

## Section 290 – Independence\* – Audit and Review Engagements

### Introduction

- 290.0a** *In accordance with UK legislation, ICAEW has adopted, as regards auditor independence\* requirements, the Ethical Standards for Auditors, issued by the Auditing Practices Board ('APB'). Therefore, when conducting audit engagements\* in accordance with ISAs (UK and Ireland), professional accountants\* shall comply with the requirements of the APB's Ethical Standards for Auditors, including Provisions Available for Small Entities (ES-PASE) (<https://frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Ethical-standards-for-auditors.aspx>). For other audit and assurance engagements\* ICAEW's Code may apply (see 290.0c below).*
- 290.0b** *The APB has stated, in ISA (UK and Ireland) 200, that it is not aware of any significant instances where the relevant parts of the IESBA Code of Ethics are more restrictive than the APB's Ethical Standards.*
- 290.0c** *The independence\* requirements to be adopted for different types of assurance engagement\*, are set out below:*

<b>Type of assurance engagement*</b>	<b>Independence* requirements to be followed</b>
<i>Audit engagements* in accordance with ISAs (UK and Ireland)</i>	<i>The APB's Ethical Standards for Auditors (<a href="https://frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Ethical-standards-for-auditors.aspx">https://frc.org.uk/Our-Work/Codes-Standards/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Ethical-standards-for-auditors.aspx</a>)</i>
<i>Audit engagements* performed in accordance with other standards</i>	<i>Section 290 of this Code or if more convenient to apply, the independence* requirements of the APB's Ethical Standards for Auditors.</i>
<i>Review engagements* (see appendix to section 290)</i>	<i>Section 290 of this Code or if more convenient to apply, the independence* requirements of the APB's Ethical Standards for Auditors.</i>
<i>Other types of assurance engagements*</i>	<i>Section 291 of this Code.</i>

- 290.0d** *Note that the Statements of Investment Circular Reporting Standards (SIRS), issued by the APB require compliance with the APB's Ethical Standard for Reporting Accountants (ESRA). Accordingly, any professional accountant in public practice\* issuing a report that states that the work has been carried out in accordance with the SIRS will need to comply with the independence\* requirements of the ESRA.*

\*See definitions for parts A, B and C

## Structure of Section

- 290.1** This section addresses the independence\* requirements for audit engagements\* and review engagements\*, which are assurance engagements\* in which a professional accountant in public practice\* expresses a conclusion on financial statements\*. Such engagements comprise audit and review engagements\* to report on a complete set of financial statements\* and a single financial statement\*. Independence\* requirements for assurance engagements\* that are not audit or review engagements\* are addressed in section 291.
- 290.2** In certain circumstances involving audit engagements\* where the audit report includes a restriction on use and distribution and provided certain conditions are met, the independence\* requirements in this section may be modified as provided in paragraphs 290.500 to 290.514. The modifications are not permitted in the case of an audit of financial statements\* required by law or regulation.
- 290.3** In this section, the term(s):
- “Audit,” “audit team\*,” “audit engagement\*,” “audit client\*” and “audit report” includes review, review team\*, review engagement\*, review client\* and review report; and
  - “Firm\*” includes network firm\*, except where otherwise stated.

## A Conceptual Framework Approach to independence\*

- 290.4** In the case of audit engagements\*, it is in the public interest and, therefore, required by this Code of Ethics, that members of audit teams\*, firms and network firms\* shall be independent of audit clients\*.
- 290.5** The objective of this section is to assist firms and members of audit teams\* in applying the conceptual framework approach described below to achieving and maintaining independence\*.
- 290.6** Independence\* comprises:
- (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 scepticism.
- (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 team’s\*, integrity, objectivity or professional scepticism has been compromised.
- 290.7** The conceptual framework approach shall be applied by professional accountants\* to:
- (a) Identify threats to independence\*;
- (b) Evaluate the significance of the threats identified; and

\*See definitions for parts A, B and C

- (c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level\*.

When the professional accountant\* determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level\*, the professional accountant\* shall eliminate the circumstance or relationship creating the threats or decline or terminate the audit engagement\*. A professional accountant\* shall use professional judgment in applying this conceptual framework.

- 290.8** Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence\*. It is impossible to define every situation that creates threats to independence\* and to specify the appropriate action. Therefore, this Code establishes a conceptual framework that requires firms and members of audit teams\* to identify, evaluate, and address threats to independence\*. The conceptual framework approach assists professional accountants\* in practice in complying with the ethical requirements in this Code. It accommodates many variations in circumstances that create threats to independence\* and can deter a professional accountant\* from concluding that a situation is permitted if it is not specifically prohibited.
- 290.9** Paragraphs 290.100 and onwards describe how the conceptual framework approach to independence\* is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to independence\*.
- 290.10** In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the audit team\*, a firm\* shall identify and evaluate threats to independence\*. If the threats are not at an acceptable level\*, and the decision is whether to accept an engagement or include a particular individual on the audit team\*, the firm\* shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level\*. If the decision is whether to continue an engagement, the firm\* shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level\* or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence\* comes to the attention of the firm\* during the engagement, the firm\* shall evaluate the significance of the threat in accordance with the conceptual framework approach.
- 290.11** Throughout this section, reference is made to the significance of threats to independence\*. In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account.
- 290.12** This section does not, in most cases, prescribe the specific responsibility of individuals within the firm\* for actions related to independence\* because responsibility may differ depending on the size, structure and organisation of a firm\*. The firm\* is required by International Standards on Quality Control to establish policies and procedures designed to provide it with reasonable assurance that independence\* is maintained when required by relevant ethical requirements. In addition, International Standards on Auditing require the engagement partner\* to form a conclusion on compliance with the independence\* requirements that apply to the engagement.

\*See definitions for parts A, B and C

## **Networks\* and Network firms\***

- 290.13** If a firm\* is deemed to be a network firm\*, the firm\* shall be independent of the audit clients\* of the other firms within the network\* (unless otherwise stated in this Code). The independence\* requirements in this section that apply to a network firm\* apply to any entity, such as a consulting practice or professional law practice, that meets the definition of a network firm\* irrespective of whether the entity itself meets the definition of a firm\*.
- 290.14** To enhance their ability to provide professional services\*, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network\* depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network\*. Alternatively, a larger structure might be such that it is aimed at co-operation and the firms share a common brand name, a common system of quality control, or significant professional resources and consequently is deemed to be a network\*.
- 290.15** The judgment as to whether the larger structure is a network\* shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network\* exists. This judgment shall be applied consistently throughout the network\*.
- 290.16** Where the larger structure is aimed at co-operation and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network\*. However, the sharing of immaterial costs does not in itself create a network\*. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network\*. Further, an association between a firm\* and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network\*.
- 290.17** Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network\*. This could be achieved by contract or other means.
- 290.18** Where the larger structure is aimed at co-operation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network\*. For this purpose, common quality control policies and procedures are those designed, implemented and monitored across the larger structure.
- 290.19** Where the larger structure is aimed at co-operation and the entities within the structure share a common business strategy, it is deemed to be a network\*. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not deemed to be a network firm\* merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service\*.
- 290.20** Where the larger structure is aimed at co-operation and the entities within the structure share the use of a common brand name, it is deemed to be a network\*. A common brand name includes common initials or a common name. A firm\* is deemed to be using a common brand name if it includes, for example, the common

\*See definitions for parts A, B and C

brand name as part of, or along with, its firm\* name, when a partner\* of the firm\* signs an audit report.

**290.21** Even though a firm\* does not belong to a network\* and does not use a common brand name as part of its firm\* name, it may give the appearance that it belongs to a network\* if it makes reference in its stationery or promotional materials to being a member of an association of firms. Accordingly, if care is not taken in how a firm\* describes such memberships, a perception may be created that the firm\* belongs to a network\*.

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

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

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

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

#### **Public interest entities\***

**290.25** Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities\* are:

- (a) All listed entities\*; and
- (b) Any entity:

\*See definitions for parts A, B and C

- (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.

**290.26** Firms 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:

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

### **Related Entities**

**290.27** In the case of an audit client\* that is a listed entity\*, references to an audit client\* in this section include related entities of the client (unless otherwise stated). For all other audit clients\*, references to an audit client\* in this section include 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 another related entity\* of the client is relevant to the evaluation of the firm's\* independence\* from the client, the audit team\* shall include that related entity\* when identifying and evaluating threats to independence\* and applying appropriate safeguards.

### **Those charged with governance\***

**290.28** Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm\* and those charged with governance\* of the audit client\* regarding relationships and other matters that might, in the firm's\* opinion, reasonably bear on independence\*. Such communication enables those charged with governance\* to:

- (a) consider the firm's\* judgments in identifying and evaluating threats to independence\*,
- (b) consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level\*, and
- (c) take appropriate action. Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

### **Documentation**

**290.29** Documentation provides evidence of the professional accountant's\* judgments in forming conclusions regarding compliance with independence\* requirements. The absence of documentation is not a determinant of whether a firm\* considered a particular matter nor whether it is independent.

\*See definitions for parts A, B and C

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

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

### **Engagement Period**

**290.30** Independence\* from the audit client\* is required both during the engagement period and the period covered by the financial statements\*. 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.

**290.31** When an entity becomes an audit client\* during or after the period covered by the financial statements on which the firm will express an opinion\*, the firm\* shall determine whether any threats to independence\* are created by:

- Financial or business relationships with the audit client\* during or after the period covered by the financial statements\* but before accepting the audit engagement\*; or
- Previous services provided to the audit client\*.

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

- Not including personnel who provided the non-assurance service as members of the audit team\*;
- Having a professional accountant\* review the audit and non-assurance work as appropriate; or
- Engaging another firm\* to evaluate the results of the non-assurance service or having another firm\* re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

\*See definitions for parts A, B and C

## Mergers and Acquisitions

**290.33** When, as a result of a merger or acquisition, an entity becomes a related entity\* of an audit client\*, the firm\* shall identify and evaluate previous and current interests and relationships with the related entity\* that, taking into account available safeguards, could affect its independence\* and therefore its ability to continue the audit engagement\* after the effective date of the merger or acquisition.

**290.34** The firm\* shall take steps necessary to terminate, by the effective date of the merger or acquisition, any current interests or relationships that are not permitted under this Code. However, if such a current interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition, for example, because the related entity\* is unable by the effective date to effect an orderly transition to another service provider of a non-assurance service provided by the firm\*, the firm\* shall evaluate the threat that is created by such interest or relationship. The more significant the threat, the more likely the firm's\* objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat will depend upon factors such as:

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

The firm\* shall discuss with those charged with governance\* the reasons why the interest or relationship cannot reasonably be terminated by the effective date of the merger or acquisition and the evaluation of the significance of the threat.

**290.35** If those charged with governance\* request the firm\* to continue as auditor, the firm\* shall do so only if:

- (a) the interest or relationship will be terminated as soon as reasonably possible and in all cases within six months of the effective date of the merger or acquisition;
- (b) any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted under this section, will not be a member of the engagement team\* for the audit or the individual responsible for the engagement quality control review\*; and
- (c) appropriate transitional measures will be applied, as necessary, and discussed with those charged with governance\*. Examples of transitional measures include:
  - Having a professional accountant\* review the audit or non-assurance work as appropriate;
  - Having a professional accountant\*, who is not a member of the firm\* expressing the opinion on the financial statements\*, perform a review that is equivalent to an engagement quality control review\*; or

\*See definitions for parts A, B and C



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

**290.36** The firm\* may have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and may be able to complete the remaining audit procedures within a short period of time. In such circumstances, if those charged with governance\* request the firm\* to complete the audit while continuing with an interest or relationship identified in 290.33, the firm\* shall do so only if it:

- (a) Has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with those charged with governance\*;
- (b) Complies with the requirements of paragraph 290.35(b)–(c); and
- (c) Ceases to be the auditor no later than the issuance of the audit report.

**290.37** When addressing previous and current interests and relationships covered by paragraphs 290.33 to 290.36, the firm\* shall determine whether, even if all the requirements could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised and, if so, the firm\* shall cease to be the auditor.

**290.38** The professional accountant\* shall document any interests or relationships covered by paragraphs 290.34 and 36 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with those charged with governance\*, and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.

## **Other Considerations**

**290.39** There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally will be deemed not to compromise independence\* provided the firm\* has appropriate quality control policies and procedures in place, equivalent to those required by International Standards on Quality Control, to maintain independence\* and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate any threat or reduce it to an acceptable level\*. The firm\* shall determine whether to discuss the matter with those charged with governance\*.

Paragraphs 290.40 to 290.99 are intentionally left blank.

## **Application of the Conceptual Framework Approach to independence\***

**290.100** Paragraphs 290.102 to 290.231 describe specific circumstances and relationships that create or may create threats to independence\*. The paragraphs describe the potential threats and the types of safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level\* and identify certain situations where no safeguards could reduce the threats to an acceptable level\*. The paragraphs do not describe all of the circumstances and relationships that create or may create a threat to independence\*. The firm\* and the members of the audit

\*See definitions for parts A, B and C

team\* shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15, can be applied when necessary to eliminate the threats to independence\* or reduce them to an acceptable level\*.

**290.101** Paragraphs 290.102 to 290.126 contain references to the materiality of a financial interest\*, loan\*, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family\* members may be taken into account.

### **Financial interests\***

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

- (a) the role of the person holding the financial interest\*,
- (b) whether the financial interest\* is direct or indirect, and
- (c) the materiality of the financial interest\*.

**290.103** Financial interests\* may be held through an intermediary (e.g. a collective investment vehicle, estate or trust). The determination of whether such financial interests\* are direct or indirect will depend upon whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, this Code defines that financial interest\* to be a direct financial interest\*. Conversely, when the beneficial owner of the financial interest\* has no control over the investment vehicle or ability to influence its investment decisions, this Code defines that financial interest\* to be an indirect financial interest\*.

**290.104** If a member of the audit team\*, a member of that individual's immediate family\* or a firm\* has a direct financial interest\* or a material indirect financial interest\* in the audit client\*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*. Therefore, none of the following shall have a direct financial interest\* or a material indirect financial interest\* in the client: a member of the audit team\*; a member of that individual's immediate family\*; or the firm\*.

**290.105** When a member of the audit team\* has a close family\* member who the audit team\* member knows has a direct financial interest\* or a material indirect financial interest\* in the audit client\*, a self-interest threat is created. The significance of the threat will depend on factors such as:

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

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

\*See definitions for parts A, B and C

- The close family\* member disposing, as soon as practicable, of all of the financial interest\* or disposing of a sufficient portion of an indirect financial interest\* so that the remaining interest is no longer material;
- Having a professional accountant\* review the work of the member of the audit team\*; or
- Removing the individual from the audit team\*.

**290.106** If a member of the audit team\*, a member of that individual's immediate family\*, or a firm\* has a direct or material indirect financial interest\* in an entity that has a controlling interest in the audit client\*, and the client is material to the entity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*. Therefore, none of the following shall have such a financial interest\*: a member of the audit team\*; a member of that individual's immediate family\*; and the firm\*.

**290.107** The holding by a firm's\* retirement benefit plan of a direct or material indirect financial interest\* in an audit client\* creates a self-interest threat. The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*.

**290.108** If other partners\* in the office\* in which the engagement partner\* practices in connection with the audit engagement\*, or their immediate family\* members, hold a direct financial interest\* or a material indirect financial interest\* in that audit client\*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*. Therefore, neither such partners\* nor their immediate family\* members shall hold any such financial interests\* in such an audit client\*.

**290.109** The office\* in which the engagement partner\* practices in connection with the audit engagement\* is not necessarily the office\* to which that partner\* is assigned. Accordingly, when the engagement partner\* is located in a different office\* from that of the other members of the audit team\*, professional judgment shall be used to determine in which office\* the partner\* practices in connection with that engagement.

**290.110** If other partners\* and managerial employees who provide non-audit services to the audit client\*, except those whose involvement is minimal, or their immediate family\* members, hold a direct financial interest\* or a material indirect financial interest\* in the audit client\*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*. Accordingly, neither such personnel nor their immediate family\* members shall hold any such financial interests\* in such an audit client\*.

**290.111** Despite paragraphs 290.108 and 290.110, the holding of a financial interest\* in an audit client\* by an immediate family\* member of:

- a partner\* located in the office\* in which the engagement partner\* practices in connection with the audit engagement\*, or
- a partner\* or managerial employee who provides non-audit services to the audit client\*, is deemed not to compromise independence\* if the financial interest\* is received as a result of the immediate family\* member's employment rights (e.g., through pension or share option plans) and, when

\*See definitions for parts A, B and C

necessary, safeguards are applied to eliminate any threat to independence\* or reduce it to an acceptable level\*.

However, when the immediate family\* member has or obtains the right to dispose of the financial interest\* or, in the case of a stock option, the right to exercise the option, the financial interest\* shall be disposed of or forfeited as soon as practicable.

**290.112** A self-interest threat may be created if the firm\* or a member of the audit team\*, or a member of that individual's immediate family\*, has a financial interest\* in an entity and an audit client\* also has a financial interest\* in that entity. However, independence\* is deemed not to be compromised if these interests are immaterial and the audit client\* cannot exercise significant influence over the entity. If such interest is material to any party, and the audit client\* can exercise significant influence over the other entity, no safeguards could reduce the threat to an acceptable level\*. Accordingly, the firm\* shall not have such an interest and any individual with such an interest shall, before becoming a member of the audit team\*, either:

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

**290.113** A self-interest, familiarity or intimidation threat may be created if a member of the audit team\*, or a member of that individual's immediate family\*, or the firm\*, has a financial interest\* in an entity when a director\*, officer\* or controlling owner of the audit client\* is also known to have a financial interest\* in that entity. The existence and significance of any threat will depend upon factors such as:

- The role of the professional on the audit team\*;
- Whether ownership of the entity is closely or widely held;
- Whether the interest gives the investor the ability to control or significantly influence the entity; and
- The materiality of the financial interest\*.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

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

**290.114** The holding by a firm\*, or a member of the audit team\*, or a member of that individual's immediate family\*, of a direct financial interest\* or a material indirect financial interest\* in the audit client\* as a trustee creates a self-interest threat. Similarly, a self-interest threat is created when:

\*See definitions for parts A, B and C

- (a) a partner\* in the office\* in which the engagement partner\* practices in connection with the audit,
- (b) other partners\* and managerial employees who provide non-assurance services to the audit client\*, except those whose involvement is minimal, or
- (c) their immediate family\* members,

hold a direct financial interest\* or a material indirect financial interest\* in the audit client\* as trustee.

Such an interest shall not be held unless:

- (a) Neither the trustee, nor an immediate family\* member of the trustee, nor the firm\* are beneficiaries of the trust;
- (b) The interest in the audit client\* held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the audit client\*; and
- (d) The trustee, an immediate family\* member of the trustee, or the firm\* cannot significantly influence any investment decision involving a financial interest\* in the audit client\*.

**290.115** Members of the audit team\* shall determine whether a self-interest threat is created by any known financial interests\* in the audit client\* held by other individuals including:

- (a) Partners\* and professional employees of the firm\*, other than those referred to above, or their immediate family\* members; and
- (b) Individuals with a close personal relationship with a member of the audit team\*.

Whether these interests create a self-interest threat will depend on factors such as:

- The firm's\* organisational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the audit team\*.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

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

\*See definitions for parts A, B and C

**290.116** If a firm\* or a partner\* or employee of the firm\*, or a member of that individual's immediate family\*, receives a direct financial interest\* or a material indirect financial interest\* in an audit client\*, for example, by way of an inheritance, gift or as a result of a merger and such interest would not be permitted to be held under this section, then:

- (a) If the interest is received by the firm\*, the financial interest\* shall be disposed of immediately, or a sufficient amount of an indirect financial interest\* shall be disposed of so that the remaining interest is no longer material;
- (b) If the interest is received by a member of the audit team\*, or a member of that individual's immediate family\*, the individual who received the financial interest\* shall immediately dispose of the financial interest\*, or dispose of a sufficient amount of an indirect financial interest\* so that the remaining interest is no longer material; or
- (c) If the interest is received by an individual who is not a member of the audit team\*, or by an immediate family\* member of the individual, the financial interest\* shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest\* shall be disposed of so that the remaining interest is no longer material. Pending the disposal of the financial interest\*, a determination shall be made as to whether any safeguards are necessary.

**290.117** When an inadvertent violation of this section as it relates to a financial interest\* in an audit client\* occurs, it is deemed not to compromise independence\* if:

- (a) The firm\* has established policies and procedures that require prompt notification to the firm\* of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest\* in the audit client\*;
- (b) The actions in paragraph 290.116 (a)–(c) are taken as applicable; and
- (c) The firm\* applies other safeguards when necessary to reduce any remaining threat to an acceptable level\*. Examples of such safeguards include:
  - Having a professional accountant\* review the work of the member of the audit team\*; or
  - Excluding the individual from any significant decision-making concerning the audit engagement\*.

The firm\* shall determine whether to discuss the matter with those charged with governance\*.

## **Loans\* and Guarantees**

**290.118** A loan\* or a guarantee of a loan\*, to a member of the audit team\*, or a member of that individual's immediate family\*, or the firm\* from an audit client\* that is a bank or a similar institution may create a threat to independence\*. If the loan\* or guarantee is not made under normal lending procedures, terms and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level\*. Accordingly, neither a member of the audit team\*, a member of that individual's immediate family\*, nor a firm\* shall accept such a loan\* or guarantee.

\*See definitions for parts A, B and C

- 290.119** If a loan\* to a firm\* from an audit client\* that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client\* or firm\* receiving the loan\*, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level\*. An example of such a safeguard is having the work reviewed by a professional accountant\* from a network firm\* that is neither involved with the audit nor received the loan\*.
- 290.120** A loan\*, or a guarantee of a loan\*, from an audit client\* that is a bank or a similar institution to a member of the audit team\*, or a member of that individual's immediate family\*, does not create a threat to independence\* if the loan\* or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans\* include home mortgages, bank overdrafts, car loans\* and credit card balances.
- 290.121** If the firm\* or a member of the audit team\*, or a member of that individual's immediate family\*, accepts a loan\* from, or has a borrowing guaranteed by, an audit client\* that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*, unless the loan\* or guarantee is immaterial to both (a) the firm\* or the member of the audit team\* and the immediate family\* member, and (b) the client.
- 290.122** Similarly, if the firm\* or a member of the audit team\*, or a member of that individual's immediate family\*, makes or guarantees a loan\* to an audit client\*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*, unless the loan\* or guarantee is immaterial to both (a) the firm\* or the member of the audit team\* and the immediate family\* member, and (b) the client.
- 290.123** If a firm\* or a member of the audit team\*, or a member of that individual's immediate family\*, has deposits or a brokerage account with an audit client\* that is a bank, broker or similar institution, a threat to independence\* is not created if the deposit or account is held under normal commercial terms.

## **Business Relationships**

- 290.124** A close business relationship between a firm\*, or a member of the audit team\*, or a member of that individual's immediate family\*, and the audit client\* or its management, arises from a commercial relationship or common financial interest\* and may create self-interest or intimidation threats. Examples of such relationships include:
- Having a financial interest\* in a joint venture with either the client or a controlling owner, director\*, officer\* or other individual who performs senior managerial activities for that client.
  - Arrangements to combine one or more services or products of the firm\* with one or more services or products of the client and to market the package with reference to both parties.
  - Distribution or marketing arrangements under which the firm\* distributes or markets the client's products or services, or the client distributes or markets the firm's\* products or services.

Unless any financial interest\* is immaterial and the business relationship is insignificant to the firm\* and the client or its management, the threat created would

\*See definitions for parts A, B and C

be so significant that no safeguards could reduce the threat to an acceptable level\*. Therefore, unless the financial interest\* is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.

In the case of a member of the audit team\*, unless any such financial interest\* is immaterial and the relationship is insignificant to that member, the individual shall be removed from the audit team\*.

If the business relationship is between an immediate family\* member of a member of the audit team\* and the audit client\* or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*.

**290.125** A business relationship involving the holding of an interest by the firm\*, or a member of the audit team\*, or a member of that individual's immediate family\*, in a closely-held entity when the audit client\* or a director\* or officer\* of the client, or any group thereof, also holds an interest in that entity does not create threats to independence\* if:

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

**290.126** The purchase of goods and services from an audit client\* by the firm\*, or a member of the audit team\*, or a member of that individual's immediate family\*, does not generally create a threat to independence\* if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

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

### **Family and Personal Relationships**

**290.127** Family and personal relationships between a member of the audit team\* and a director\* or officer\* or certain employees (depending on their role) of the audit client\* may create self-interest, familiarity or intimidation threats. The existence and significance of any threats 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.

**290.128** When an immediate family\* member of a member of the audit team\* is:

- (a) A director\* or officer\* of the audit client\*; or

\*See definitions for parts A, B and C



- (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\*,

or was in such a position during any period covered by the engagement or the financial statements\*, the threats to independence\* can only be reduced to an acceptable level\* by removing the individual from the audit team\*. The closeness of the relationship is such that no other safeguards could reduce the threat to an acceptable level\*. Accordingly, no individual who has such a relationship shall be a member of the audit team\*.

**290.129** Threats to independence\* are created 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. 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\*.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such 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.

**290.130** Threats to independence\* are created when a close family\* member of a member of the audit team\* is:

- (a) A director\* or officer\* of the audit client\*; 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\*.

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\*.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

- Removing the individual from the audit team\*; or

\*See definitions for parts A, B and C

- 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.

**290.131** Threats to independence\* are created when a member of the audit team\* has a close relationship with a person who is not an immediate or close family\* member, but who is 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\*. A member of the audit team\* who has such a relationship shall consult in accordance with firm\* policies and procedures. The significance of the threats will depend on factors such as:

- 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\*.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level\*. Examples of such 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.

**290.132** Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (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\*. Partners\* and employees of the firm\* who are aware of such relationships shall consult in accordance with firm\* policies and procedures. The existence and significance of any threat will depend on factors such as:

- 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.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such 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.

\*See definitions for parts A, B and C

**290.133** When an inadvertent violation of this section as it relates to family and personal relationships occurs, it is deemed not to compromise independence\* if:

- (a) The firm\* has established policies and procedures that require prompt notification to the firm\* of any breaches resulting from changes in the employment status of their immediate or close family\* members or other personal relationships that create threats to independence\*;
- (b) The inadvertent violation relates to an immediate family\* member of a member of the audit team\* becoming a director\* or officer\* of the audit client\* or being 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\*, and the relevant professional is removed from the audit team\*; and
- (c) The firm\* applies other safeguards when necessary to reduce any remaining threat to an acceptable level\*. Examples of such safeguards include:
  - (i) Having a professional accountant\* review the work of the member of the audit team\*; or
  - (ii) Excluding the relevant professional from any significant decision-making concerning the engagement.

The firm\* shall determine whether to discuss the matter with those charged with governance\*.

#### **Employment with an audit client\***

**290.134** Familiarity or intimidation threats may be created if 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\*, has been a member of the audit team\* or partner\* of the firm\*.

**290.135** If a former member of the audit team\* or partner\* of the firm\* has joined the audit client\* in such a position and a significant connection remains between the firm\* and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level\*. Therefore, independence\* would be deemed to be compromised if a former member of the audit team\* or partner\* joins the audit client\* as a director\* or officer\*, or as 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:

- (a) The individual is not entitled to any benefits or payments from the firm\*, unless made in accordance with fixed pre-determined arrangements, and any amount owed to the individual is not material to the firm\*; and
- (b) The individual does not continue to participate or appear to participate in the firm's\* business or professional activities.

**290.136** If a former member of the audit team\* or partner\* of the firm\* has joined the audit client\* in such a position, and no significant connection remains between the firm\* and the individual, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

\*See definitions for parts A, B and C

- 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\*, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance\*.

The significance of any threats created shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level\*. Examples of such safeguards include:

- 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\*.

**290.137** If a former partner\* of the firm\* has previously joined an entity in such a position and the entity subsequently becomes an audit client\* of the firm\*, the significance of any threat to independence\* shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*.

**290.138** 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 may, join the client some time in the future. Firm\* policies and procedures shall require members of an audit team\* to notify the firm\* when entering employment negotiations with the client. On receiving such notification, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

- Removing the individual from the audit team\*; or
- A review of any significant judgments made by that individual while on the team.

**Audit clients\* that are public interest entities\***

**290.139** Familiarity or intimidation threats are created when a key audit partner\* joins the audit client\* that is a public interest entity\* as:

- (a) A director\* or officer\* of the entity; 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\*.

Independence\* would be deemed to be compromised unless, subsequent to the partner\* ceasing to be a key audit partner\*, the public interest entity\* had issued audited financial statements\* covering a period of not less than twelve months and

\*See definitions for parts A, B and C

the partner\* was not a member of the audit team\* with respect to the audit of those financial statements\*.

**290.140** An intimidation threat is created when the individual who was the firm's\* Senior or Managing Partner\* (Chief Executive or equivalent) joins an audit client\* that is a public interest entity\* as:

- (a) an employee in a position to exert significant influence over the preparation of the entity's accounting records or its financial statements\*; or
- (b) a director\* or officer\* of the entity. Independence\* would be deemed to be compromised unless twelve months have passed since the individual was the Senior or Managing Partner\* (Chief Executive or equivalent) of the firm\*.

**290.141** Independence\* is deemed not to be compromised if, as a result of a business combination, a former key audit partner\* or the individual who was the firm's\* former Senior or Managing Partner\* is in a position as described in paragraphs 290.139 and 290.140, and:

- (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 position held by the former partner\* with the audit client\* is discussed with those charged with governance\*.

### **Temporary Staff Assignments**

**290.142** The lending of staff by a firm\* to an audit client\* may create a self-review threat. Such assistance may be given, but only for a short period of time and the firm's\* personnel shall not be involved in:

- (a) Providing non-assurance services that would not be permitted under this section; or
- (b) Assuming management responsibilities.

In all circumstances, the audit client\* shall be responsible for directing and supervising the activities of the loaned staff.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

- Conducting an additional review of the work performed by the loaned staff;
- Not giving the loaned staff audit responsibility for any function or activity that the staff performed during the temporary staff assignment; or

\*See definitions for parts A, B and C

- Not including the loaned staff as a member of the audit team\*.

### **Recent Service with an audit client\***

- 290.143** Self-interest, self-review or familiarity threats may be created if a member of the audit team\* has recently served as a director\*, officer\*, or employee of the audit client\*. This would be the case when, for example, a member of the audit team\* has to evaluate elements of the financial statements\* for which the member of the audit team\* had prepared the accounting records while with the client.
- 290.144** If, during the period covered by the audit report, a member of the audit team\* had served as a director\* or officer\* of the audit client\*, or 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\*, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*. Consequently, such individuals shall not be assigned to the audit team\*.
- 290.145** Self-interest, self-review or familiarity threats may be created if, before the period covered by the audit report, a member of the audit team\* had served as a director\* or officer\* of the audit client\*, or 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, such threats would be created 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\*. The existence and significance of any threats will depend on factors such as:
- 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\*.

The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an acceptable level\*. An example of such a safeguard is conducting a review of the work performed by the individual as a member of the audit team\*.

### **Serving as a Director\* or Officer\* of an audit client\***

- 290.146** If a partner\* or employee of the firm\* serves as a director\* or officer\* of an audit client\*, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level\*. Accordingly, no partner\* or employee shall serve as a director\* or officer\* of an audit client\*.
- 290.147** The position of Company Secretary has different implications in different jurisdictions. Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

\*See definitions for parts A, B and C

**290.148** If a partner\* or employee of the firm\* serves as Company Secretary for an audit client\*, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level\*. Despite paragraph 290.146, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level\*.

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

### **Long Association of Senior Personnel (Including Partner\* Rotation) with an audit client\***

#### **General Provisions**

**290.150** Familiarity and self-interest threats are created by using the same senior personnel on an audit engagement\* over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the audit team\*;
- The role of the individual on the audit team\*;
- The structure of the firm\*;
- The nature of the audit engagement\*;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the client's accounting and reporting issues has changed.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level\*.

Examples of such safeguards include:

- Rotating the senior personnel off the audit team\*;
- Having a professional accountant\* who was not a member of the audit team\* review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

#### **Audit clients\* that are public interest entities\***

**290.151** In respect of an audit of a public interest entity\*, an individual shall not be a key audit partner\* for more than seven years. After such time, the individual shall not be a member of the engagement team\* or be a key audit partner\* for the client for two years. During that period, the individual shall not participate in the audit of the

\*See definitions for parts A, B and C

entity, provide quality control for the engagement, consult with the engagement team\* or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.

**290.152** Despite paragraph 290.151, key audit partners\* whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's\* control, be permitted an additional year on the audit team\* as long as the threat to independence\* can be eliminated or reduced to an acceptable level\* by applying safeguards. For example, a key audit partner\* may remain on the audit team\* for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner\*.

**290.153** The long association of other partners\* with an audit client\* that is a public interest entity\* creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:

- How long any such partner\* has been associated with the audit client\*;
- The role, if any, of the individual on the audit team\*; and
- The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance\*.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level\*.

Examples of such safeguards include:

- Rotating the partner\* off the audit team\* or otherwise ending the partner's\* association with the audit client\*; or
- Regular independent internal or external quality reviews of the engagement.

**290.154** When an audit client\* becomes a public interest entity\*, the length of time the individual has served the audit client\* as a key audit partner\* before the client becomes a public interest entity\* shall be taken into account in determining the timing of the rotation. If the individual has served the audit client\* as a key audit partner\* for five years or less when the client becomes a public interest entity\*, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client\* as a key audit partner\* for six or more years when the client becomes a public interest entity\*, the partner\* may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement.

**290.155** When a firm\* has only a few people with the necessary knowledge and experience to serve as a key audit partner\* on the audit of a public interest entity\*, rotation of key audit partners\* may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner\* rotation in such circumstances, an individual may remain a key audit partner\* for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

\*See definitions for parts A, B and C



## **Provision of Non-assurance Services to Audit clients\***

**290.156** Firms have traditionally provided to their audit clients\* a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence\* of the firm\* or members of the audit team\*. The threats created are most often self-review, self-interest and advocacy threats.

**290.157** 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\*. When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

**290.158** Before the firm\* accepts an engagement to provide a non-assurance service to an audit client\*, a determination shall be made as to whether providing such a service would create a threat to independence\*. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the audit team\* has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level\* by the application of safeguards, the non-assurance service shall not be provided.

**290.159** Providing certain non-assurance services to an audit client\* may create a threat to independence\* so significant that no safeguards could reduce the threat to an acceptable level\*. However, the inadvertent provision of such a service to a related entity\*, division or in respect of a discrete financial statement\* item of such a client will be deemed not to compromise independence\* if any threats have been reduced to an acceptable level\* by arrangements for that related entity\*, division or discrete financial statement\* item to be audited by another firm\* or when another firm\* re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.

**290.160** A firm\* may provide non-assurance services that would otherwise be restricted under this section to the following related entities of the audit client\*:

- (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\*, 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; 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 (a) the services do not create a self-review threat because the results of the services will not be subject to audit procedures and (b) any threats that are created by the provision of such services are eliminated or reduced to an acceptable level\* by the application of safeguards.

**290.161** A non-assurance service provided to an audit client\* does not compromise the firm's\* independence\* when the client becomes a public interest entity\* if:

\*See definitions for parts A, B and C

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients\* that are not public interest entities\*;
- (b) Services that are not permitted under this section 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 when necessary to eliminate or reduce to an acceptable level\* any threats to independence\* arising from the service.

## **Management Responsibilities**

**290.162** Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

**290.163** Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:

- Setting policies and strategic direction;
- Directing and taking responsibility for the actions of the entity's employees;
- Authorising transactions;
- Deciding which recommendations of the firm\* or other third parties to implement;
- Taking responsibility for the preparation and fair presentation of the financial statements\* in accordance with the applicable financial reporting framework; and
- Taking responsibility for designing, implementing and maintaining internal control.

**290.164** Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorised by management or monitoring the dates for filing statutory returns and advising an audit client\* of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

**290.165** If a firm\* were to assume a management responsibility for an audit client\*, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level\*. For example, deciding which recommendations of the firm\* to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm\* becomes too closely aligned with the views and interests of management. Therefore, the firm\* shall not assume a management responsibility for an audit client\*.

\*See definitions for parts A, B and C

**290.166** To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client\*, the firm\* shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm\* inadvertently making any significant judgments or decisions on behalf of management. The risk is further reduced when the firm\* gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

## **Preparing Accounting Records and Financial statements\***

### **General Provisions**

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

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

**290.168** Providing an audit client\* with accounting and bookkeeping services, such as preparing accounting records or financial statements\*, creates a self-review threat when the firm\* subsequently audits the financial statements\*.

**290.169** The audit process, however, necessitates dialogue between the firm\* and management of the audit client\*, which may involve:

- the application of accounting standards or policies and financial statement\* disclosure requirements,
- the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities, or
- proposing adjusting journal entries. These activities are considered to be a normal part of the audit process and do not, generally, create threats to independence\*.

**290.170** Similarly, the client may request technical assistance from the firm\* on matters such as resolving account reconciliation problems or analysing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements\* from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence\* provided the firm\* does not assume a management responsibility for the client.

\*See definitions for parts A, B and C

### **Audit clients\* that are not public interest entities\***

**290.171** The firm\* may provide services related to the preparation of accounting records and financial statements\* to an audit client\* that is not a public interest entity\* where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level\*. Examples of such services include:

- Providing payroll services based on client-originated data;
- Recording transactions for which the client has determined or approved the appropriate account classification;
- 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 trial balance.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such 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 staff member with appropriate expertise who is not a member of the audit team\* to review the work performed.

### **Audit clients\* that are public interest entities\***

**290.172** Except in emergency situations, a 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\*.

**290.173** Despite paragraph 290.172, 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:

- (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\*.

### **Emergency Situations**

**290.174** Accounting and bookkeeping services, which would otherwise not be permitted under this section, may be provided to audit clients\* in emergency or other unusual situations when it is impractical for the audit client\* to make other arrangements.

\*See definitions for parts A, B and C

This may be the case when (a) only the firm\* has the resources and necessary knowledge of the client's systems and procedures to assist the client in the timely preparation of its accounting records and financial statements\*, and (b) a restriction on the firm's\* ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:

- (a) Those who provide the services are not members of the audit team\*;
- (b) The services are provided for only a short period of time and are not expected to recur; and
- (c) The situation is discussed with those charged with governance\*.

## **Valuation Services**

### **General Provisions**

**290.175** 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.

**290.176** Performing valuation services for an audit client\* may create a self-review threat. The existence and significance of any threat will depend on factors such as:

- 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.
- For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item.
- 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\*.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

- 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\*.

**290.177** Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either established by law or

\*See definitions for parts A, B and C

regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

**290.178** If a 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 included in paragraph 290.191 apply.

**Audit clients\* that are not public interest entities\***

**290.179** In the case of an audit client\* that is not a public interest entity\*, if 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, no safeguards could reduce the self-review threat to an acceptable level\*. Accordingly a firm\* shall not provide such a valuation service to an audit client\*.

**Audit clients\* that are public interest entities\***

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

**Taxation Services**

**290.181** Taxation services comprise a broad range of services, including:

- 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.

**290.182** Performing certain tax services creates self-review and advocacy threats. The existence and significance of any threats will depend on factors such as (a) the system by which the tax authorities assess and administer the tax in question and the role of the firm\* in that process, (b) the complexity of the relevant tax regime and the degree of judgment necessary in applying it, (c) the particular characteristics of the engagement, and (d) the level of tax expertise of the client's employees.

**Tax Return Preparation**

**290.183** 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 standardised 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'

\*See definitions for parts A, B and C

requests for additional information and analysis (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 deems 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.

**Tax Calculations for the Purpose of Preparing Accounting Entries**  
**Audit clients\* that are not public interest entities\***

**290.184** 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\* creates a self-review threat. The significance of the threat will depend on (a) the complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them, (b) the level of tax expertise of the client's personnel, and (c) the materiality of the amounts to the financial statements\*. Safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such 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 staff member with appropriate expertise who is not a member of the audit team\* to review the tax calculations; or
- Obtaining advice on the service from an external tax professional.

**Audit clients\* that are public interest entities\***

**290.185** Except in emergency situations, in the case of an audit client\* that is a public interest entity\*, a firm\* shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm\* will express an opinion\*.

**290.186** The preparation of calculations of current and deferred tax liabilities (or assets) for an audit client\* for the purpose of the preparation of accounting entries, which would otherwise not be permitted under this section, may be provided to audit clients\* in emergency or other unusual situations when it is impractical for the audit client\* to make other arrangements. This may be the case when (a) only the firm\* has the resources and necessary knowledge of the client's business to assist the client in the timely preparation of its calculations of current and deferred tax liabilities (or assets), and (b) a restriction on the firm's\* ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:

- (a) Those who provide the services are not members of the audit team\*;
- (b) The services are provided for only a short period of time and are not expected to recur; and

\*See definitions for parts A, B and C

- (c) The situation is discussed with those charged with governance\*.

### **Tax Planning and Other Tax Advisory Services**

**290.187** 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.

**290.188** A self-review threat may be created 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:

- 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, by established practice or has a basis in tax law that is likely to prevail does not generally create a threat to independence\*.

**290.189** The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such 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.

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

\*See definitions for parts A, B and C



- (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\*;

The self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level\*. Accordingly, a firm\* shall not provide such tax advice to an audit client\*.

**290.191** In providing tax services to an audit client\*, a firm\* may be requested to perform a valuation to assist the 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 included in paragraphs 290.175 to 290.180 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation will not have a direct effect on the financial statements\* (i.e. the financial statements\* are only affected through accounting entries related to tax), this would not generally create threats to independence\* if such effect on the financial statements\* is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. 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 created will depend upon factors such as:

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

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

- 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**

**290.192** An advocacy or self-review threat may be created when the firm\* represents an audit client\* in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding, for example before a tribunal or court. 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;

\*See definitions for parts A, B and C

- 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.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*.

Examples of such 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.

**290.193** Where the taxation services involve acting as an advocate for an audit client\* before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements on which the firm\* will express an opinion\*, the advocacy threat created would be so significant that no safeguards could eliminate or reduce the threat to an acceptable level\*. Therefore, the firm\* shall not perform this type of service for an audit client\*. What constitutes a “public tribunal or court” shall be determined according to how tax proceedings are heard in the particular jurisdiction.

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

## **Internal Audit Services**

### **General Provisions**

**290.195** 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 may include:

- (a) Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements thereto;
- (b) Examination of financial and operating information – reviewing the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures;

\*See definitions for parts A, B and C

- (c) Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and
- (d) Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

**290.196** Internal audit services involve assisting the audit client\* in the performance of its internal audit activities. The provision of internal audit services to an audit client\* creates 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. If the firm's\* personnel assume a management responsibility when providing internal audit services to an audit client\*, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*. Accordingly, a firm's\* personnel shall not assume a management responsibility when providing internal audit services to an audit client\*.

**290.197** Examples of internal audit services that involve assuming management responsibilities include:

- (a) Setting internal audit policies or the strategic direction of internal audit activities;
- (b) Directing and taking responsibility for the actions of the entity's internal audit employees;
- (c) Deciding which recommendations resulting from internal audit activities shall be implemented;
- (d) Reporting the results of the internal audit activities to those charged with governance\* on behalf of management;
- (e) Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;
- (f) Taking responsibility for designing, implementing and maintaining internal control; and
- (g) 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 may have responsibility for one or more of the matters noted in (a)–(f).

**290.198** To avoid assuming a management responsibility, the firm\* shall only provide internal audit services to an audit client\* if it is satisfied that:

- (a) The client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to 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;

\*See definitions for parts A, B and C

- (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.

**290.199** 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\* accepts an engagement to provide internal audit services to an audit client\*, and the results of those services will be used in conducting the external audit, a self-review threat is created because of the possibility 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 scepticism 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.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. An example of such a safeguard is using professionals who are not members of the audit team\* to perform the internal audit service.

#### **Audit clients\* that are public interest entities\***

**290.200** In the case of an audit client\* that is a public interest entity\*, a firm\* shall not provide internal audit services that 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\*.

### **IT Systems Services**

#### **General Provisions**

**290.201** Services related to information technology ("IT") systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal control over financial reporting or generate

\*See definitions for parts A, B and C

information that affects the accounting records or financial statements\*, or the systems may be unrelated to the audit client's\* accounting records, the internal control over financial reporting or financial statements\*. Providing systems services may create a self-review threat depending on the nature of the services and the IT systems.

**290.202** The following IT systems services are deemed not to create a threat to independence\* as long as the firm's\* personnel do not assume a management responsibility:

- (a) Design or implementation of IT systems that are unrelated to internal control over financial reporting;
- (b) Design or implementation of IT systems that do not generate information forming a significant part of the accounting records or financial statements\*;
- (c) Implementation of "off-the-shelf" accounting or financial information reporting software that was not developed by the firm\* if the customisation 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\***

**290.203** Providing services to an audit client\* that is not a public interest entity\* involving the design or implementation of IT systems that (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\* creates a self-review threat.

**290.204** The self-review threat is too significant to permit such services unless appropriate safeguards are put in place ensuring that:

- (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.

**290.205** Depending on the degree of reliance that will be placed on the particular IT systems as part of the audit, a determination shall be made as to whether to provide such non-assurance services only with personnel who are not members of the audit team\* and who have different reporting lines within the firm\*. The significance of any remaining threat shall be evaluated and safeguards applied

\*See definitions for parts A, B and C

when necessary to eliminate the 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.

**Audit clients\* that are public interest entities\***

**290.206** In the case of an audit client\* that is a public interest entity\*, a firm\* shall not provide services involving the design or implementation of IT systems that (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\*.

**Litigation Support Services**

**290.207** Litigation support services may include activities such as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval. These services may create a self-review or advocacy threat.

**290.208** If the 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 valuation service provisions included in paragraphs 290.175 to 290.180 shall be followed. In the case of other litigation support services, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*.

**Legal Services**

**290.209** For the purpose of this section, legal services are defined as any services for which the person providing the services must either be admitted to practice law before the courts of the jurisdiction in which such services are to be provided or have the required legal training to practice law. Such legal services may include, depending on the jurisdiction, 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\* may create both self-review and advocacy threats.

**290.210** Legal services that support an audit client\* in executing a transaction (e.g., contract support, legal advice, legal due diligence and restructuring) may create self-review threats. The existence and significance of any threat will depend on factors such as:

- 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\*.

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

\*See definitions for parts A, B and C

- 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.

**290.211** Acting 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\* would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level\*. Therefore, the firm\* shall not perform this type of service for an audit client\*.

**290.212** When a firm\* is asked to act 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\*, the firm\* shall evaluate the significance of any advocacy and self-review threats created and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such 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.

**290.213** The appointment of a partner\* or an employee of the firm\* as General Counsel for legal affairs of an audit client\* would create self-review and advocacy threats that are so significant that no safeguards could reduce the threats to an acceptable level\*. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company, and consequently, no member of the firm\* shall accept such an appointment for an audit client\*.

## **Recruiting Services**

### **General Provisions**

**290.214** Providing recruiting services to an audit client\* may create self-interest, familiarity or intimidation threats. The existence and significance of any threat will depend on factors such as:

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

The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. In all cases, the firm\* shall not assume management responsibilities, including acting as a negotiator on the client's behalf, and the hiring decision shall be left to the client.

The 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\* may interview candidates and advise on a

\*See definitions for parts A, B and C

candidate's competence for financial accounting, administrative or control positions.

**Audit clients\* that are public interest entities\***

**290.215** A firm\* shall not provide the following recruiting services 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\*:

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

**Corporate Finance Services**

**290.216** Providing corporate finance services such as:

- 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

may create advocacy and self-review threats. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

- 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.

**290.217** 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 may create a self-review threat. The existence and significance of any threat will depend on factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements\*;
- The extent to which the outcome of the corporate finance advice will directly affect amounts recorded in the financial statements\* and the extent to which the amounts are material to the financial statements\*; and

\*See definitions for parts A, B and C



- 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.

The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such 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 corporate finance service to the client advise the audit team\* on the service and review the accounting treatment and any financial statement\* treatment.

**290.218** 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\*;

The self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level\*, in which case the corporate finance advice shall not be provided.

**290.219** Providing corporate finance services involving promoting, dealing in, or underwriting an audit client's\* shares would create an advocacy or self-review threat that is so significant that no safeguards could reduce the threat to an acceptable level\*. Accordingly, a firm\* shall not provide such services to an audit client\*.

## **Fees**

### **Fees - Relative Size**

**290.220** 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 creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- 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\*.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

\*See definitions for parts A, B and C

- 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.

**290.221** A self-interest or intimidation threat is also created 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.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. Examples of such 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.

Audit clients\* that are public interest entities\*

**290.222** 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 290.27) 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 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 discuss which of the safeguards below it will apply to reduce the threat to an acceptable level\*, and apply the selected safeguard:

- Prior to the issuance of the audit opinion 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
- After the audit opinion on the second year's financial statements\* has been issued, and before the issuance of the audit opinion 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").

\*See definitions for parts A, B and C

When the total 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.

Thereafter, when the fees continue to exceed 15% each year, the disclosure to and discussion with those charged with governance\* shall occur and one of the above safeguards shall be applied. 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.

### **Fees – Overdue**

**290.223** A self-interest threat may be created if fees due from an audit client\* remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the firm\* is expected to require payment of such fees before such audit report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level\*. An example of such a safeguard is having an additional professional accountant\* who did not take part in the audit engagement\* provide advice or review the work performed. The firm\* shall determine whether the overdue fees might be regarded as being equivalent to a loan\* to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm\* to be re-appointed or continue the audit engagement\*.

### **Contingent fees\***

**290.224** 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.

**290.225** A contingent fee\* charged directly or indirectly, for example through an intermediary, by a firm\* in respect of an audit engagement\* creates a self-interest threat that is so significant that no safeguards could reduce the threat to an acceptable level\*. Accordingly, a firm\* shall not enter into any such fee arrangement.

**290.226** A contingent fee\* charged directly or indirectly, for example through an intermediary, by a firm\* in respect of a non-assurance service provided to an audit client\* may also create a self-interest threat. The threat created would be so significant that no safeguards could reduce the threat to an acceptable level\* if:

- (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 material or 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\*.

\*See definitions for parts A, B and C

Accordingly, such arrangements shall not be accepted.

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

- 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\*.

The significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level\*. Examples of such safeguards include:

- 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.

### **Compensation and Evaluation Policies**

**290.228** A self-interest threat is created when a member of the audit team\* is evaluated on or compensated for selling non-assurance services to that audit client\*. The significance of the threat will depend on:

- 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.

The significance of the threat shall be evaluated and, if the threat is not at an acceptable level\*, the firm\* shall either revise the compensation plan or evaluation process for that individual or apply safeguards to eliminate the threat or reduce it to an acceptable level\*. Examples of such safeguards include:

- Removing such members from the audit team\*; or
- Having a professional accountant\* review the work of the member of the audit team\*.

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

\*See definitions for parts A, B and C

## **Gifts and Hospitality**

**290.230** Accepting gifts or hospitality from an audit client\* may create self-interest and familiarity threats. If a firm\* or a member of the audit team\* accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level\*. Consequently, a firm\* or a member of the audit team\* shall not accept such gifts or hospitality.

## **Actual or Threatened Litigation**

**290.231** When litigation takes place, or appears likely, between the firm\* or a member of the audit team\* and the audit client\*, self-interest and intimidation threats are created. The relationship between client management and the members of the audit team\* must be characterised by complete candour and full disclosure regarding all aspects of a client's business operations. When the firm\* and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

**290.232**

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

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level\*. Examples of such safeguards include:

- 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.

If such safeguards do not reduce the threats to an acceptable level\*, the only appropriate action is to withdraw from, or decline, the audit engagement\*.

Paragraphs 290.232 to 290.499 are intentionally left blank.

## **Reports that Include a Restriction on Use and Distribution**

### **Introduction**

**290.500** The independence\* requirements in section 290 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 described in 290.501 to 290.502 are met, the independence\* requirements in this section may be modified as provided in paragraphs 290.505 to 290.514. These paragraphs are only applicable to an audit engagement\* on special purpose financial statements\* (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

\*See definitions for parts A, B and C

on use and distribution. The modifications are not permitted in the case of an audit of financial statements\* required by law or regulation.

**290.501** The modifications to the requirements of section 290 are permitted if 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. Knowledge as to the purpose and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm\* to communicate with intended users about independence\* matters, including the circumstances that are relevant to the evaluation of the threats to independence\* and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level\*, and to obtain their agreement to the modified independence\* requirements that are to be applied.

**290.502** The firm\* shall communicate (for example, in an engagement letter) with the intended users regarding the independence\* requirements that are to be applied with respect to the provision of the audit engagement\*. Where the intended users are a class of users (for example, lenders in a syndicated loan\* arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made aware of the independence\* requirements agreed to by the representative (for example, by the representative making the firm's\* engagement letter available to all users).

**290.503** If the firm\* also issues an audit report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 290.500 to 290.514 do not change the requirement to apply the provisions of paragraphs 290.1 to 290.232 to that audit engagement\*.

**290.504** The modifications to the requirements of section 290 that are permitted in the circumstances set out above are described in paragraphs 290.505 to 290.514. Compliance in all other respects with the provisions of section 290 is required.

#### **Public interest entities\***

**290.505** When the conditions set out in paragraphs 290.500 to 290.502 are met, it is not necessary to apply the additional requirements in paragraphs 290.100 to 290.232 that apply to audit engagements\* for public interest entities\*.

#### **Related Entities**

**290.506** When the conditions set out in paragraphs 290.500 to 290.502 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.

#### **Networks\* and Network firms\***

**290.507** When the conditions set out in paragraphs 290.500 to 290.502 are met, reference to the firm\* does not include network firms\*. However, when the firm\* knows or has

\*See definitions for parts A, B and C

reason to believe that threats are created by any interests and relationships of a network firm\*, they shall be included in the evaluation of threats to independence\*.

**Financial interests\*, Loans\* and Guarantees, Close Business Relationships and Family and Personal Relationships**

**290.508** When the conditions set out in paragraphs 290.500 to 290.502 are met, the relevant provisions set out in paragraphs 290.102 to 290.145 apply only to the members of the engagement team\*, their immediate family\* members and close family\* members.

**290.509** In addition, a determination shall be made as to whether threats to independence\* are created by interests and relationships, as described in paragraphs 290.102 to 290.145, between the audit client\* and the following members of the audit team\*:

- (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\*.

An evaluation shall be made of the significance of any threats that the engagement team\* has reason to believe are created by interests and relationships between the audit client\* and others within the firm\* who can directly influence the outcome of the audit engagement\*, including 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\* (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)).

**290.510** An evaluation shall also be made of the significance of any threats that the engagement team\* has reason to believe are created by financial interests\* in the audit client\* held by individuals, as described in paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115.

**290.511** Where a threat to independence\* is not at an acceptable level\*, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level\*.

**290.512** In applying the provisions set out in paragraphs 290.106 and 290.115 to interests of the firm\*, if the firm\* has a material financial interest\*, whether direct or indirect, in the audit client\*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*. Accordingly, the firm\* shall not have such a financial interest\*.

**Employment with an Audit Client\***

**290.513** An evaluation shall be made of the significance of any threats from any employment relationships as described in paragraphs 290.134 to 290.138. Where a threat exists that is not at an acceptable level\*, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level\*. Examples of safeguards that might be appropriate include those set out in paragraph 290.136.

\*See definitions for parts A, B and C

## **Provision of Non-Assurance Services**

**290.514** 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 provisions of paragraphs 290.156 to 290.232 shall be complied with, subject to paragraphs 290.504 to 290.507.

### **Appendix to Section 290 – Nature of Assurance Engagements\***

**1** *The IESBA and ICAEW Codes include two different sets of requirements to ensure independence\* is maintained in assurance engagements\*. If the engagement is an audit engagement\*, or a review engagement\*, the requirements of section 290 apply (or the APB Ethical Standards – see 290.0c). For other assurance engagements\*, section 291 applies.*

**2** *To assist professional accountants in public practice\* determine which section to apply, set out below are a number of examples of engagements typically undertaken and an indication of whether they would normally be regarded as audit or review (thus section 290 or APB) or other assurance (thus section 291).*

**3** *As individual engagements can vary, even within categories, professional accountants in public practice\* should consider the examples as indicative rather than definitive and should have regard to the nature of the conclusion to be given. In particular they should have regard to the definitions of ‘review engagement’\* and ‘financial statements’\* in the IESBA and ICAEW Codes, which are:*

*“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.”*

*“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.”*

**4** *Taken together, the key elements in determining that an assurance engagement\* is a review engagement\* are:*

- the subject matter: historical financial information, and*
- the nature of the report: limited procedures but nothing has come to attention to indicate the information is not prepared in accordance with the applicable financial reporting framework.*

*Examples of engagements that would normally be considered to be audit or review engagements\* (section 290 or APB)*

\*See definitions for parts A, B and C



- *Statutory or other audits, or engagements possessing the characteristics of an audit (i.e. involving a 'true and fair' or 'fairly presents' conclusion).*
- *Review in accordance with ISRE 2410 (UK and Ireland): review of interim financial information performed by independent auditor of the entity, or ISRE 2400: engagements to review financial statements.*
- *Review in accordance with the ICAEW Assurance Service.*
- *Independent Examination of Charities: again historical financial information and a negative opinion indicating no evidence of non compliance with a specified framework.*
- *Public sector year-end audits.*
- *Special report on the abbreviated accounts of a small company (the report must be prepared by the auditors, who as such, should apply section 290/APB).*

*Examples of engagements that would normally be considered to be other assurance engagements (section 291)*

- *Assurance reports on internal controls of service organisations, conducted in accordance with, for example, AAF 01/06.*
- *Assurance reports on the outsourced provision of information services and information processing services, conducted in accordance with, for example, ITF 01/07.*
- *Any assurance conducted based on AAF 02/07 A framework for assurance reports on third party operations.*
- *Any assurance engagements on prospective financial or non-financial information.*
- *Any other assurance engagements\* based on ISAE 3000 including narrative information, greenhouse gas and sustainability reports if conducted outside the scope of annual accounts.*
- *Independent accountant's report on grant claims, conducted in accordance with, for example, AAF 01/10.*

*Note that for all of the above and any other engagements, if the professional accountant in public practice\* is also the auditor of the entity, section 290/ APB Ethical standards will already have to be followed. No additional compliance with section 291 is necessary in such circumstances.*

\*See definitions for parts A, B and C

## **Transitional Provisions**

### **Effective Date**

This Code is effective on January 1, 2011; early adoption is permitted. This Code is subject to the following transitional provisions:

### **Public interest entities\***

1. Section 290 of the Code contains additional independence\* provisions when the audit or review client\* is a public interest entity\*. The additional provisions that are applicable because of the new definition of a public interest entity\* or the guidance in paragraph 290.26 are effective on January 1, 2012. For partner\* rotation requirements, the transitional provisions contained in paragraphs 2 and 3 below apply.

### **Partner\* Rotation**

2. For a partner\* who is subject to the rotation provisions in paragraph 290.151 because the partner\* meets the definition of the new term "key audit partner\*," and the partner\* is neither the engagement partner\* nor the individual responsible for the engagement quality control review\*, the rotation provisions are effective for the audits or reviews of financial statements\* for years beginning on or after December 15, 2011. For example, in the case of an audit client\* with a calendar year-end, a key audit partner\*, who is neither the engagement partner\* nor the individual responsible for the engagement quality control review\*, who had served as a key audit partner\* for seven or more years (i.e., the audits of 2003 – 2010), would be required to rotate after serving for one more year as a key audit partner\* (i.e., after completing the 2011 audit).
3. For an engagement partner\* or an individual responsible for the engagement quality control review\* who immediately prior to assuming either of these roles served in another key audit partner\* role for the client, and who, at the beginning of the first fiscal year beginning on or after December 15, 2010, had served as the engagement partner\* or individual responsible for the engagement quality control review\* for six or fewer years, the rotation provisions are effective for the audits or reviews of financial statements\* for years beginning on or after December 15, 2011. For example, in the case of an audit client\* with a calendar year-end, a partner\* who had served the client in another key audit partner\* role for four years (i.e., the audits of 2002-2005) and subsequently as the engagement partner\* for five years (i.e., the audits of 2006-2010) would be required to rotate after serving for one more year as the engagement partner\* (i.e., after completing the 2011 audit).

### **Non-assurance services**

4. Paragraphs 290.156-290.219 address the provision of non-assurance services to an audit or review client\*. If, at the effective date of the Code, services are being provided to an audit or review client\* and the services were permissible under the June 2005 Code (revised July 2006) but are either prohibited or subject to restrictions under the revised Code, the firm\* may continue providing such services only if they were contracted for and commenced prior to January 1, 2011, and are completed before July 1, 2011.

\*See definitions for parts A, B and C

### **Fees - Relative Size**

5. Paragraph 290.222 provides that, in respect of an audit or review client\* that is a public interest entity\*, when the total fees from that client and its related entities (subject to the considerations in paragraph 290.27) for two consecutive years represent more than 15% of the total fees of the firm\* expressing the opinion on the financial statements\*, a pre- or post-issuance review (as described in paragraph 290.222) of the second year's audit shall be performed. This requirement is effective for audits or reviews of financial statements\* covering years that begin on or after December 15, 2010. For example, in the case of an audit client\* with a calendar year end, if the total fees from the client exceeded the 15% threshold for 2011 and 2012, the pre- or post-issuance review would be applied with respect to the audit of the 2012 financial statements\*.

### **Compensation and Evaluation Policies**

6. Paragraph 290.229 provides that 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 is effective on January 1, 2012. A key audit partner\* may, however, receive compensation after January 1, 2012 based on an evaluation made prior to January 1, 2012 of that partner's\* success in selling non-assurance services to the audit client\*.

\*See definitions for parts A, B and C