

The Conceptual Framework contained in Section 110 and Paragraph R400.9 applies in all circumstances.

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PART C1 Independence for Audit and Review Engagements

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Paragraphs R400.15 to 400.15 G3 are highlighted in grey because they represent the first draft of changes to extant Code paragraph 290.12 on responsibility. The issue of responsibility is currently considered in liaison with the IAASB and so these paragraphs are not available for review but have been included for the sake of completeness.

Part C1 Independence for Audit and Review Engagements

Section 400

Application of Conceptual Framework to Independence for Audits and Reviews

Scope of this Part

- 400.1 It is in the public interest and, therefore, required by this Code that members of audit teams, firms and network firms be independent of audit and review clients.
- 400.2 Part C1 contains requirements and guidance for professional accountants in public practice on maintaining independence when performing audit and review engagements. These engagements are assurance engagements in which a professional accountant expresses a conclusion on financial statements. Such engagements involve reporting on a complete set of financial statements or on a single financial statement.

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- 400.3 Part C1 describes circumstances and relationships that create or may create threats to independence. It describes the potential threats and safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level. It identifies situations where no safeguards could reduce the threats to an acceptable level but does not describe all situations that may create a threat. The conceptual framework requires a professional accountant to evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 300.3 G11 to G15, can be applied to eliminate the threats to independence or reduce them to an acceptable level.
- 400.4 Independence requirements for assurance engagements that are not audit or review engagements are contained in Part C2.
- 400.5 An audit report may include a restriction on use and distribution. If it does the independence requirements in this part may be modified as provided in paragraphs XXX. X to XXX.XX¹, if the conditions set out in those paragraphs are met. These modifications are not permitted for an audit of financial statements which is required by law or regulation.

Terms Used

400.6 In Part C1:

- (a) “Audit,” “audit team,” “audit engagement,” “audit client” and “audit report” include review, review team, review engagement, review client and review report, respectively;
- (b) “Audit client” includes related entities of the client (unless otherwise stated), as contained in paragraph R400.10 and
- (c) “Professional accountant” refers to:
 - (i) A professional accountant in public practice; and
 - (ii) A firm of professional accountants in public practice.
- (d) “Engagement period”:
 - (i) Starts when the audit team begins to perform audit services; and
 - (i) Ends when the audit report is issued.If the engagement is recurring, the engagement period ends at the later of;
 - (iii) The notification by either party that the professional relationship has terminated; or
 - (iv) The final audit report being issued.

¹ These reference numbers are not yet available. The cross reference is to extant Code concerning Reports that Include a Restriction on Use and Distribution, paragraph numbers 290.500 to 290.514.

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Public Interest Entities

400.7 Part C1 contains additional provisions that apply to public interest entities. Firms are encouraged to determine whether to treat entities, or certain categories of entities, that have a large number and wide range of stakeholders, as public interest entities. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees.

Requirements and Guidance

R400.8 In relation to an audit engagement, a professional accountant shall apply the conceptual framework contained in Section 110.

R400.9 In applying the conceptual framework, a professional accountant shall:

- (a) When evaluating the significance of threats to independence, take qualitative as well as quantitative factors into account;
- (b) If a determination has been made that the threats are not at an acceptable level, and the decision to be made is whether to accept an engagement or include a particular individual on the audit team, determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level;
- (c) If the decision is whether to continue an audit engagement, determine whether:
 - (i) Any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level;
 - (ii) Other safeguards will need to be applied; or
 - (iii) The engagement needs to be terminated; and
- (e) Whenever new information about a threat to independence comes to the attention of the professional accountant during an audit engagement, evaluate the significance of that threat in accordance with the conceptual framework approach.

R400.10 As defined, an audit client that is a listed entity includes all of its related entities. An audit client that is not a listed entity is defined to include those related entities over which the client has direct or indirect control. When the audit team knows or has reason to believe that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.

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General Documentation

R400.11 A professional accountant shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

- (a) When safeguards are required to reduce a threat to an acceptable level, the professional accountant shall document the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and
- (b) When a threat required significant analysis to determine whether safeguards were necessary and the professional accountant concluded that they were not because the threat was already at an acceptable level, the professional accountant shall document the nature of the threat and the rationale for the conclusion.

400.11 G1 Paragraph R400.11 sets out specified documentation requirements. However, a lack of documentation does not determine whether a professional accountant considered a particular matter or is independent.

Engagement Period

R400.12 A professional accountant performing an audit engagement shall be independent of the audit client during both:

- (a) The engagement period; and
- (b) The period covered by the financial statements.

R400.13 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
- (b) Previous services provided to the audit client by the firm or network firm.

R400.14 If a non-assurance service was provided to the audit client during, or after the period covered by the financial statements, but before the audit team begins to perform audit services, and the service would not be permitted during the engagement period, the firm shall evaluate any threat to independence created by the service. If a threat is not at an acceptable level, the firm shall only accept the audit engagement if safeguards are applied to eliminate any threats or reduce them to an acceptable level.

400.14 G1 Examples of safeguards include:

- Not including people who provided the non-assurance service as members of the audit team;
- Having a professional accountant review the audit and non-assurance work as appropriate;

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- Engaging another firm to evaluate the results of the non-assurance service; or
- Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Establishing Policies and Procedures for Compliance with this Code

R400.15 A firm shall establish, implement and maintain policies and procedures, appropriately documented and communicated within the firm, to:

- (a) Identify those individuals with appropriate authority who, in particular circumstances, are responsible for taking appropriate action on behalf of the firm in accordance with the requirements of this Code;
- (b) Maintain compliance with this Code by relevant individuals within the firm and, as applicable, their immediate family; and
- (c) Require communication of threats to and breaches of independence to relevant individuals who are responsible for taking appropriate action on behalf of the firm in accordance with the requirements of this Code.

400.15 G1 Individuals who are responsible for taking appropriate action on behalf of the firm in accordance with the requirements of this Code may include:

- (a) The engagement partner;
- (b) Senior individuals responsible for ethics or independence matters for the firm;
- (c) Any other individual within the firm identified as a responsible individual in relation to a particular matter.

400.15 G2 Policies that enable identification of responsible individuals may differ depending on the size, structure and organization of a firm. In addition, *International Standards on Auditing* (ISAs) require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.

400.15 G3 The identification of individuals who are responsible for taking appropriate action on behalf of the firm does not relieve a professional accountant of individual responsibility to comply with the Code.

Network Firms

R400.16 A network firm shall be independent of the audit clients of the other firms within the network unless otherwise stated in this Code.

R400.17 When associated with a larger structure of other firms and entities, a firm shall:

- (a) Use professional judgment to determine whether a network is created by such a larger structure;

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- (b)** Consider whether a reasonable and informed third party would be likely to conclude, that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c)** Apply such judgment consistently throughout such a larger structure.

- 400.17 G1 The independence requirements in Part C1 that apply to a network firm apply to any entity that meets the definition of a network firm. The entity need not also meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.
- 400.17 G2 Whether the larger structures that are established by firms create a network depends on the circumstances. This 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, where a larger structure is aimed at co-operation and the firms share a common brand name, a common system of quality control or significant professional resources the larger structure is a network.
- 400.17 G3 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 a network. However, the sharing of immaterial costs does 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 does not in itself create a network.
- 400.17 G4 Where the larger structure is aimed at co-operation and the entities within the structure share common ownership, control or management it is a network. This could be achieved by contract or other means.
- 400.17 G5 Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures it is a network. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.
- 400.17 G6 Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy it is a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not 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.
- 400.17 G7 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 a network. A common brand name includes common initials or a common name. A firm is 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 audit report.

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400.17 G8 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it may appear to belong to a network if its stationery or promotional materials refer to being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership a perception may be created that the firm belongs to a network.

400.17 G9 Where the larger structure is aimed at co-operation and the entities within the structure share a significant part of professional resources it is 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 that consult on technical or industry specific issues, transactions or events for assurance engagements.
- Audit methodology or audit manuals.
- Training courses and facilities.

400.17 G10 Whether the shared professional resources are significant depends on the circumstances. For example:

- 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 significant. The same applies to a common training endeavor.
- Where 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.

R400.18 If a firm or a network sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the sold component may continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. 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 cooperation and are therefore not network firms. Those entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties. *Merger and acquisitions*

R400.19 An entity may become a related entity of an audit client because of a merger or acquisition. In that case, the firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account available safeguards, could affect its

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independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition.

R400.20 In the circumstances described in paragraph R400.19, the firm shall take steps to end any interests or relationships that are not permitted by this Code by the effective date of the merger or acquisition.

400.20 G1 It may not be reasonably possible to end an interest or relationship by the effective date of the merger or acquisition. This may be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

R400.21 As an exception to R400.20, if the interest or relationship cannot reasonably be ended by the effective date, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the significance of the threat.

400.21 G1 The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat to objectivity may depend upon factors such as:

- The nature and significance of the interest or relationship;
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent); and
- The length of time until the interest or relationship can reasonably be terminated.

R400.22 If those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Part C1, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality control review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.22 G1 Examples of transitional measures include:

- Having a professional accountant review the audit or non-assurance work as appropriate;
- Having a professional accountant, who is not a member of the firm expressing the

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opinion on the financial statements, perform a review that is equivalent to an engagement quality control review; or

- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.23 The firm may have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and may be able to complete the remaining audit procedures within a short period of time. In such circumstances if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in paragraph R400.19, the firm shall only do so if it:

- (a) Has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with those charged with governance;
- (b) Complies with the requirements of paragraph R400.21 (a) to (c); and
- (c) Ceases to be the auditor no later than the date that the audit report is issued.

R400.24 When addressing previous and current interests and relationships described in paragraph R400.19 the firm shall determine whether, even if all the requirements of paragraphs R400.20 to R400.23 could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised and, if so, the firm shall cease to be the auditor.

R400.25 The professional accountant shall document:

- (a) Any interests or relationships described in paragraph R400.19 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance, and
- (d) The reasons why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.

Section 401

Breach of an Independence Provision

Requirements and Guidance

When a Firm Identifies a Breach

R401.1 Notwithstanding any other provisions of Part C1, if a firm concludes that a breach of any of those provisions has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach;

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- (b)** Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i)** Comply with those requirements; and
 - (ii)** Consider reporting the breach to a professional body, regulator or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c)** Promptly communicate the breach in accordance with its policies and procedures to:
 - (i)** The engagement partner;
 - (ii)** Those with responsibility for the policies and procedures relating to independence;
 - (iii)** Other relevant personnel in the firm, and, where appropriate, the network; and
 - (iv)** Those subject to the independence requirements who need to take appropriate action.
- (d)** Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report;
- (e)** Depending on the significance of the breach, determine whether:
 - (i)** To terminate the audit engagement; or
 - (ii)** Whether it may be possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

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

401.1 G1 A breach of Part C1 may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. It may be that the audit engagement needs to be ended because of the breach.

401.1 G2 When a breach of Part C1 is identified, the significance and impact of the breach on the firm's objectivity and ability to issue an audit report will depend on factors such as:

- The nature and duration of the breach;
- The number and nature of any previous breaches with respect to the current audit engagement;
- Whether a member of the audit team had knowledge of the interest or relationship that caused the breach;
- Whether the individual who caused the breach is a member of the audit team or another individual for whom there are independence requirements;

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- If the breach relates to a member of the audit team, the role of that individual;
- If the breach was caused by the provision of a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion; and
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

401.1 G3 Depending upon the significance of the breach, examples of actions that the firm may take to satisfactorily address the breach include:

- Removing the relevant person from the audit team;
- Using different people to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary;
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary; and
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements:
 - Engaging another firm to evaluate the results of the non-assurance service; or
 - Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R401.2 If the firm determines that it cannot take action to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.

R401.3 If the firm determines that it can take action to satisfactorily address the consequences of the breach, the firm shall discuss with those charged with governance, as soon as possible or in accordance with an alternative timing specified by those charged with governance for reporting less significant breaches:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report;
- (d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

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Communication with Those Charged with Governance

- R401.4** The firm shall communicate in writing to those charged with governance all matters discussed in accordance with paragraphs 401.1 to 401.3 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach.
- R401.5** The communication shall include a description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.
- R401.6** If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit engagement in accordance with the provisions set out in paragraph R401.2.

Breaches Before the Previous Audit Report Was Issued

- R401.7** If the breach occurred before the previous audit report was issued, the firm shall comply with the provisions of Part C1 that are relevant to the breach in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period.
- R401.8** The firm shall consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, whether the firm should withdraw those audit reports, and discuss these matters with those charged with governance.

Documentation

- R401.9** The firm shall document:
- (a) The breach;
 - (b) The action taken;
 - (c) Key decisions made;
 - (d) All the matters discussed with those charged with governance; and
 - (e) Any discussions with a professional body, regulator or oversight authority.
- R401.10** If the firm continues with the audit engagement, it shall also document the conclusion that, in the firm's professional judgment, objectivity has not been compromised and why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

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Section 510

Financial Relationships

Scope of this Section

510.1 A financial relationship between a professional accountant and an audit client may create a threat to compliance with the fundamental principles. Sections 511 and 512 contain requirements and guidance on applying the conceptual framework to these financial relationships.

Terms Used

510.2 Sections 511 and 512 contain references to the “materiality” to a financial interest, loan, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

Requirements and Guidance

R510.3 In relation to financial relationships, a professional accountant shall apply the conceptual framework contained in Section 110 and paragraph R400.9.

510.3 G1 Financial relationships between a professional accountant and an audit client that may create self-interest, intimidation or familiarity threats include:

- Financial interests held in an audit client
- Loans, or guarantees of loans, made between a professional accountants and an audit client
- Other types of financial relationships.

Subsection 511

511 – Financial Interests

Introduction

511.1 Holding a financial interest in an audit client may create a self-interest threat. The existence and significance of any threat depends on:

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

Subsection 511 contains requirements and guidance on applying the conceptual framework to financial interests.

511.2 Financial interests may be held directly. Financial interests may also be held indirectly through an intermediary (for example, a collective investment vehicle, estate or trust). When

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a beneficial owner has control over the intermediary or the ability to influence investment decisions, this Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or the ability to influence investment decisions, this Code defines that financial interest to be indirect.

Requirements and Guidance

R511.3 In relation to financial interests, a professional accountant shall apply the conceptual framework contained in Section 110 and paragraph R400.9.

Financial Interests Held by the Firm, Network, Audit Team Members, and Other Partners and Employees of the Firm

R511.4 A direct financial interest or a material indirect financial interest in the audit client shall not be held by:

- (a) The firm or a network firm;
- (b) A member of the audit team, or any of that person's immediate family;
- (c) Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner's immediate family;
- (d) Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose involvement is minimal, or any of their immediate family members.

R511.5 As an exception to paragraph R511.4, an immediate family member described in subparagraphs 511.4 (c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

- (a) The family member received the financial interest because of employment rights (for example, through pension or share option plans);
- (b) The family member disposes of the financial interest as soon as practicable (for example, in the case of a stock option, when the family member obtains the right to exercise the option); and
- (c) When necessary, the firm applies safeguards to eliminate any threat to independence or reduce it to an acceptable level.

511.5 G1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other members of the audit team, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

R511.6 When an entity has a controlling interest in an audit client and the audit client is material to the entity, neither the firm, nor a network firm, nor a member of the audit team, nor a member

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of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

R511.7 Paragraph R511.4 applies to a financial interest held as trustee as it does to other financial interests, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, an immediate family member of the trustee, the firm or a network firm;
- (b) The interest in the audit client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the audit client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the audit client: the trustee, an immediate family member of the trustee, the firm or a network firm.

Financial Interests in Common with the Audit Client

R511.8 A firm, or a network firm, or a member of the audit team, or a member of that individual's immediate family shall not hold a financial interest in an entity when an audit client also has a financial interest in that entity, unless:

- (a) The financial interests are immaterial to the firm, the network firm, the member of the audit team, that individual's immediate family and the audit client, as the case may be; and
- (b) The audit client cannot exercise significant influence over the entity.

R511.9 An individual shall not be a member of the audit team while holding a material financial interest in an entity in which the audit client also has a material financial interest, if the audit client can exercise significant influence over the entity. Before the individual may become a member of the audit team, the individual shall either:

- (a) Dispose of the interest; or
- (b) Dispose of enough of the interest so that the remaining interest is no longer material.

Unintended Acquisition of Interests

R511.10 If a firm, a network firm or a partner or employee of the firm or a network firm, or a member of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section then:

- (a) If the interest is received by the firm or a network firm, or a member of the audit team or a member of the immediate family of that individual, the financial interest shall be

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disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or

- (b) (i) If the interest is received by an individual who is not a member of the audit team, or by an immediate family member of that individual, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material, and
- (ii) Pending the disposal of the financial interest, the firm shall determine whether safeguards are necessary.

Financial Interests – Other circumstances

R511.11 A firm shall apply the conceptual framework contained in Section 110 and paragraph R400.9 in the following circumstances related to financial interests:

- (a) If a member of the audit team knows that a close family member has a direct or material indirect financial interest in the audit client; (Ref: Para. 511.11 G1).
- (b) If the retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit client.
- (c) If a member of the audit team, or a member of that individual's immediate family, or the firm or a network firm, has a financial interest in an entity and a director or officer or controlling owner of the audit client is also known to have a financial interest in the same at entity. (Ref: Para. 511.11 G2).
- (d) If a member of the audit team knows that a financial interest in the audit client is held by other individuals, such as:
 - (i) Partners and professional employees of the firm or network firm, in addition to those who are specifically not permitted to hold such financial interests by paragraph R511.4, or their immediate family members; or
 - (ii) Individuals with a close personal relationship with a member of the audit team. (Ref: Para 511.11 G3).

511.11 G1 A self-interest threat may be created if a member of the audit team has a close family member who the audit team member knows has a direct or material indirect financial interest in the audit client. The significance of any threat created depends on factors such as:

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

Examples of safeguards include:

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of enough of an indirect financial interest so that the remaining interest is no longer material;

The Conceptual Framework contained in Section 110 and Paragraph R400.9 applies in all circumstances.

- Having a professional accountant review the work of the member of the audit team; or
- Removing the individual from the audit team.

511.11 G2 Self-interest, familiarity, or intimidation threats may be created if a member of the audit team, or an immediate family member of that individual, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit client is also known to have a financial interest in that entity. The existence and significance of any threat may depend upon factors such as:

- The role of the individual on the audit team;
- Whether ownership of the entity is closely or widely held;
- Whether the interest allows the investor to control or significantly influence the entity; and
- The materiality of the financial interest.

Examples of safeguards include:

- Removing the member of the audit team with the financial interest from the audit team; or
- Having a professional accountant review the work of the member of the audit team.

511.11 G3 Whether the interests described in paragraph R511.11 (d) create a self-interest threat may depend on 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 audit team.

Examples of safeguards include:

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

Subsection 512

Loans and Guarantees

Introduction

512.1 A loan or a guarantee of a loan between a professional accountant and an audit client may create self-interest or other threats. Subsection 512 contains requirements and guidance on applying the conceptual framework to loans and guarantees.

The Conceptual Framework contained in Section 110 and Paragraph R400.9 applies in all circumstances.

Requirements and Guidance

R512.2 In relation to loans and guarantees, a professional accountant shall apply the conceptual framework contained in Section 110 and paragraph R400.9.

Loans and Guarantees with a Bank or Similar Institution

R512.3 A firm, a network firm, a member of the audit team, or a member of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.

512.3 G1 If a loan to a firm or network firm from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client or firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. An example of such a safeguard is having the work reviewed by a professional accountant from a network firm that is neither involved with the audit nor received the loan.

512.3 G2 A loan, or a guarantee of a loan, from an audit client that is a bank or a similar institution to a member of the audit team, or a member of that individual's immediate family, may not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include: home mortgages; bank overdrafts; car loans; and credit card balances.

Loans and guarantees with a Client That is Not a Bank or Similar Institution

R512.4 A firm, a network firm, a member of the audit team, or a member of that individual's immediate family, shall not accept a loan from, or have a borrowing guaranteed by, an audit client that is not a bank or similar institution, unless the loan or guarantee is immaterial to both:

- (a) The firm or the member of the audit team and the immediate family member receiving the loan; and
- (b) The client.

R512.5 A firm, a network firm, a member of the audit team, or a member of that individual's immediate family, shall not make or guarantee a loan to, an audit client unless the loan or guarantee is immaterial to both:

- (a) The firm or the member of the audit team and the immediate family member making the loan or guarantee; and
- (b) The client.

The Conceptual Framework contained in Section 110 and Paragraph R400.9 applies in all circumstances.

Deposits or Brokerage Accounts

R512.6 A firm, a network firm, a member of the audit team, or a member of that individual's immediate family, shall not have deposits or a brokerage account with an audit client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

Section 520

Other Relationships

Scope of this Section

520.1 In addition to financial relationships other relationships between a professional accountant and an audit client may cause threats to compliance with the fundamental principles. Section 520 contains requirements and guidance on applying the conceptual framework to these other relationships.

Requirements and Guidance

R520.2 In relation to other relationships, a professional accountant shall apply the conceptual framework contained in Section 110 and paragraph R400.9.

520.2 G1 Relationships between a professional accountant and an audit client that may create self-interest, intimidation or familiarity threats include:

- Business relationships (see Subsection 521);
- Family and personal relationships (see Subsection 5XX²); and
- Relationships involving:
 - Former members of the audit team or former partners of the firm (see Subsection 5XX);
 - Firm staff who are temporarily assigned to assist an audit client (see Subsection 5XX);
 - Members of the audit team who have recently served as a director, officer or employee of the audit client (see Subsection 5XX); or
 - Partners or employees of the firm who serve as a director or officer of the audit client (see Subsection 5XX).

Other types of relationships may also create similar threats.

² Paragraph reference numbers have not yet been determined for this and the following similar references.

The Conceptual Framework contained in Section 110 and Paragraph R400.9 applies in all circumstances.

Subsection 521

Business Relationships

Introduction

521.1 A close business relationship between a professional accountant and an audit client may create self-interest or intimidation threats. Subsection 521 contains requirements and guidance on applying the conceptual framework to these business relationships.

Requirements and Guidance

R521.2 In relation to business relationships, a professional accountant shall apply the conceptual framework contained in Section 110 and paragraph R400.9.

Firm or Audit Team Member Relationships

R521.3 The firm, a network firm or a member of the audit team shall not have a close business relationship with an audit client or its management unless the financial interest is immaterial and the business relationship is insignificant to the firm, the network firm or the team member, as the case may be, and the client or its management.

R521.4 If an immediate family member of a member of the audit team has a close business relationship with an audit client or its management, the firm shall apply the conceptual framework contained in Section 110 and paragraph R400.9.

Common Interests in Closely-Held Entities

R521.5 The firm, a network firm, a member of the audit team, or a member of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

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

521.5 G1 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client.

The Conceptual Framework contained in Section 110 and Paragraph R400.9 applies in all circumstances.

- Arrangements to combine one or more services or products of the firm or the network firm with one or more services or products of the client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm or the network firm distributes or markets the client's products or services, or the client distributes or markets the firm's or the network firm's products or services.

Buying Goods or Services

521.6 G In some circumstances, a firm, a network firm, a member of the audit team, or a member of that individual's immediate family may buy goods or services from an audit client in the normal course of business and at arm's length. In such circumstances, the firm shall apply the conceptual framework contained Section 110 and paragraph R400.9 to consider the nature and magnitude of the transaction.

Examples of safeguards include:

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