

Agenda Item 2-D

C1 – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 410

Fees and Compensation

Scope of this Section

- 410.1 The level and nature of fees and other types of remuneration and a firm's compensation practices might cause threats to compliance with the fundamental principles and independence. Sections 411 to 414 contain requirements and application material on applying the conceptual framework to fees, other remuneration and compensation.

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Requirements and Application Material

- R410.2 A professional accountant shall apply the conceptual framework contained in Section 120 and paragraph R400.7 in relation to fees, other remuneration and compensation.

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- 410.2 A1 Matters that are relevant to consider when determining whether fees, other remuneration and compensation cause threats to independence include:

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- Relative size of fees;
- Overdue fees;
- Contingent fees; and
- Compensation and evaluation policies.

Subsection 411

Fees – Relative Size

Introduction

- 411.1 The amount of fees from an audit client relative to the total fees of the firm or an individual partner or office of the firm might cause a self-interest or intimidation threat. Subsection 411 contains requirements and application material on applying the conceptual framework to evaluating the impact of the relative size of fees.

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Requirements and Application Material

- 411.2 A1 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 causes a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

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- The operating structure of the firm;
- Whether the firm is well established or new; and
- The significance of the client qualitatively and/or quantitatively to the firm.

Examples of safeguards include:

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

411.2 A2 A self-interest or intimidation threat is also caused when the fees generated from an audit client represent:

- A large proportion of the revenue from an individual partner's clients; or
- A large proportion of the revenue of an individual office of the firm.

The significance of the threat will depend upon factors such as:

- The significance of the client qualitatively and/or quantitatively to the partner or office; and
- The extent to which the remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client.

Examples of safeguards include:

- Reducing the dependency on the audit client;
- Having a professional accountant review the work or otherwise advise as necessary; or
- Regular independent internal or external quality reviews of the engagement.

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Audit Clients that are Public Interest Entities

R411.3 Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph R400.8) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:

- (a) Disclose 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
- (b) Discuss which of the safeguards below it will apply to reduce the threat to an acceptable level, and apply the selected safeguard:
 - (i) Prior to the audit opinion being issued on the second year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, performs an engagement quality control review of that engagement; or a professional regulatory body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or
 - (ii) After the audit opinion on the second year's financial statements has been issued, and before the audit opinion being issued on the third year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional regulatory body performs a review of the second year's audit that is equivalent to an engagement quality control review ("a post-issuance review").

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R411.4 When the total fees significantly exceed 15%, the firm shall:

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- (a) Determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level; and
- (b) In such circumstances, have a pre-issuance review performed.

R411.5 If the fees continue to exceed 15% the firm shall each year:

- (a) Disclose to and discuss with those charged with governance the matters contained in paragraph R411.3; and
- (b) Apply one of the safeguards contained in paragraph R411.3 (b).

If the fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances a pre-issuance review shall be performed.

Subsection 412

Fees—Overdue

Introduction

412.1 Fees from an audit client that remain unpaid for a long time might cause a self-interest threat. Subsection 412 contains requirements and application material on applying the conceptual framework to evaluating the impact of overdue fees.

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Requirements and Application Material

412.2 A1 A self-interest threat might be caused if fees due from an audit client remain unpaid for a long time, especially if a significant part is not paid before the audit report for the following year is issued. It is generally appropriate for the firm to require payment of such fees before such audit report is issued.

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412.2 A2 A self-interest threat is caused if fees remain unpaid after the report has been issued. *An example of a safeguard is having an additional professional accountant who did not take part in the audit engagement, provide advice or review the work performed.*

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R412.3 The firm shall determine:

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- (a) Whether the overdue fees might be regarded as being equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement because of the significance of the overdue fees.

Subsection 413

Contingent Fees

Introduction

413.1 Charging contingent fees to an audit client might cause a self-interest threat. Subsection 413 contains requirements and application material on applying the conceptual framework to evaluating the impact of charging contingent fees.

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413.2 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. For the purposes of this section, a fee is not regarded as being contingent if established by a court or other public authority.

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Requirements and Application Material

R413.3 A firm shall not enter into an arrangement to charge, directly or indirectly, for example through an intermediary a contingent fee for an audit engagement.

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R413.4 A firm or network firm shall not accept an arrangement to charge, directly or indirectly, for example through an intermediary, a contingent fee for a non-assurance service provided to an audit client, if:

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- (a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;
- (b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is:
 - (i) Material to that firm; or
 - (ii) Expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.

413.4 A1 For other contingent fee arrangements charged by a firm or network firm for a non-assurance service to an audit client, the existence and significance of any threats will depend on factors such as:

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- The range of possible fee amounts;
- Whether an appropriate authority determines the outcome of the matter upon which the contingent fee will be determined;
- The nature of the service; and
- The effect of the event or transaction on the financial statements.

Examples of safeguards include:

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- Having a professional accountant review the relevant audit work or otherwise advise as necessary; or

- *Using professionals who are not members of the audit team to perform the non-assurance service.*

Subsection 414

Compensation and Evaluation Policies

Introduction

- 414.1 Evaluating or compensating a member of an audit team for a particular audit client, including a partner, for selling non-assurance services to that audit client might cause a self-interest threat. Subsection 414 contains requirements and application material on applying the conceptual framework to evaluating the impact of compensation and evaluation policies.

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Requirements and Application Material

- 414.2 A1 When a member of the audit team for a particular audit client is evaluated on or compensated for selling non-assurance services to that audit client, the significance of the threat will depend on:

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- The proportion of the individual's compensation or performance evaluation that is based on the sale of such services;
- The role of the individual on the audit team; and
- Whether promotion decisions are influenced by the sale of such services.

Examples of safeguards include:

- *Revising the compensation plan or evaluation process for that individual;*
- *Removing such members from the audit team; or*
- *Having a professional accountant review the work of the member of the audit team.*

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- R414.3 A key audit partner shall not be evaluated or compensated based on that partner's success in selling non-assurance services to the partner's audit client. This requirement does not preclude normal profit-sharing arrangements between partners of a firm.

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Section 420

Gifts and Hospitality

Introduction

- 420.1 Accepting gifts or hospitality from an audit client might cause self-interest and familiarity threats. Section 420 contains requirements on applying the conceptual framework to evaluating the impact of gifts and hospitality.

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Requirements

- R420.2 A professional accountant shall apply the conceptual framework contained in Section 120 and paragraph R400.67 in relation to accepting gifts or hospitality from an audit client.

- R420.3 A firm or a member of the audit team shall not accept gifts or hospitality from an audit client, unless the value is trivial and inconsequential.

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Section 430

Actual or Threatened Litigation

Introduction

430.1 When litigation occurs, or appears likely, between the firm, a network firm or a member of the audit team and the audit client, self-interest and intimidation threats are caused. Section 430 contains requirements and application material on applying the conceptual framework to such actual or threatened litigation.

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Requirements and Application Material

R430.2 A professional accountant shall apply the conceptual framework contained in Section 120 and paragraph R400.67 if there is actual or threatened litigation between the audit client and:

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- (a) The firm;
- (b) A network firm; or
- (c) A member of the audit team.

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430.2 A1 It is necessary for the relationship between client management and the members of the audit team to be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. The adversarial positions which might result from actual or threatened litigation might affect management's willingness to make complete disclosures and cause self-interest and intimidation threats. The significance of the threats might depend on such factors as:

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- The materiality of the litigation; and
- Whether the litigation relates to a prior audit engagement.

Examples of safeguards include:

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- If the litigation involves a member of the audit team, removing that individual from the audit team; or
- Having a professional review the work performed.

Section 499

Reports that Include a Restriction on Use and Distribution

Introduction

499.1 The independence requirements in C1 apply to all audit engagements. However, in certain circumstances involving audit engagements where the report includes a restriction on use and distribution, and provided the conditions contained in paragraphs R499.3 and R499.4 are met, the independence requirements in C1 may be modified as provided in paragraphs R499.7 to R499.16.

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499.2 The modifications permitted by Paragraphs R499.7 to R499.16 are available only in relation to an audit of special purpose financial statements:

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- (a) That is intended to provide a conclusion in positive or negative form that the financial statements are prepared in all material respects, in accordance with the applicable financial reporting framework, including, in the case of a fair presentation framework, that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; and
- (b) Where the audit report includes a restriction on use and distribution.

The modifications are not permitted in the case of an audit of financial statements that is required by law or regulation.

Requirements and Application Material

- R499.3** A firm shall not modify the requirements of C1 unless the intended users of the report:
- (a) Are knowledgeable as to the purpose and limitations of the report; and
 - (b) Explicitly agree to the application of the modified independence requirements.
- 499.3 A1 The intended users of the report might obtain knowledge as to the purpose and limitations of the report through their participation in establishing the nature and scope of the engagement. The intended users might participate directly, or they might participate indirectly through a representative who has the authority to act for them. In either case, this participation enhances the ability of the firm to communicate with intended users about independence matters, including the circumstances that are relevant to the application of the conceptual framework, and to obtain their agreement to the modified independence requirements that are to be applied.
- R499.4** The firm shall communicate with the intended users regarding the independence requirements that are to be applied with respect to the provision of the audit engagement. In some cases, the intended users are a class of users who are not specifically identifiable by name at the time the engagement terms are established. A firm shall subsequently make such users aware of the independence requirements agreed to by the representative.
- 499.4 A1 As an example, the communication required by paragraph R499.4 may be included in an engagement letter to a representative of lenders in a syndicated loan arrangement. The representative may then make the firm's engagement letter available to the members of the syndicate.
- R499.5** If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply the provisions of C1 to that audit engagement.
- R499.6** If the modifications to the requirements of C1 that are permitted in the circumstances contained in paragraphs R499.3 and R499.4 are limited to those contained in paragraphs R499.7 to R499.16, a firm shall comply in all other respects with the provisions of C1.

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Public Interest Entities

- R499.7** When the conditions contained in paragraphs 499.1 to R499.4 are met, it is not necessary for a firm to apply the additional requirements in C1 that apply to audit engagements for public interest entities.

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Related Entities

R499.8 When the conditions contained in paragraphs 499.1 to R499.4 are met, references to audit client do not include its related entities. However, when the audit team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of 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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Networks and Network Firms

R499.9 When the conditions contained in paragraphs 499.1 to R499.4 are met, specific references to interests and relationships of network firms contained in C1 may be disregarded. However, when the firm knows or has reason to believe that threats are caused by any interests and relationships of a network firm, they shall be included in the evaluation of threats to independence.

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Financial Interests, Loans and Guarantees, Close Business Relationships and Family and Personal Relationships

R499.10 When the conditions contained in paragraphs 499.1 to R499.4 are met, the relevant provisions contained in Sections 510 and 520 and their subsections apply only to the members of the engagement team, their immediate family members and close family members.

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R499.11 A the firm shall determine whether threats to independence are caused by interests and relationships, as contained in Sections 510 and 520 and their subsections, between the audit client and the following members of the audit team:

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

R499.12 A firm shall evaluate the significance of any threats that the engagement team has reason to believe are caused by interests and relationships between the audit client: and

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- (a) Others within the firm who can directly influence the outcome of the audit engagement;
- (b) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the audit engagement partner in connection with the performance of the audit engagement; and
- (c) Those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent).

R499.13 The firm shall evaluate the significance of any threats that the engagement team has reason to believe are caused by financial interests in the audit client held by individuals, as described in paragraphs R511.3 (c) and (d), R511.5 and R511.9(c) and (d).

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R499.14 In applying the provisions contained in paragraphs R511.3 (a) R511.5 and R511.6 to interests of the firm, the firm shall not hold a material direct or indirect financial interest in the audit client.

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Employment with an Audit Client

R499.15 The firm shall evaluate the significance of any threats from any employment relationships as described in paragraphs 523.1 to 523.4. *Examples of safeguards that might be appropriate include those set out in paragraph 523.3 A1.*

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Providing Non-Assurance Services

R499.16 If the firm conducts an engagement to issue a restricted use and distribution report for an audit client and provides a non-assurance service to the audit client, the firm shall comply with the provisions of paragraphs 600 to 699, subject to paragraphs R499.6 to R499.9.

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Subsection 522

Family and Personal Relationships

Introduction

522.1 A family or personal relationship between a member of the audit team and a director or officer or other employees (depending on their role) of the audit client might cause self-interest, familiarity or intimidation threats. Subsection 522 contains requirements and application material on applying the conceptual framework to these family or personal relationships.

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Requirements and Application Material

522.2 A1 The existence and significance of any threats caused by family and personal relationships will depend on a number of factors, including the individual's responsibilities on the audit team, the role of the family member or other individual within the client and the closeness of the relationship.

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Immediate Family of Audit Team Member

R522.3 An individual shall not participate as a member of the audit team when an immediate family member of that individual:

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- (a) Is a director or officer of the audit client;
- (b) Is 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; or
- (c) Was in any such position during any period covered by the engagement or the financial statements.

522.3 A1 Threats to independence are caused when an immediate family member of a member of the audit team is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows.

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The significance of the threats will depend on factors such as:

- The position held by the immediate family member; and
- The role of the professional on the audit team.

Examples of safeguards include:

- *Removing the individual 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 immediate family member.*

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Close Family of Audit Team Member

522.3 A2 Threats to independence are created when a close family member of a member of the audit team is:

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- (a) A director or officer of the audit client; or
- (b) An employee in a position to exert significant influence over the preparation of:
 - (i) The client's accounting records; or
 - (ii) The financial statements on which the firm will express an opinion.

The significance of the threats will depend on factors such as:

- The nature of the relationship between the member of the audit team and the close family member;
- The position held by the close family member; and
- The role of the professional on the audit team.

Examples of safeguards include:

- *Removing the individual 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 close family member.*

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Other Close Relationships of Audit Team Member

R522.4 A member of the audit team shall consult in accordance with firm policies and procedures if the member of the audit team has a close relationship with a an individual who is not an immediate or close family member, but who is:

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- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of:
 - (i) The client's accounting records; or
 - (ii) The financial statements on which the firm will express an opinion.

522.4 A1 The significance of the threats caused by a relationship contained in paragraph R522.4 will depend on factors such as:

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- 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.

Examples of safeguards 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 the professional has a close relationship.*

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R522.5 Partners and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

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- (a) A partner or employee of the firm who is not a member of the audit team; and
- (b) A director or 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.

522.5 A1 The existence and significance of any threat will depend on factors such as:

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

Examples of safeguards include:

- *Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement; or*
- *Having a professional accountant review the relevant audit work performed.*

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Subsection 523

Employment with an Audit Client

Introduction

523.1 An employment relationship between a former partner or employee of a firm and an audit client might create familiarity or intimidation threats. In particular, such threats might be caused if any of the following individuals have been a member of the audit team or partner of the firm:

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- A director or 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.

Subsection 523 contains requirements and application material on applying the conceptual framework to these employment relationships.

Requirements and Application Material

Conditions under which a former partner or former member of the audit team may be director, officer or employee

R523.3 (a) A firm shall not perform an audit engagement for an audit client if a former partner or a former member of the audit team joins the client as:

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- (i) A director or officer; or
- (ii) 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,

unless no significant connection remains between the firm and the individual.

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(b) To ensure that no such significant connection remains between, the following conditions shall be met:

- (i) The individual is not entitled to any benefits or payments from the firm that are not made in accordance with fixed pre-determined arrangements;
- (ii) Any amount owed to the individual is not material to the firm; and
- (iii) The individual does not continue to participate or appear to participate in the firm's business or professional activities.

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523.3 A1 The existence and significance of any familiarity or intimidation threats will depend on factors such as:

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- The position the individual has taken at the client;
- Any involvement the individual will have with the audit team;
- The length of time since the individual was a member of the audit team or partner of the firm; and
- The former position of the individual within the audit team or firm. An example includes whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

Examples of safeguards include:

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- Modifying the audit plan;
- Assigning individuals to the audit team who have sufficient experience in relation to the individual who has joined the client; or
- Having a professional accountant review the work of the former member of the audit team.

523.3 A2 The requirement to apply the conceptual framework also applies if, prior to an entity becoming a client of the firm, a former partner of the firm has joined the entity as

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(a) A director or officer; or

- (b) 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.

R523.4

A firm shall:

- (a) Have policies and procedures that require members of an audit team to notify the firm when entering employment negotiations with an audit client; and
- (b) On receiving such notification, apply the conceptual framework.

523.4 A1

A self-interest threat is created when a member of the audit team participates in the audit engagement while knowing that the member of the audit team will, or might, join the client at some time in the future.

Examples of safeguards include:

- Removing the individual from the audit team; or
- Reviewing any significant judgments made by that individual while on the team.

Audit Clients that are Public Interest Entities

Key audit partners

R523.5

If an individual who was a key audit partner joins an audit client of the firm that is a public interest entity as:

- A director or officer, 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 firm shall not perform an audit engagement for that client, unless subsequent to the partner ceasing to be a key audit partner:

- (a) The public interest entity has issued audited financial statements covering a period of not less than twelve months; and
- (b) The partner was not a member of the audit team with respect to the audit of those financial statements.

Chief executives of the firm

R523.6

If an individual who was the Senior or Managing Partner, or Chief Executive or equivalent joins an audit client that is a public interest entity as:

- (a) A director or officer; or
- (b) 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,

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the firm shall not perform an audit engagement for that client, unless twelve months have passed since the individual was the Senior or Managing Partner, or Chief Executive or equivalent of the firm.

R523.7 As an exception to paragraphs R523.5 and R523.6, a firm may perform an audit engagement if the circumstances contained in those paragraphs arise as a result of a business combination and:

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- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former partner from the firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm;
- (c) The former partner does not continue to participate or appear to participate in the firm's business or professional activities; and
- (d) The firm discusses the position held with the audit client by the former partner with those charged with governance.

Subsection 524

Temporary Personnel Assignments

Introduction

524.1 The loan of personnel by a firm to an audit client might cause a self-review threat. Subsection 524 contains requirements and application material on applying the conceptual framework to these loans of firm personnel to an audit client.

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Requirements and Application Material

524.2 A1 Examples of safeguards that might be available to address a threat created by the loan of personnel by a firm to an audit client include:

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- Conducting an additional review of the work performed by the loaned personnel;
- Not including the loaned personnel as a member of the audit team; or
- Not giving the loaned personnel audit responsibility for any function or activity that the personnel performed during the loaned personnel assignment.

R524.3 A firm shall not loan personnel to an audit client unless:

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- (a) Such assistance is provided only for a short period of time; and
- (b) The personnel are not involved in:
 - (i) Providing non-assurance services that would not be permitted under C1; or
 - (ii) Assuming management responsibilities; and

In all circumstances, the audit client is responsible for directing and supervising the activities of the loaned personnel.

Subsection 525

Recent Service with an Audit Client

Introduction

525.1 Self-interest, self-review or familiarity threats might be caused if a member of the audit team has recently served as a director, officer, or employee of the audit client. For example, a member of the audit team might have to evaluate elements of the financial statements when that individual prepared the relevant accounting records while with the client. Subsection 525 contains requirements and application material on applying the conceptual framework to these situations where audit team members have served with an audit client.

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Requirements and Application Material

R525.2 The audit team shall not include an individual who, during the period covered by the audit report:

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- (a) Had served as a director or officer of the audit client; or
- (b) Was 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.

525.2 A1 Self-interest, self-review or familiarity threats might be created if, before the period covered by the audit report, a member of the audit team:

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- (a) Had served as a director or officer of the audit client; or
- (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion.

For example, a threat would be caused if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current audit engagement

525.2 A2 The existence and significance of any threats will depend on factors such as:

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- The position the individual held with the client;
- The length of time since the individual left the client; and
- The role of the professional on the audit team.

An example of a safeguard is conducting a review of the work performed by the individual as a member of the audit team.

Commented [SS85]: Phase 2 SG

Subsection 526

Serving as a Director or Officer of an Audit Client

Commented [SS86]: NAS changes made here.

Introduction

526.1 Self-review and self-interest threats are created if a partner or employee of the firm serves as a director or officer of an audit client. Subsection 526 contains requirements and application

Commented [SS87]: 290.144

material on applying the conceptual framework to these situations where a partner or employee of the firm serves with an audit client.

Requirements and Application Material

R526.2 A partner or employee of the firm shall not serve as a director or officer of an audit client of the firm.

Commented [SS88]: 290.144

R526.3 A partner or employee of the firm shall not fulfill duties that are normally associated with the role of Company Secretary unless:

Commented [SS89]: 290.146

- (a) Such practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all relevant decisions;
- (c) The duties and activities are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

526.3 A1 Performing routine administrative services to support a company secretarial function or providing advice in relation to company secretarial administration matters does not generally cause threats to independence, as long as client management makes all relevant decisions.

Commented [SS90]: 290.147

526.3 A2 The position of Company Secretary has different implications in different jurisdictions. Duties might include:

Commented [SS91]: 290.145

- (a) Administrative duties, such as personnel management and the maintenance of company records and registers; or
- (b) Ensuring that the company complies with regulations or providing advice on corporate governance matters.

Generally, this position is seen to imply a close association with the entity.

Section 600

Provision of Non-assurance Services to an Audit Client

Scope of this Section

600.1 Providing non-assurance services to audit clients might cause self-review, self-interest and advocacy threats to compliance with the fundamental principles and the independence of a professional accountant. Sections 601 to 699 contain requirements and application material on applying the conceptual framework to the provision of particular non-assurance services to audit clients. However, new developments in business, the evolution of financial markets and changes in information technology make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit client.

Commented [SS92]: 290.154

Commented [SS93]: 290.156

Requirements and Application Material

R600.2 A professional accountant shall apply the conceptual framework contained in Section 120 and paragraph R400.7 in relation to providing non-assurance services.

Commented [SS94]: 290.155

600.2 A1 In applying the conceptual framework to evaluate any threat caused by providing a non-assurance service, it is necessary for the firm to also consider any threat that the audit team has reason to believe is caused by providing other related non-assurance services.

Commented [EH95]: 290.155

R600.3 A firm or network firm may provide non-assurance services that would otherwise be restricted by Subsections 601 to 699 to the following related entities of the audit client:

Commented [SS96]: 290.157

(a) An entity, which is not an audit client, that has direct or indirect control over the audit client;

(b) An entity, which is not an audit client, that has a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or

(c) An entity, which is not an audit client, that is under common control with the audit client, if it is reasonable to conclude that: the services do not cause a self-review threat because the results of the services will not be subject to audit procedures; and the firm or network firm applies safeguards to eliminate or reduce any threats that are caused to an acceptable level.

R600.4 If a firm or network firm provides a non-assurance service to an audit client that later becomes a public interest entity, the independence of the firm or network firm is not compromised if:

Commented [SS97]: 290.158

(a) The previous non-assurance service complies with the provisions of Sections 601 to 699 that relate to audit clients that are not public interest entities;

(b) Services that are not permitted under Sections 601 to 699 for audit clients that are public interest entities are terminated before, or as soon as practicable after, the client becomes a public interest entity; and

(c) The firm applies safeguards to eliminate or reduce any threats that are caused to an acceptable level.

Subsection 601

Management Responsibilities

Introduction

601.1 Providing a non-assurance service to an audit client might cause self-review and self-interest threats if the firm assumes a management responsibility. An example might be deciding which recommendations of the firm to implement. Assuming a management responsibility also causes a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Subsection 601 contains requirements and application material on applying the conceptual framework to providing non-assurance services that might result in the firm assuming a management responsibility for an audit client.

Commented [SS98]: 290.161 (new NAS)

Commented [SS99]: 290.161 (new NAS)

Requirements and Application Material

R601.2 A firm or network firm shall not assume a management responsibility for an audit client.

Commented [SS100]: 290.161 (new NAS)

R601.3 When providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

Commented [SS101]: 290.162 (new NAS)

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the services; and
- (ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

- (b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

601.3 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

Commented [SS102]: 290.159 (new NAS)

601.3 A2 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered a management responsibility include:

Commented [SS103]: 290.160 (new NAS)

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions
- Controlling or managing of bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility:
 - For the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework;
 - For designing, implementing, monitoring and maintaining internal control.

However, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

Commented [SS104]: 290.161 (new NAS)

Subsection 602

Administrative Services

Introduction

602.1 Providing administrative services to an audit client causes a threat to independence if the firm assumes a management responsibility. Subsection 602 contains application material on applying the conceptual framework to providing administrative services.

Application Material

602.2 A1 Assisting clients with their routine or mechanical tasks within the normal course of operations requires little or no professional judgment and involves services that are clerical in nature. Examples of administrative services include:

- (a) Word processing services;
- (b) Preparing administrative or statutory forms for client approval;
- (c) Submitting such forms as instructed by the client;
- (d) Monitoring statutory filing dates, and advising an audit client of those dates.

Such services do not, generally, cause threats to independence provided the firm does not assume a management responsibility for the client.

Commented [SS105]: 290.163 (new NAS)

Subsection 603

Preparing Accounting Records and Financial Statements

Introduction

603.1 Providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements, causes a self-review threat when the firm subsequently audits the financial statements. Subsection 603 contains requirements and application material on applying the conceptual framework to preparing accounting records or financial statements for an audit client.

Commented [SS106]: 290.165 (new NAS)

Requirements and Application Material

603.2 A1 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Determining accounting policies and the accounting treatment within those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
 - Purchase orders;
 - Payroll time records; and
 - Customer orders.
- Originating or changing journal entries, or determining the account classifications of transactions.

Commented [SS107]: 290.164 (new NAS)

603.2 A2 The audit process, however, necessitates dialogue between the firm and management of the audit client, which might involve:

- Applying accounting standards or policies and financial statement disclosure requirements;
- Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; or

Commented [SS108]: 290.166 (new NAS)

- Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit process and do not, generally, cause threats to independence so long as the client is responsible for making decisions in the preparation of accounting records and financial statements.

- 603.2 A3 Similarly, the client might request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:
- Complying with group accounting policies; or
 - Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not, generally, cause threats to independence provided the firm does not assume a management responsibility for the client.

Audit clients that are not public interest entities

- R603.3** A firm or network firm shall not provide to an audit client that is not a public interest entity services related to preparing accounting records and financial statements unless:

- (a) The services are of a routine or mechanical nature; and
- (b) Any self-review threat caused is reduced to an acceptable level.

- 603.3 A1 Services that are routine or mechanical in nature require little or no professional judgment from the professional accountant. Some examples of these services are:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client;
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification;
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

Examples of safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the audit team; or
- If such services are performed by a member of the audit team, using a partner or senior personnel with appropriate expertise who is not a member of the audit team to review the work performed.

Commented [SS109]: 290.167 (new NAS)

Commented [SS110]: 290.168 (new NAS)

Commented [SS111]: 290.168 (new NAS)

Commented [EH112]: Examples of safeguards

Audit clients that are public interest entities

R603.4 A firm or network firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

Commented [SS113]: 290.169 (Emergency exception deleted by NAS)

R603.5 As an exception to paragraph R603.4, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not members of the audit team and:

Commented [SS114]: 290.170 (new NAS)

- (a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or
- (b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

Subsection 604

Commented [SS115]: Extant 290.171 (Deleted by NAS)

Valuation Services

Introduction

604.1 Providing valuation services to an audit client might cause a self-review threat. Subsection 604 contains requirements and application material on applying the conceptual framework to providing valuation services to an audit client.

Commented [SS116]: 290.173

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

Commented [SS117]: 290.172

Requirements and Application Material

604.3 A2 The existence and significance of any threat depends on factors such as:

Commented [SS118]: 290.173

- Whether the valuation will have a material effect on the financial statements.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The availability of established methodologies and professional guidelines.
- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- The reliability and extent of the underlying data.
- The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.
- The extent and clarity of the disclosures in the financial statements.

Examples of safeguards include:

Commented [EH119]: Examples of safeguards

- Having a professional who was not involved in providing the valuation service review the audit or valuation work performed; or
- Making arrangements so that personnel providing such services do not participate in the audit engagement.

604.3 A3 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case where the underlying assumptions are either established 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.

Commented [SS120]: 290.174

604.3 A4 If a firm or network firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the provisions contained in paragraph 605.8, relating to such services apply.

Commented [SS121]: 290.175

Audit clients that are not public interest entities

R604.4 A firm or network firm shall not provide a valuation service to an audit client that not a public interest entity if:

Commented [SS122]: 290.176

- The valuation service has a material effect on the financial statements on which the firm will express an opinion; and
- The valuation involves a significant degree of subjectivity.

Audit clients that are public interest entities

R604.5 A firm or a network firm shall not provide valuation services to an audit client that is a public interest entity if the valuation services would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.

Commented [SS123]: 290.177

Subsection 605

Taxation Services

Introduction

605.1 Providing taxation services to an audit client might cause a self-review or advocacy threat. Subsection 605 contains requirements and application material on applying the conceptual framework to providing taxation services to an audit client.

Commented [SS124]: 290.179

605.2 Taxation services comprise a broad range of services, including:

Commented [SS125]: 290.178

- Tax return preparation;
- Tax calculations for the purpose of preparing the accounting entries;
- Tax planning and other tax advisory services; and
- Assistance in the resolution of tax disputes.

While taxation services provided by a firm to an audit client are addressed separately under each of these broad headings, in practice, these activities are often interrelated

Requirements and Application Material

605.3 A2 The existence and significance of any threats caused when performing certain taxation services will depend on factors such as:

- The system by which the tax authorities assess and administer the tax in question and the role of the firm in that process;
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it;
- The particular characteristics of the engagement; and
- The level of tax expertise of the client's employees.

Tax Return Preparation

605.4 A1 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 additional information and analysis (for example, including providing explanations of and technical support for the approach being taken). Tax return preparation services are generally based on historical information and principally involve analysis and presentation of such historical information under 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, providing such services does not generally create a threat to independence if management takes responsibility for the returns including any significant judgments made.

Commented [SS126]: 290.180

Tax Calculations for the Purpose of Preparing Accounting Entries

Audit clients that are not public interest entities

605.5 A1 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm causes a self-review threat.

Commented [SS127]: 290.181

605.5 A2 The significance of any threat will depend on:

- The complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them;
- The level of tax expertise of the client's personnel; and
- The materiality of the amounts to the financial statements.

Commented [SS128]: 290.181

Examples of safeguards include:

- Using professionals who are not members of the audit team to perform the service;
- If the service is performed by a member of the audit team, using a partner or senior personnel with appropriate expertise who is not a member of the audit team to review the tax calculations; or

Commented [EH129]: Examples of safeguards

- *Obtaining advice on the service from an external tax professional.*

Audit clients that are public interest entities

R605.6 A firm or network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

Commented [SS130]: Extant 290.183 emergency exception deleted by NAS

Tax Planning and Other Tax Advisory Services

R605.7 A firm or network firm shall not provide taxation advisory services to an audit client where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

Commented [SS131]: 290.187

- (a) The audit team has 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 on which the firm will express an opinion.

605.7 A1 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

Commented [SS132]: 290.184

605.7 A2 A self-review threat might be caused where the advice will affect matters to be reflected in the financial statements. The existence and significance of any threat will depend on factors such as:

Commented [SS133]: 290.185

- 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;
- 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;
- The level of tax expertise of the client's employees;
- The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, established practice, or has a basis in tax law that is likely to prevail does not generally cause a threat to independence.

605.7 A3 *Examples of safeguards include:*

- *Using professionals who are not members of the audit team to perform the service;*
- *Having a tax professional, who was not involved in providing the tax service, advise the audit team on the service and review the financial statement treatment;*
- *Obtaining advice on the service from an external tax professional; or*
- *Obtaining pre-clearance or advice from the tax authorities.*

Commented [SS134]: 290.186

Commented [EH135]: Examples of safeguards

Tax Services Involving Valuations

605.8 A1 If a firm or network firm performs a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements, the provisions contained in Subsection 604 relating to valuation services apply.

605.8 A2 A valuation might be performed for tax purposes only where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not generally cause threats to independence if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

Commented [SS136]: 290.188

605.8 A3 If the valuation is not subject to such an external review and the effect is material to the financial statements, the existence and significance of any threat caused will depend upon factors such as:

Commented [SS137]: 290.188

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice;
- The degree of subjectivity inherent in the valuation; and
- The reliability and extent of the underlying data.

Examples of safeguards include:

Commented [EH138]: Examples of safeguards

- *Using professionals who are not members of the audit team to perform the service;*
- *Having a professional review the audit work or the result of the tax service; or*
- *Obtaining pre-clearance or advice from the tax authorities.*

Assistance in the Resolution of Tax Disputes

R605.9 A firm or network firm shall not provide taxation services to an audit client if:

- (a) The taxation services involve acting as an advocate for the audit client before a public tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion.

Commented [SS139]: 290.190

605.9 A1 Paragraph R605.9 does not preclude a firm or network firm from having a continuing advisory role. For example:

Commented [SS140]: 290.191

- (a) Responding to specific requests for information;

- (b) Providing factual accounts or testimony about the work performed; or
- (c) Assisting the client in analyzing the tax issues) for the audit client in relation to the matter that is being heard before a public tribunal or court.

605.9 A2 What constitutes a “public tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

605.9 A3 A tax dispute arises when the tax authorities have notified an audit client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example before a tribunal or court. An advocacy or self-review threat might be caused when the firm or a network firm represents an audit client in the resolution of such a tax dispute.

The existence and significance of any threat will depend on factors such as:

- Whether the firm has provided the advice which is the subject of the tax dispute;
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion;
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice;
- Whether the proceedings are conducted in public; and
- The role management plays in the resolution of the dispute.

Examples of safeguards include:

- *Using professionals who are not members of the audit team to perform the service;*
- *Having a tax professional, who was not involved in providing the tax service, advise the audit team on the services and review the financial statement treatment; or*
- *Obtaining advice on the service from an external tax professional.*

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Commented [EH142]: Examples of safeguards

Subsection 606

Internal Audit Services

Introduction

606.1 Providing internal audit services for an audit client might cause a self-review threat. Subsection 606 contains requirements and application material on applying the conceptual framework to providing internal audit services to an audit client.

Commented [SS143]: 290.193

Requirements and Application Material

606.2 A1 Internal audit services involve assisting the audit client in the performance of its internal audit activities. The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them;

Commented [SS144]: 290.193

Commented [SS145]: 290.192

- Examining financial and operating information by:
 - Reviewing the means used to identify, measure, classify and report financial and operating information; and
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures;
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and
- Reviewing compliance with:
 - Laws, regulations and other external requirements, and
 - Management policies and directives and other internal requirements.

R606.3 A firm or network firm shall not provide an internal audit service to an audit client unless, in providing the service, personnel of the firm or network firm do not assume a management responsibility and the firm is satisfied that:

- (a) The client designates an appropriate and competent resource, preferably within senior management, to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, and maintaining internal control;
- (b) The client's management or those charged with governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

606.3 A1 The provision of internal audit services to an audit client causes a self-review threat to independence if the firm uses the internal audit work in the course of a subsequent external audit. Performing a significant part of the client's internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility.

606.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities;
- Directing and taking responsibility for the actions of the entity's internal audit employees;
- Deciding which recommendations resulting from internal audit activities to implement;

Commented [SS146]: 290.193

Commented [SS147]: 290.195

Commented [SS148]: 290.193

Commented [SS149]: 290.194

- Reporting the results of the internal audit activities to those charged with governance on behalf of management;
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;
- Taking responsibility for designing, implementing and maintaining internal control; and
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm:
 - Is responsible for determining the scope of the internal audit work; and
 - Might have responsibility for one or more of the matters noted above.

606.3 A3 When a firm uses the work of an internal audit function, International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm or network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This causes a self-review threat because it is possible that the audit team will use the results of the internal audit service without:

- Appropriately evaluating those results; or
- Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

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

- The materiality of the related financial statement amounts;
- The risk of misstatement of the assertions related to those financial statement amounts; and
- The degree of reliance that will be placed on the internal audit service.

An example of a safeguard is using professionals who are not members of the audit team to perform the internal audit service.

Commented [SS150]: 290.196

Commented [SS151]: Phase 2 Safeguards Task Force

Audit clients that are public interest entities

R606.4 A firm or network firm shall not provide internal audit services to an audit client that is a public interest entity, if the services relate to:

- (a) A significant part of the internal controls over financial reporting;
- (b) Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client's accounting records or financial statements on which the firm will express an opinion; or
- (c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.

Commented [SS152]: 290.197

Subsection 607

Information Technology Systems Services

Introduction

607.1 Performing information technology (IT) systems services for an audit client might cause a self-review threat. Subsection 607 contains requirements and application material on applying the conceptual framework to providing IT system services to an audit client.

Commented [SS153]: 290.198

607.2 Services related to IT systems include the design or implementation of hardware or software systems. The systems might:

Commented [SS154]: 290.198

- (a) Aggregate source data;
- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements.

However, the systems might involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements. Providing systems services might cause a self-review threat depending on the nature of the services and the IT systems.

Requirements and Application Material

607.3 A1 The following IT systems services do not cause a threat to independence as long as the firm's personnel do not assume a management responsibility:

Commented [SS155]: 290.199

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;
- (c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm, if the customization required to meet the client's needs is not significant; and
- (d) 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 public interest entities

R607.4 A firm or network firm shall not provide an IT systems service to an audit client that is not a public interest entity if the service involves the design or implementation of IT systems that:

Commented [SS156]: 290.200

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion,

unless appropriate safeguards are put in place ensuring that:

Commented [SS157]: 290.201

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

- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

R607.5 If a firm determines that it is permitted by paragraph R607.4 to provide an IT systems service, the firm shall determine whether to provide that service only with personnel who are not members of the audit team and who have different reporting lines within the firm.

Commented [SS158]: 290.202

607.5 A1 The determination to be made in paragraph R607.5 depends on the degree of reliance that will be placed on the particular IT systems as part of the audit. It might be necessary for the firm to apply safeguards to eliminate any remaining threat or reduce it to an acceptable level. An example of such a safeguard is having a professional accountant review the audit or non-assurance work.

Commented [SS159]: 290.202

Audit clients that are public interest entities

R607.6 A firm or network firm shall not provide IT systems services to an audit client that is a public interest entity if the services involve designing or implementing IT systems that:

Commented [SS160]: 290.203

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

Subsection 608

Litigation Support Services

Introduction

608.1 Providing litigation support services to an audit client might cause a self-review or advocacy threat. Subsection 608 contains requirements and application material on applying the conceptual framework to providing litigation support services to an audit client.

Commented [SS161]: 290.204

608.2 Litigation support services might include activities such as:

Commented [SS162]: 290.204

- 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
- Assisting with document management and retrieval.

Application Material

608.3 A1 If the firm or a network firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the provisions contained in Subsection 604 related to valuation service apply.

Commented [SS163]: 290.205

Subsection 609

Legal Services

Introduction

609.1 Providing legal support services to an audit client might cause a self-review or advocacy threat. Subsection 609 contains requirements and application material on applying the conceptual framework to providing legal services to an audit client.

Commented [SS164]: 290.206

609.2 For the purpose of this section, legal services are defined as any services for which the individual providing the services must either: (a) be admitted to practice law before the courts of the jurisdiction in which such services are to be provided; or (b) have the required legal training to practice law. Depending on the jurisdiction legal services might include a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition legal advice and support and assistance to clients' internal legal departments. Providing legal services to an entity that is an audit client might cause both self-review and advocacy threats

Commented [SS165]: 290.206

Requirements and Application Material

609.3 A1 Legal services that support an audit client in executing a transaction might cause self-review threats. An example of such a legal service might be, contract support, legal advice, legal due diligence and restructuring. The existence and significance of any threat will depend on factors such as:

Commented [SS166]: 290.207

- The nature of the service;
- 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.

Examples of safeguards include:

Commented [EH167]: Examples of safeguards

- *Using professionals who are not members of the audit team to perform the service; or*
- *Having a professional who was not involved in providing the legal services provide advice to the audit team on the service and review any financial statement treatment.*

R609.4 A firm or network firm shall not act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion.

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609.4 A1 Acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are not material to the financial statements on which the firm will express an opinion might cause advocacy and self-review threats.

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Examples of safeguards include:

- Using professionals who are not members of the audit team to perform the service; or
- Having a professional who was not involved in providing the legal services advise the audit team on the service and review any financial statement treatment.

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R609.5 A partner or employee of the firm or network firm shall not accept an appointment as General Counsel for legal affairs of an audit client.

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609.5 A1 The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company.

Commented [SS173]: 290.210

Subsection 610

Recruiting Services

Introduction

610.1 Providing recruiting services to an audit client might cause a self-interest, familiarity or intimidation threat. Subsection 610 contains requirements and application material on applying the conceptual framework to providing recruiting services to an audit client.

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Requirements and Application Material

R610.2 When providing recruiting services to an audit client, the firm or network firm shall not assume management responsibilities, including acting as a negotiator on the client's behalf, and the hiring decision shall be made by the client.

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610.2 A1 The existence and significance of any threat caused when providing recruiting services to an audit client will depend on factors such as:

Commented [SS176]: 290.211

- The nature of the requested assistance; and
- The role of the individual to be recruited.

The firm or network firm may generally provide such services as reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the post. In addition, the firm or network firm may interview candidates and advise on a candidate's competence for financial accounting, administrative or control positions.

Audit clients that are public interest entities

R610.3 A firm or network firm shall not provide a recruiting service to an audit client that is a public interest entity with respect to a director or officer of the entity or senior management 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; if the service involves:

Commented [SS177]: 290.212

- (a) Searching for or seeking out candidates for such positions; and
- (b) Undertaking reference checks of prospective candidates for such positions.

Subsection 611

Corporate Finance Services

Introduction

611.1 Providing corporate finance services to an audit client might cause an advocacy or self-review threat. Subsection 611 contains requirements and application material on applying the conceptual framework to providing corporate finance services to an audit client.

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Requirements and Application Material

611.2 A1 Examples of corporate finance services that might cause a threat to independence include:

Commented [SS179]: 290.213

- Assisting an audit client in developing corporate strategies;
- Identifying possible targets for the audit client to acquire;
- Advising on disposal transactions;
- Assisting finance raising transactions; and
- Providing structuring advice.

Examples of safeguards include:

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- Using professionals who are not members of the audit team to provide the services; or
- Having a professional who was not involved in providing the corporate finance service advise the audit team on the service and review the accounting treatment and any financial statement treatment.

611.2 A2 Providing a corporate finance service, for example advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will provide an opinion, might cause a self-review threat. The existence and significance of any threat will depend on factors such as:

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- 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 amounts are material to the financial statements; and
- 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.

Examples of safeguards include:

Commented [EH182]: Examples of safeguards

- Using professionals who are not members of the audit team to perform the service; or

- *Having a professional who was not involved in providing the corporate finance service to the client advise the audit team on the service and review the accounting treatment and any financial statement treatment.*

R611.3 A firm or network firm shall not provide corporate finance advice to an audit client where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:

- (a) The audit team has 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 on which the firm will express an opinion.

R611.4 A firm or network firm shall not provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting the audit client's shares.

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Commented [SS184]: 290.216

Structure of the Code — Definitions

GLOSSARY¹

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

Commented [EH185]: Unless otherwise specified all material in the Glossary is from the extant definitions section of the Code.

Acceptable level A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

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.

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;

¹ In this Glossary; defined terms are shown in regular font; italics are used for terms which have a specific meaning in certain Parts of this Code or for additional explanations of defined terms; references are also provided to terms described in the Code.

- (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.

Audit

In C1 The term "audit" includes review.

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Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes 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 also includes that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.

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Audit engagement

A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects,), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

In C1 "audit engagement" includes review engagement.

Audit report

In C1 "audit report" includes review report.

Commented [EH188]: 290.3

Audit team

- (a) All members of the engagement team for the audit engagement;
- (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 to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
 - (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.

In C1 "audit team" includes review team.

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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 of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Direct financial interest	<p>A financial interest:</p> <p>(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</p> <p>(b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.</p>
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which may vary from jurisdiction to jurisdiction.
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 Period	<p>The engagement period starts when the audit team begins to perform audit services. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has terminated or the issuance of the final audit report.</p>
Engagement quality control review	A process designed to provide an objective evaluation, on or before the report is issued, of the significant judgments the engagement team made and the conclusions it reached in formulating the report.
Engagement team	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.

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The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*.²

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.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.
Financial interest	An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.
Financial statements	A structured representation of historical financial information, including related notes, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
Financial statements on which the firm will express an opinion	In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.
Firm	<ul style="list-style-type: none"> (a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties, through ownership, management or other means; and (c) An entity controlled by such parties, through ownership, management or other means.

² ISA 610 (Revised 2013) establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.
Independence	<p>Independence is:</p> <ul style="list-style-type: none">(a) 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.(b) 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 a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional skepticism has been compromised.
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 or ability to influence investment decisions.
Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" may include, for example, audit partners responsible for significant subsidiaries or divisions.
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> <ul style="list-style-type: none">(a) That is aimed at co-operation; and(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	<p>An individual who is a member of an IFAC member body.</p> <p><i>In Part A and Part C, C1 and C2 the term "professional accountant" refers to professional accountants in public practice and firms of accountants in practice.</i></p> <p><i>In Part B the term "professional accountant" refers to professional accountants in business.</i></p>
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 (for example, 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 activity	An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting, and financial management.
Professional services	Professional activities performed for clients.
Public interest entity	<p>(a) A listed entity; and</p> <p>(b) An entity:</p> <ul style="list-style-type: none"> (i) Defined by regulation or legislation as a public interest entity; or (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator. <p><i>Firms and member bodies are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:</i></p> <ul style="list-style-type: none"> • <i>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;</i> • <i>Size; and</i> • <i>Number of employees.</i>

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Related entity	<p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client if the client is material to such entity; (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; (c) An entity over which the client has direct or indirect control; (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 (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.
Review client	An entity in respect of which a firm conducts a review engagement.
Review engagement	An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a professional accountant in public practice expresses 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 financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
Review team	<ul style="list-style-type: none"> (a) All members of the engagement team for the review engagement; and (b) All others within a firm who can directly influence the outcome of the review engagement, including: <ul style="list-style-type: none"> (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 to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent); (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 review engagement.

Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.
Those charged with governance	The person(s) or organization(s) (for example, a corporate trustee) 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. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

References to terms described in the Code

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Term	Reference to where the described term is explained	
Conceptual framework		Section 120.XXX AX
Fundamental Principles	Integrity	R100.1
	Objectivity	R100.1
	Professional Competence	R100.1
	Confidentiality	R100.1
	Professional Behavior	R100.1
Reasonable and Informed Third Party		120.XXX AX
Safeguards		
Threats	Self Interest	120.XXX AX

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IESBA Meeting (September 2015)

Self-review	120.XXX AX
Advocacy	120.XXX AX
Familiarity	120.XXX AX
Intimidation	120.XXX AX