

## **Proposed Revised Wording – Clean**

### **Internal Audit Services**

- 290.186 Internal audit services may comprise a wide range of services for example (a) reviewing and testing of internal controls over financial reporting (b) performing procedures that form part of the system of internal controls (c) conducting operational internal audit services unrelated to internal controls over financial reporting, and (d) performing other activities such as fraud investigations. Internal audit services may be conducted (i) by outsourcing of all or a portion of the internal audit function to the firm, (ii) as an extension of the procedures required to conduct an audit in accordance with International Standards on Auditing, or (iii) by providing assistance to the client in the conduct of its internal audit function.
- 290.187 Depending on the nature of the service, a threat to independence may be created when a firm provides internal audit services to an audit client. In some instances internal audit services entail the performance of management functions. For example, the outsourcing of all or a portion of the internal audit function to the firm whereby the firm is responsible for determining the scope of the work and which recommendations should be implemented would entail the performance of management functions by the firm. In these circumstances, the threats to independence are so significant no safeguards could reduce the threats to an acceptable level. Similarly, performing procedures that form part of the system of internal controls, such as reviewing and approving changes to employee data access privileges, would entail the performance of management functions. Therefore, a firm should not perform such services.
- 290.188 Services that are an extension of the procedures required to conduct an audit in accordance with International Standards on Auditing and operational internal audit services unrelated to the internal controls over financial reporting would not be considered to compromise independence with respect to the audit client if the firm's personnel do not perform management functions.
- 290.189 To ensure a firm does not perform management functions when providing internal audit services, the firm should not provide the services described in paragraph 290.187 to an audit client. Other internal audit services to an audit client should only be provided if :
- (a) The client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls;
  - (b) The client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
  - (c) The client or those charged with governance approve the scope, risk and frequency of internal audit work;
  - (d) The client is responsible for evaluating and determining which recommendations of the firm to implement;

- (e) The client evaluates the adequacy of the internal audit procedures and the findings resulting from their performance 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 those charged with governance.

The significance of any remaining threat should be evaluated and if it is not clearly insignificant, safeguards should be considered and applied when 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 internal audit services; and
- Having an additional professional accountant review the work or otherwise advise as necessary.

290.190 Assisting an audit client in the performance of a significant part of the client's internal audit activities increases the risk that firm personnel providing the internal audit service may perform a management function. Accordingly, before accepting an engagement to perform a significant part of an audit client's internal audit activities, the firm should proceed with caution and be satisfied that the client has designated appropriate resources to the activity to take responsibility for the matters detailed in paragraph 290.189.

290.191 In addition, any internal audit service should not include any non-assurance service that would otherwise not be permitted under Section 290.

## **Fees**

### **Fees – Relative Size**

290.213 When the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing the client may create a self-interest threat. The significance of the threat will depend on factors such as:

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

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

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

290.214 A self-interest threat may also be created when the fees generated from an audit client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include having an additional professional accountant who was not a member of the audit team review the work or otherwise advise as necessary.

*Audit Clients that are Entities of Significant Public Interest*

290.215 In the case of an audit client that is an entity of significant public interest when, for two or more consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 290.24) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the self-interest threat would be too significant unless the firm discloses to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm and one of the following safeguards are applied:

- After the audit opinion has been issued, not less than once every three years, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs a review that is equivalent to an engagement quality control review; or
- Prior to the issuance of the audit opinion a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs an engagement quality control review

In determining which of these safeguards should be applied consideration should be given to the relative size of the fees from the audit client in relation to the firm's total fees. In the case of a post issuance review the relative size of the fee should be considered in determining whether the review should be performed more frequently than every three years.

**Fees – Overdue**

290.216 A self-interest threat may be created if fees due from an audit client remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the firm should require payment of such fees before the audit report is issued. If the fee remains unpaid after the report has been issued, the significance of the threat should be evaluated. If the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include having an additional professional accountant who did not take part in the audit engagement, 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.

## Contingent Fees

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

290.218 A contingent fee charged by a firm in respect of an audit engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguard. Accordingly, a firm should not enter into any such fee arrangement.

290.219 A contingent fee charged by a firm in respect of a non-assurance service provided to an audit client may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement was contingent on the result of the audit engagement, no safeguards could reduce the threats to an acceptable level. Accordingly, such arrangements should not be accepted.

290.220 A contingent fee in respect of a non-assurance service charged by a firm expressing an opinion on the financial statements of the client where the fee relates to a matter that is material to the financial statements or the amount of the fee is material to that firm creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguards. Accordingly, a firm should not enter into any such fee arrangement.

290.221 A contingent fee in respect of a non-assurance service charged by a network firm participating in the audit where the fee relates to a matter that is material to the financial statements of the client creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguards. Accordingly, a network firm should not enter into any such fee arrangement.

290.222 For other types of contingent fee arrangements charged by a firm or network firm for a non-assurance service to an audit client, the significance of the threats will depend on factors such as:

- The range of possible fee amounts;
- The nature of the service;
- The effect of the event or transaction on the financial statements; and
- Where relevant, whether the network firm participates in the audit.

The significance of the threats should be evaluated and, if the threats are not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threats or reduce them to an acceptable level. Such safeguards might include:

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

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\* See Definitions.

## **SECTION 291**

### **Independence – Other Assurance Engagements Fees**

#### **Contingent Fees**

- 291.148 Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them.
- 291.149 A contingent fee charged by a firm in respect of an assurance engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguard. Accordingly, a firm should not enter into any such fee arrangement.
- 291.150 A contingent fee in respect of a non-assurance service charged by a firm expressing a conclusion on the subject matter information of the client where the non-assurance service relates to a matter that is material to the subject matter information or the amount of the fee is material to that firm creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguards. Accordingly, a firm should not enter into any such fee arrangement.
- 291.151 A contingent fee charged by a firm in respect of a non-assurance service provided to an assurance client may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement was contingent on the result of the assurance engagement no safeguards could reduce the threat to an acceptable level. Accordingly, such arrangements should not be accepted.
- 291.152 For other types of contingent fee arrangements charged by the firm for a non-assurance service, the significance of the threats will depend on factors such as:
- The range of possible fee amounts;
  - The nature of the service;
  - The effect of the event or transaction on the subject matter information.

The significance of the threats should be evaluated and, if the threats are not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threats or reduce them to an acceptable level. Such safeguards might include:

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

## **Definitions**

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

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.