of these broad headings, in practice these activities are often interrelated.

290.175 The performance of certain tax services may create self-review and advocacy threats. The nature and significance of any threats created will vary depending on factors such as the system by which the tax in question is assessed and administered by the tax authorities, the complexity of the relevant tax regime and the particular characteristics of the engagement.

#### *Tax Return Preparation*

290.176 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and completing information, including the amount of tax due, usually on standardized forms, required to be submitted to the applicable tax authorities. Such services also include advising on the tax return treatment of past transactions and responding on behalf of the audit client to the tax authorities' requests for further information and analysis. Tax return preparation services are generally based upon historical information and principally involve analysis and presentation of such historical information based upon the constraints of existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate. Accordingly, the provision of such services does not generally threaten the firm's independence.

#### *Preparation of Tax Calculations Intended to be Used as the Basis for the Accounting Entries in the Financial Statements*

290.177 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client intended to be used by the client as the basis for preparing the accounting entries which will be subsequently audited by the firm may create a self-review threat. The significance of the threat created will depend on the degree of subjectivity involved in the calculations and their materiality to the financial statements. If the self-review threat created 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 audit team to perform the service; or

- If the service is performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the tax calculations prepared by the audit team.

*Audit Clients that are Entities of Significant Public Interest*

290.178 In the case of an audit client that is an entity of significant public interest, a firm should not prepare tax calculations the primary intention of which will be for the preparation of accounting entries that are material to the financial statements on which the firm will express an opinion.

*Tax Planning and Other Tax Advisory Services*

290.179 Tax planning or other tax advisory services comprise a broad range of services such as advising as to how the client might structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

290.180 A self-review threat may be created where the advice will affect matters that will be reflected in the financial statements. The significance of any threat created will depend upon factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;
- The extent to which the outcome of the tax advice will have a material effect on the financial statements;
- The extent to which the advice is supported by tax law or regulations, other precedent or established practice;
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority prior to the preparation of the financial statements; and
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

For example, the provision of tax planning and tax advisory services where the advice is clearly supported by tax authority or other precedent by established practice or has a basis in tax law that is probable and likely to prevail does not generally threaten the firm's independence.

290.181 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:

- Using professionals who are not members of the audit team to perform the service;
- Involving an additional tax partner or senior tax employee, not involved in the provision of tax services to the client, to provide advice to the audit team on the service and to review the financial statement treatment; or
- Obtaining advice on the service from an external tax professional.

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

- (a) there is reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) the outcome or consequences of the tax advice will have a material effect on the financial statements;

the self-review threat would be so significant that no safeguard could reduce the threat to an acceptable level in which case the service should not be provided or, alternatively, the only course of action would be to withdraw from the audit engagement.

#### Assistance in the Resolution of Tax Disputes

290.183 While representing an audit client before the tax authorities in an administrative matter would not generally create a threat to independence, acting for an audit client in the resolution of a tax matter by representing the client before a public tribunal or court may create an advocacy threat. What constitutes a “public tribunal or court” should be determined according to how tax proceedings are heard in the particular jurisdiction

290.184 Where the taxation services involve acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements, the advocacy threat is considered so significant that no safeguard could eliminate or reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for an audit client.

290.185 The firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analyzing the tax issues) for the audit client in relation to the matter which is being heard before a public tribunal or court.

290.186 Where a firm is asked to act in an advocacy role before a public tribunal or court for an audit client in the resolution of a tax matter in circumstances where the amounts involved are not material to the financial statements on which the firm will express an opinion, the significance of any threats should be evaluated and, if the threat is other than clearly insignificant, safeguards should be 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 audit team to perform the service;
- Involving an additional tax partner or senior tax employee, not involved in the provision of tax services to the client, to provide advice to the audit team on the service and to review the financial statement treatment.

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

290.1~~8781~~ A self-review threat may be created when a firm, ~~or network firm,~~ provides internal audit services to an ~~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.

290.1~~8882~~ Services involving an extension of the procedures required to conduct an ~~financial statement~~-audit in accordance with International Standards on Auditing would not be considered to ~~impair~~-compromise independence with respect to the audit client provided that the firm's ~~or network firm's~~ personnel do not ~~perform act or appear to act in a capacity equivalent to a member of audit client~~ management functions.

290.1~~8983~~ When the firm, ~~or a network firm,~~ provides assistance in the performance of an ~~financial statement~~-audit client's internal audit activities or undertakes the outsourcing of some of the activities, 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.

290.1~~9804~~ Performing a significant portion of ~~the an 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.

290.1~~9815~~ Subject to paragraph 290.181, Aa firm should not provide any internal audit services to an audit client unless:~~Safeguards that should be applied in all circumstances to reduce any threats created to an acceptable level include ensuring that:~~

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

- (b) The ~~audit~~-client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
- (c) The ~~audit~~-client, ~~the audit committee or supervisory body~~ or those charged with governance approves the scope, risk and frequency of internal audit work;
- (d) The ~~audit~~-client is responsible for evaluating and determining which recommendations of the firm should be implemented;
- (e) 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) The findings and recommendations resulting from the internal audit activities are reported appropriately to ~~the~~ those charged with governance ~~audit committee or supervisory body~~.

290.198 ~~26~~ 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~~ who are not members of the audit team and who with have different reporting lines within the firm.

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

290.193 Services related to information technology (IT) systems include the design or implementation of hardware or software systems. The systems may aggregate source data or generate information that affects the accounting records or financial statements or the systems may be unrelated to the audit client's accounting records or financial statements. The provision of IT systems services by a firm to an audit client may create a self-review threat depending on the nature of the services and the IT systems.

290.194 Certain IT systems services are not considered to create a threat to independence provided firm personnel do not perform management functions. Such services include the following:

- ~~— Design or implementation of a hardware or software system that aggregates source data underlying the financial statements or generates information that is immaterial to the financial statements or other financial information systems taken as a whole;~~
- Design or implementation of IT systems that are unrelated to or do not form a significant part of the accounting records or financial statements;
- Implementation of “off-the-shelf” accounting or financial information reporting software that was not developed by the firm provided the customization required to meet the client's needs is not significant; and
- Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.;

*Audit Clients that are not Entities of Significant Public Interest*

290.195~~87~~ The provision of services by a firm ~~or network firm~~ to an financial statement audit client that is not an entity of significant public interest involving the design and or implementation of financial information technology IT systems that form a significant part of the accounting systems or are used to generate significant information that is significant forming part used in the preparation of the client's financial statements on which the firm will express an opinion may create a self-review threat.

290.196~~188~~ The self-review threat is likely to be too significant to allow the provision of such services to an 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)~~ 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)~~ The audit client makes all management decisions with respect to the design and implementation process;
- ~~—(d)~~ The audit client evaluates the adequacy and results of the design and implementation of the system; and
- ~~—(e)~~ The audit client is responsible for the operation of the system (hardware or software) and the data used or generated by the system.

290.197~~189~~ Consideration should also be given to whether such non-assurance services should be provided only by personnel not involved in the financial statement who are not members of the audit team engagement and with who have different reporting lines within the firm.

~~290.190 The provision of services by a firm, or network firm, to an financial statement audit or review 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.~~

~~290.191 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.~~

*Audit Clients that are Entities of Significant Public Interest*

290.198 In the case of an audit client that is an entity of significant public interest, a firm should not provide services involving the design or implementation of IT systems that form a significant part of the accounting systems or generate information that is significant to the client's financial statements on which the firm will express an opinion.

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

~~290.192 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:~~

- ~~•Making management decisions;~~
- ~~•Approving or signing agreements or other similar documents; or~~
- ~~•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. Safeguards that should be applied in all circumstances to reduce any threats to an acceptable level include:~~

- ~~(d)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~~
- ~~(e)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**

~~290.199~~290.193 Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a dispute or litigation. Litigation support services provided to an audit client may create a self-review or advocacy threat.

~~290.194 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. may create a self-review threat.~~290.205 If the firm provides a litigation support service to an audit client and the service involve estimating damages or other amounts that effect the financial statements on which the firm will express an opinion a self-review threat may be created. If the estimated damages or other amounts are material to the financial statements on which the firm will express an opinion and the estimates involve 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

services should not be provided or, alternatively, the firm should withdraw from the audit engagement.

290.200 Certain litigation support services involving the estimation of damages or other amounts do not involve a significant degree of subjectivity. This is likely to be the case where the underlying assumptions are determined by law or regulation, or widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of the valuation performed by two or more parties are not likely to be materially different.

~~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.~~

290.201 If the litigation support services involve estimating damages or other amounts that affect the financial statements for an 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 create a self-review threat. The significance of the threat will depend on factors such as:

- The extent of the 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;
- The degree to which established methodologies and professional guidelines are available when performing the service;
- For estimates involving standard or established methodologies, the degree of subjectivity inherent in the item concerned;
- The reliability and extent of the underlying data;



- The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved; and
- 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 eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Involving an additional professional accountant to review the work performed or otherwise advise as necessary;
- Confirming with the client their understanding of the underlying assumptions of the estimate and the methodology to be used and obtaining approval for their use; or
- Making arrangements so that personnel providing such services are not members of the audit team.

290.202~~195~~ If the litigation support services relate to activities other than estimating damages or other amounts 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. 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.

*Audit Clients that are Entities of Significant Public Interest*

290.203 A firm should not provide a litigation support service to an audit client that is an entity of significant public interest if the service involves estimating damages or other amounts that have a material effect on the financial statements on which the firm will express an opinion.

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

290.204~~196~~ Legal services are defined as any services for which the person providing the services must either be admitted to practice law before the Courts of the jurisdiction in which such services are to be provided, or have the required legal training to practice law. 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 an financial statement audit client may create both self-review and advocacy threats.

~~290.197 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 decline to provide such services or withdraw from the financial statement audit engagement.~~

~~290.198 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.~~

~~290.205~~ 199 ~~There is a distinction between advocacy and advice.~~ Legal services to support a financial statement ~~an~~ audit client in the execution of a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create self-review threats. The significance of the threat will depend on factors such as:

- The nature of the service to be provided,
- Whether the service is provided by a member of the audit team; and
- The materiality of any matter in relation to the client's financial statements;

~~however,~~

~~\_\_\_\_\_ safeguards may be available to reduce these threats to an acceptable level. Such a services should not be provided by a firm or network firm to an audit of review client unless would not generally impair independence, provided that: 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 eliminate the threat or reduce it to an acceptable level. Such safeguards might include:~~

- Using professionals who are not members of the audit team to perform the service;  
or
- Involving an additional partner or senior employee, not involved in the provision of legal services to the client, to provide advice to the audit team on the service and review the financial statement treatment, if any.

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

- ~~• In relation to the advice provided, the audit or review 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.~~

290.206 60 Acting for an 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 an ~~financial statement~~ audit client.

290.2074 When a firm is asked to act in an advocacy role for an ~~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:

- ~~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 audit~~ team to perform the service; or
- Involving an additional partner or senior employee, not involved in the provision of legal services to the client, to provide advice to the audit team on the service and review the financial statement treatment, if any.

290.2082 The appointment of a partner or an employee of the firm ~~or network firm~~ as General Counsel for legal affairs to an ~~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 an ~~financial statement~~-audit client.

### Recruiting Senior Management

290.2093 The recruitment of senior management for an ~~assurance audit~~ client, such as those in a position to ~~affect the subject matter information of the assurance engagement exert significant influence over the preparation of the financial statements~~, 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-audit~~ client.

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 ~~eliminate~~ ~~reduce~~ the threat or reduce it to an acceptable level. In all cases, the firm should not ~~make-undertake~~ management ~~decisions-functions~~ and the decision as to whom to hire should be left to the client.

#### Audit Clients that are Entities of Significant Public Interest

290.210 In the case of an audit client that is an entity of significant public interest, a firm should not provide recruiting services with respect to a director or officer of the client or senior management in a position to exert significant influence over the preparation of the accounting records or the financial statements on which the firm will express an opinion. Such services would include:

- Searching for or seeking out candidates for such positions;
- Undertaking references checks of prospective candidates for such positions; and
- Acting as a negotiator or mediator on the client's behalf with respect to such positions.

The firm may, however, upon request of the audit client, interview candidates for such position and advise the client on the candidate's competence for financial accounting, administrative or control positions.

#### **Corporate Finance ~~and Similar Activities~~Services**

290.21104 The provision of corporate finance services, ~~advice or assistance~~ to an ~~audit~~assurance 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, promoting, dealing in, or underwriting of an assurance client's shares is not compatible with providing assurance services. Moreover, 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.~~

290.21205 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 ~~A~~assisting an ~~audit~~ client in developing corporate strategies, assisting in identifying or introducing a client to possible sources of capital

that meet the client specifications or criteria; and providing structuring advice may create advocacy and self-review threats. 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 eliminate the threat or reduce it to an acceptable level, and assisting a client in analyzing the accounting effects of proposed transactions. Such safeguards that should be considered might include:

- ~~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-audit team to provide the services; and/or
- Involving an additional partner or senior employee, not involved in the provision of corporate finance services to the client, to provide advice to the audit team on the service and review accounting treatment and financial statement presentation, if any.
- ~~Ensuring the firm does not commit the assurance client to the terms of any transaction or consummate a transaction on behalf of the client.~~

290.213 A self-review threat may be created where a corporate finance service, for example advice as to the structuring of a corporate finance transaction or on financing arrangements, which will directly effect amounts that will be reported in the financial statements on which the firm will provide an opinion. The significance of any threat created will depend upon factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements;
- The extent to which the outcome of the corporate finance advice will directly affect amounts recorded in the financial statements and the extent to which the amounts are material to the financial statements;
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

290.214 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:

- Using professionals who are not members of the audit team to perform the service; or
- Involving an additional corporate finance partner or senior employee, not involved in the provision of corporate finance services to the client, to provide

advice to the audit team on the service and to review the financial statement treatment.

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

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

(a) There is reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

(b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements,

the self-review threat would be so significant that no safeguard could reduce the threat to an acceptable level in which case the service should not be provided or, alternatively, the only course of action would be to withdraw from the audit engagement.

## **Fees and Pricing**

### **Fees—Relative Size**

290.21806 When the total fees generated by an assurance audit 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 eliminate the threat or 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/or
- Consulting a third party, such as a professional regulatory body or another professional accountant on key audit judgments.

290.21907 A self-interest threat may also be created when the fees generated ~~by from the~~ assurance audit client represent a large proportion of the revenue ~~of 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 eliminate the threat or reduce the threat to an acceptable level. Such safeguards might include involving an additional professional accountant who was not a member of the audit team to review the work performed or otherwise advise as necessary.

**~~•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**

290.22008 A self-interest threat may be created if fees due from an assurance audit client for professional services remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance audit report for the following year. Generally the payment of such fees should be required before the report is issued. If the fee remains unpaid after the report has been issued, 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 eliminate the threat or reduce it to an acceptable level, for example by~~The following safeguards may be applicable involving an additional professional accountant who did not take part in the audit 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:

**~~(c)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 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**

290.209 ~~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:~~

**~~•The firm is able to demonstrate that appropriate time and qualified staff are assigned to the task; and~~**

**~~•All applicable assurance standards, guidelines and quality control procedures are being complied with.~~**

## Contingent Fees

290.221+0 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.

290.222+1 A contingent fee charged by a firm in respect of an ~~assurance~~ audit 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 such 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.~~

290.223+2 A contingent fee charged by a firm in respect of a non-assurance service provided to an ~~assurance-audit~~ 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~~audit engagement and was contingent on the result of ~~that assurance~~the audit 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 ~~audit 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 eliminate the threat or reduce ~~the threats~~them 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 for the non-assurance service.

## Compensation and Evaluation Policies

290.224 The basis on which a partner is evaluated and compensated may create a self-interest threat to independence particularly when the partner is evaluated on or compensated for selling non-assurance services to his or her audit clients. Accordingly, a key audit



partner should not be evaluated on or compensated based on that partner's success in selling non-assurance services to the audit client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.

290.225 Compensating and evaluating other members of the audit team for selling non-assurance services to an audit client may create a self-interest threat. The significance of the threat will depend upon the proportion of the individual's compensation or performance evaluation which is based on the sale of non-assurance services to the audit client. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant the firm should either revise the compensation or evaluation plan for that individual or apply other safeguards to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Involving an additional professional accountant who was not a member of the audit team to review the work performed; or
- Removing the individual from the audit team.

## **Gifts and Hospitality**

~~290.226~~<sup>290.225</sup> 3 Accepting gifts or hospitality from an ~~assurance~~audit –client may create self-interest and familiarity threats. When a firm or a member of the ~~assurance-audit~~ 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-audit~~ team should not accept such gifts or hospitality.

## **Actual or Threatened Litigation**

~~290.227~~<sup>290.225</sup> 4 When litigation takes place, or appears likely, between the firm or a member of the ~~assurance-audit~~ team and the ~~assurance-audit~~ client, a self-interest or intimidation threat may be created. The relationship between client management and the members of the ~~assurance-audit~~ team must be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. The firm and the client's management may be placed in adversarial positions by litigation, affecting management's willingness to make complete disclosures and the firm may face a self-interest threat. The significance of the threat created will depend upon such factors as:

- ~~••~~ •• The materiality of the litigation; and
- ~~•~~ • ~~The nature of the assurance engagement; and~~
- ~~••~~ •• Whether the litigation relates to a prior ~~assurance-audit~~ 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 eliminate reduce the threats or reduce it to an acceptable level. Such safeguards might include:

• ~~Disclosing to the audit committee, or others charged with governance, the extent and nature of the litigation;~~

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

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

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

## **Section 290 Interpretations**

~~These interpretations are directed towards the application of the IFAC *Code of Ethics for Professional Accountants* to the topics of the specific queries received. Those subject to the regulations of other authoritative bodies, such as the US Securities and Exchange Commission, may wish to consult with them for their positions on these matters.~~

### **Interpretation 2003-01**

#### *The provision of non-assurance services to assurance clients*

~~The *Code of Ethics for Professional Accountants* addresses the issue of the provision of non-assurance services to assurance clients in paragraphs 290.158–290.205 inclusive. The Code does not currently include any transitional provisions relating to the requirements set out in these paragraphs however the Ethics Committee has concluded that it is appropriate to allow a transitional period of one year, during which existing contracts to provide non-assurance services for assurance clients may be completed if additional safeguards are put in place to reduce any threat to independence to an insignificant level. This transitional period commences on 31 December 2004 (or from the date of implementation of the Code for members of those IFAC member bodies which have adopted an earlier implementation date).~~

### **Interpretation 2003-02**

#### *Lead engagement partner rotation for audit clients that are listed entities*

~~The *Code of Ethics for Professional Accountants* addresses the issue of engagement partner rotation for financial statement audit clients that are listed entities in paragraphs 290.154–290.157.~~

~~The paragraphs state that in the financial statement audit of a listed entity the engagement partner should be rotated after serving in that capacity for a pre-defined period, normally no more than seven years. They also state that some degree of flexibility in timing of rotation may be necessary in certain circumstances. The Ethics Committee believes that the implementation (or early adoption) of the Code constitutes an example of a circumstance in which some degree of flexibility over timing of rotation may be necessary.~~

~~The Code does not currently include any transitional provisions relating to these requirements. However, the Ethics Committee has concluded that it is appropriate to allow a transitional period of two years. Consequently, on implementation or early adoption of the Code, while the length of time the engagement partner has served the financial statement audit client in that capacity should be considered in determining when rotation should occur, the partner may continue to serve as the engagement partner for two additional years from the date of implementation (or early adoption) before rotating off the engagement. In such circumstances, the additional requirements of paragraph 290.157 to apply equivalent safeguards in order to reduce any threats to an acceptable level should be followed.~~

## 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**              The responsible party that is the person (or persons) who:  
(a) In a direct reporting engagement, is responsible for the subject matter; or  
(b) In an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.

~~(For an assurance client that is a financial statement audit client see the definition of financial statement audit client.)~~

**Assurance engagement**      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.

(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.)

**Assurance team**                (a) All members of the engagement team for the assurance engagement;  
(b) All others within a firm who can directly influence the outcome of the assurance engagement, including:  
    (i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement. ~~For the purposes of a financial statement audit engagement engagement this includes those at all successively senior levels above the engagement partner for the audit or review engagement to 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.~~

#### Audit team

(a) All members of the engagement team for the audit engagement; and

(b) All others within a firm who can directly influence the outcome of the audit engagement, including:

(i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through the firm's chief executive;

(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and

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

(c) All those within a network firm who can directly influence the outcome of the audit engagement.

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

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

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

Direct financial interest      A financial interest:

- Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or

	<ul style="list-style-type: none"> <li>Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control</li> </ul>
<del>Director or officer</del>	<del>Those charged with the governance of an entity, regardless of their title, which may vary from country to country.</del>
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, <u>regardless of their legal relationship with the firm</u> , <del>including any experts contracted by the firm in connection with that engagement.</del>
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.
<del>Financial statements</del>	<del>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.</del>
<del>Financial statement</del> <u>Audit client</u>	An entity in respect of which a firm conducts an <u>financial statement</u> audit engagement. When the client is a listed entity, <del>financial statement</del> audit client will always include its related entities.
<del>Financial statement</del> <u>Audit engagement</u>	A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether <del>financial statements</del> <u>are historical financial information is</u> 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 <u>an financial statement audit</u> required by legislation or other regulation.
Firm	<p>(a) A sole practitioner, partnership or corporation of professional accountants;</p> <p>(b) An entity that controls such parties; and</p> <p>(c) An entity controlled by such parties.</p>
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 <u>provision of an opinion</u><del>expression of a conclusion</del> without being affected by influences that compromise professional judgment, <u>thereby</u> allowing an individual to act with integrity, and exercise objectivity and professional <del>judgments</del><u>skepticism</u></p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant <u>that</u> a reasonable and informed third party <u>would be likely to conclude, weighing all the specific facts and circumstances, that having knowledge of all relevant information, including any safeguards applied, would reasonably conclude</u> a firm's, or a member of the <del>assurance-audit</del> team's, integrity, objectivity or professional skepticism has<del>d</del> 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.
<u>Key audit partner</u>	<u>The engagement partner, the individual responsible for the engagement quality control review, and other partners on the engagement team who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.</u>
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
Network	<p>A larger structure:</p> <p>(a) That is aimed at co-operation, and</p>

- (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Network firm	A firm or entity that belongs to a network.
Office	A distinct sub-group, whether organized on geographical or practice lines.
Professional accountant	An individual who is a member of an IFAC member body.
Professional accountant in business	A professional accountant employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities.
Professional accountant in public practice	A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.
Professional services	Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.
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>(c) An entity over which the client has direct or indirect control;</li><li>(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and</li><li>(e) An entity which is under common control with the client (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>



<u>Review client</u>	<u>An entity in respect of which a firm conducts a review engagement.</u>
<u>Review engagement</u>	<u>An assurance engagement in which a professional accountant in public practice expressed a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the historical financial information is not prepared in all material respects, in accordance with an applicable financial reporting framework, which is an engagement conducted in accordance with International Standards on Review Engagements or equivalent.</u>
<u>Review team</u>	<u>(a) All members of the engagement team for the review engagement; and</u> <u>(b) All others within a firm who can directly influence the outcome of the review engagement, including:</u> <ul style="list-style-type: none"><li><u>(i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior levels above the engagement partner through the firm's chief executive;</u></li><li><u>(ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and</u></li><li><u>(iii) those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and</u></li></ul> <u>(c) All those within a network firm who can directly influence the outcome of the review engagement.</u>
<u>Those charged with governance</u>	<u>The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.</u>

## **EFFECTIVE DATE**

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

To be developed – see discussion in Agenda Paper 2.