

## **SECTION 291 – INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS**

### **Structure of Section**

- 291.1** This section addresses independence\* requirements for assurance engagements\* that are not audit or review engagements\*. *As indicated in paragraphs 1.14 to 1.17* independence\* requirements for audit and review engagements\* are addressed in section 290. If the assurance client\* is also an audit or review client\*, the requirements in section 290 also apply to the firm\*, network firms\* and members of the audit or review team\*. In certain circumstances involving assurance engagements\* where the assurance 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 291.21 to 291.27.
- 291.2** Assurance engagements\* are designed to enhance intended users' degree of confidence about the outcome of the evaluation or measurement of a subject matter against criteria. The International Framework for Assurance engagements\* (the Assurance Framework) issued by the International Auditing and Assurance Standards Board describes the elements and objectives of an assurance engagement\* and identifies engagements to which International Standards on Assurance engagements\* (ISAEs) apply. For a description of the elements and objectives of an assurance engagement\*, refer to the Assurance Framework.
- 291.3** Compliance with the fundamental principle of objectivity requires being independent of assurance clients\*. In the case of assurance engagements\*, it is in the public interest and, therefore, required by this Code of Ethics, that members of assurance teams\* and firms be independent of assurance clients\* and that any threats that the firm\* has reason to believe are created by a network firm's\* interests and relationships be evaluated. In addition, when the assurance team\* knows or has reason to believe that a relationship or circumstance involving a related entity\* of the assurance client\* is relevant to the evaluation of the firm's\* independence\* from the client, the assurance team\* shall include that related entity\* when identifying and evaluating threats to independence\* and applying appropriate safeguards.

### **A Conceptual Framework Approach to independence\***

- 291.4** The objective of this section is to assist firms and members of assurance teams\* in applying the conceptual framework approach described below to achieving and maintaining independence\*.
- 291.5** 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

\* See Definitions for parts A, B and C

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 assurance team's\*, integrity, objectivity or professional scepticism has been compromised.

**291.6** 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
- (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 assurance engagement\*.

A professional accountant\* shall use professional judgment in applying this conceptual framework.

**291.7** 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 assurance teams\* to identify, evaluate, and address threats to independence\*. The conceptual framework approach assists professional accountants\* in public 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.

**291.8** Paragraphs 291.100 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\*.

**291.9** In deciding whether to accept or continue an engagement, or whether a particular individual may be a member of the assurance team\*, a firm\* shall identify and evaluate any 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 assurance team\*, the firm\* shall determine

\* See Definitions for parts A, B and C

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 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.

**291.10** 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.

**291.11** 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 standards.

#### **Assurance engagements\***

**291.12** As further explained in the Assurance Framework, in an assurance engagement\* the professional accountant in public practice\* expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation or measurement of a subject matter against criteria.

**291.13** The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of a subject matter. For example, the Framework states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO<sup>1</sup> or CoCo<sup>2</sup> (criteria), to internal control, a process (subject matter).

**291.14** Assurance engagements\* may be assertion-based or direct reporting. In either case, they involve three separate parties: a professional accountant in public practice\*, a responsible party and intended users.

**291.15** In an assertion-based assurance engagement\*, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject

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<sup>1</sup> “Internal Control – Integrated Framework” The Committee of Sponsoring Organisations of the Treadway Commission.

<sup>2</sup> “Guidance on Assessing Control – The CoCo Principles” Criteria of Control Board, The Canadian Institute of Chartered Accountants.

matter information is in the form of an assertion by the responsible party that is made available to the intended users.

**291.16** In a direct reporting assurance engagement\*, the professional accountant in public practice\* either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

#### **Assertion-based Assurance engagements\***

**291.17** In an assertion-based assurance engagement\*, the members of the assurance team\* and the firm\* shall be independent of the assurance client\* (the party responsible for the subject matter information, and which may be responsible for the subject matter). Such independence\* requirements prohibit certain relationships between members of the assurance team\* and (a) directors\* or officers\*, and (b) individuals at the client in a position to exert significant influence over the subject matter information. Also, a determination shall be made as to whether threats to independence\* are created by relationships with individuals at the client in a position to exert significant influence over the subject matter of the engagement. An evaluation shall be made of the significance of any threats that the firm\* has reason to believe are created by network firm\*<sup>3</sup> interests and relationships.

**291.18** In the majority of assertion-based assurance engagements\*, the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements, the responsible party may not be responsible for the subject matter. For example, when a professional accountant in public practice\* is engaged to perform an assurance engagement\* regarding a report that an environmental consultant has prepared about a company's sustainability practices for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).

**291.19** In assertion-based assurance engagements\* where the responsible party is responsible for the subject matter information but not the subject matter, the members of the assurance team\* and the firm\* shall be independent of the party responsible for the subject matter information (the assurance client\*). In addition, an evaluation shall be made of any threats the firm\* has reason to believe are created by interests and relationships between a member of the assurance team\*, the firm\*, a network firm\* and the party responsible for the subject matter.

#### **Direct Reporting Assurance engagements\***

**291.20** In a direct reporting assurance engagement\*, the members of the assurance team\* and the firm\* shall be independent of the assurance client\* (the party responsible for the subject matter). An evaluation shall also be made of any

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<sup>3</sup> See paragraphs 290.13 to 290.24 for guidance on what constitutes a network firm\*.

threats the firm\* has reason to believe are created by network firm\* interests and relationships.

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

- 291.21** In certain circumstances where the assurance report includes a restriction on use and distribution, and provided the conditions in this paragraph and in 291.22 are met, the independence\* requirements in this section may be modified. The modifications to the requirements of section 291 are permitted if the intended users of the report (a) are knowledgeable as to the purpose, subject matter information and limitations of the report and (b) explicitly agree to the application of the modified independence\* requirements. Knowledge as to the purpose, subject matter information, 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.
- 291.22** 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 assurance 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).
- 291.23** If the firm\* also issues an assurance report that does not include a restriction on use and distribution for the same client, the provisions of paragraphs 291.25 to 291.27 do not change the requirement to apply the provisions of paragraphs 291.1 to 291.159 to that assurance engagement\*. If the firm\* also issues an audit report, whether or not it includes a restriction on use and distribution, for the same client, the provisions of section 290 shall apply to that audit engagement\*.
- 291.24** The modifications to the requirements of section 291 that are permitted in the circumstances set out above are described in paragraphs 291.25 to 291.27. Compliance in all other respects with the provisions of section 291 is required.
- 291.25** When the conditions set out in paragraphs 291.21 and 291.22 are met, the relevant provisions set out in paragraphs 291.104 to 291.134 apply to all members of the engagement team\*, and their immediate and close family\* members. In addition, a determination shall be made as to whether threats to independence\* are created by interests and relationships between the assurance client\* and the following other members of the assurance team\*:

\* See Definitions for parts A, B and C

- (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 also be made, by reference to the provisions set out in paragraphs 291.104 to 291.134, of any threats that the engagement team\* has reason to believe are created by interests and relationships between the assurance client\* and others within the firm\* who can directly influence the outcome of the assurance engagement\*, including those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement\* partner\* in connection with the performance of the assurance engagement\*.

**291.26** Even though the conditions set out in paragraphs 291.21 to 291.22 are met, if the firm\* had a material financial interest\*, whether direct or indirect, in the assurance client\*, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level\*. Accordingly, the firm\* shall not have such a financial interest\*. In addition, the firm\* shall comply with the other applicable provisions of this section described in paragraphs 291.113 to 291.159.

**291.27** An evaluation shall also be made of any threats that the firm\* has reason to believe are created by network firm\* interests and relationships.

### **Multiple Responsible Parties**

**291.28** In some assurance engagements\*, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this section to each responsible party in such engagements, the firm\* may take into account whether an interest or relationship between the firm\*, or a member of the assurance team\*, and a particular responsible party would create a threat to independence\* that is not trivial and inconsequential in the context of the subject matter information. This will take into account factors such as:

- The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest associated with the engagement.

If the firm\* determines that the threat to independence\* created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it may not be necessary to apply all of the provisions of this section to that responsible party.

### **Documentation**

**291.29** Documentation provides evidence of the professional accountant's\* judgments in forming conclusions regarding compliance with independence\* requirements.

\* See Definitions for parts A, B and C

The absence of documentation is not a determinant of whether a firm\* considered a particular matter nor whether it is independent.

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**

- 291.30** Independence\* from the assurance client\* is required both during the engagement period and the period covered by the subject matter information. The engagement period starts when the assurance team\* begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance 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 assurance report.
- 291.31** When an entity becomes an assurance client\* during or after the period covered by the subject matter information on which the firm\* will express a conclusion, the firm\* shall determine whether any threats to independence\* are created by:
- (a) Financial or business relationships with the assurance client\* during or after the period covered by the subject matter information but before accepting the assurance engagement\*; or
  - (b) Previous services provided to the assurance client\*.
- 291.32** If a non-assurance service was provided to the assurance client\* during or after the period covered by the subject matter information but before the assurance team\* begins to perform assurance services and the service would not be permitted during the period of the assurance engagement\*, the firm\* shall evaluate any threat to independence\* created by the service. If any threat is not at an acceptable level\*, the assurance 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 assurance team\*;

\* See Definitions for parts A, B and C

- Having a professional accountant\* review the assurance 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.

However, if the non-assurance service has not been completed and it is not practical to complete or terminate the service before the commencement of professional services\* in connection with the assurance engagement\*, the firm\* shall only accept the assurance engagement\* if it is satisfied:

- (a) The non-assurance service will be completed within a short period of time; or
- (b) The client has arrangements in place to transition the service to another provider within a short period of time.

During the service period, safeguards shall be applied when necessary. In addition, the matter shall be discussed with those charged with governance\*.

### **Other Considerations**

**291.33** 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 291.34 to 291.99 are intentionally left blank.

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

**291.100** Paragraphs 291.104 to 291.159 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 assurance team\* shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards, including the safeguards in paragraphs 200.11 to 200.14 can be applied when necessary to eliminate the threats to independence\* or reduce them to an acceptable level\*.

**291.101** The paragraphs demonstrate how the conceptual framework approach applies to assurance engagements\* and are to be read in conjunction with paragraph 291.28 which explains that, in the majority of assurance engagements\*, there is

\* See Definitions for parts A, B and C

one responsible party and that responsible party is the assurance client\*. However, in some assurance engagements\* there are two or more responsible parties. In such circumstances, an evaluation shall be made of any threats the firm\* has reason to believe are created by interests and relationships between a member of the assurance team\*, the firm\*, a network firm\* and the party responsible for the subject matter. For assurance reports that include a restriction on use and distribution, the paragraphs are to be read in the context of paragraphs 291.21 to 291.27.

**291.102** Interpretation 2005-01 provides further guidance on applying the independence\* requirements contained in this section to assurance engagements\*.

**291.103** Paragraphs 291.104 to 291.120 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\***

**291.104** Holding a financial interest\* in an assurance 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\*.

**291.105** 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\*.

**291.106** If a member of the assurance 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 assurance 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 assurance team\*; a member of that individual's immediate family\* member; or the firm\*.

**291.107** When a member of the assurance team\* has a close family\* member who the assurance team\* member knows has a direct financial interest\* or a material

\* See Definitions for parts A, B and C

indirect financial interest\* in the assurance 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 assurance 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:

- 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 assurance team\*; or
- Removing the individual from the assurance team\*.

**291.108** If a member of the assurance 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 assurance 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 assurance team\*; a member of that individual's immediate family\*; and the firm\*.

**291.109** The holding by a firm\* or a member of the assurance team\*, or a member of that individual's immediate family\*, of a direct financial interest\* or a material indirect financial interest\* in the assurance client\* as a trustee creates a self-interest threat. 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 assurance client\* held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance 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 assurance client\*.

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

\* See Definitions for parts A, B and C

- Partners\* and professional employees of the firm\*, other than those referred to above, or their immediate family\* members; and
- Individuals with a close personal relationship with a member of the assurance 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 assurance 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 assurance team\* with the personal relationship from the assurance team\*;
- Excluding the member of the assurance team\* from any significant decision-making concerning the assurance engagement\*; or
- Having a professional accountant\* review the work of the member of the assurance team\*.

**291.111** If a firm\*, a member of the assurance team\*, or an immediate family\* member of the individual, receives a direct financial interest\* or a material indirect financial interest\* in an assurance 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, or
- (b) If the interest is received by a member of the assurance 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.

**291.112** When an inadvertent violation of this section as it relates to a financial interest\* in an assurance 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,

\* See Definitions for parts A, B and C

inheritance or other acquisition of a financial interest\* in the assurance client\*;

- (b) The actions taken in paragraph 291.111(a) – (b) 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:
  - (i) Having a professional accountant\* review the work of the member of the assurance team\*; or
  - (ii) Excluding the individual from any significant decision-making concerning the assurance engagement\*.

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

### **Loans\* and Guarantees**

**291.113** A loan\*, or a guarantee of a loan\*, to a member of the assurance team\*, or a member of that individual's immediate family\*, or the firm\* from an assurance 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 assurance team\*, a member of that individual's immediate family\*, nor a firm\* shall accept such a loan\* or guarantee.

**291.114** If a loan\* to a firm\* from an assurance client\* that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the assurance 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 assurance engagement\* nor received the loan\*.

**291.115** A loan\*, or a guarantee of a loan\*, from an assurance client\* that is a bank or a similar institution to a member of the assurance 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.

**291.116** If the firm\* or a member of the assurance team\*, or a member of that individual's immediate family\*, accepts a loan\* from, or has a borrowing guaranteed by, an assurance 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

\* See Definitions for parts A, B and C

immaterial to both the firm\*, or the member of the assurance team\* and the immediate family\* member, and the client.

**291.117** Similarly, if the firm\*, or a member of the assurance team\*, or a member of that individual's immediate family\*, makes or guarantees a loan\* to an assurance 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 the firm\*, or the member of the assurance team\* and the immediate family\* member, and the client.

**291.118** If a firm\* or a member of the assurance team\*, or a member of that individual's immediate family\*, has deposits or a brokerage account with an assurance 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**

**291.119** A close business relationship between a firm\*, or a member of the assurance team\*, or a member of that individual's immediate family\*, and the assurance 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\* or 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 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 shall be reduced to an insignificant level or terminated.

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

If the business relationship is between an immediate family\* member of a member of the assurance team\* and the assurance 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\*.

\* See Definitions for parts A, B and C

**291.120** The purchase of goods and services from an assurance client\* by the firm\*, or a member of the assurance 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 assurance team\*.

### **Family and Personal Relationships**

**291.121** Family and personal relationships between a member of the assurance team\* and a director\* or officer\* or certain employees (depending on their role) of the assurance 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 assurance team\*, the role of the family member or other individual within the client, and the closeness of the relationship.

**291.122** When an immediate family\* member of a member of the assurance team\* is:

- (a) A director\* or officer\* of the assurance client\*, or
- (b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement\*,

or was in such a position during any period covered by the engagement or the subject matter information, the threats to independence\* can only be reduced to an acceptable level\* by removing the individual from the assurance 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 assurance team\*.

**291.123** Threats to independence\* are created when an immediate family\* member of a member of the assurance team\* is an employee in a position to exert significant influence over the subject matter of the engagement. 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 assurance 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 assurance team\*; or

\* See Definitions for parts A, B and C

- Structuring the responsibilities of the assurance team\* so that the professional does not deal with matters that are within the responsibility of the immediate family\* member.

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

- A director\* or officer\* of the assurance client\*; or
- An employee in a position to exert significant influence over the subject matter information of the assurance engagement\*.

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

- The nature of the relationship between the member of the assurance team\* and the close family\* member;
- The position held by the close family\* member; and
- The role of the professional on the assurance 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 assurance team\*; or
- Structuring the responsibilities of the assurance team\* so that the professional does not deal with matters that are within the responsibility of the close family\* member.

**291.125** Threats to independence\* are created when a member of the assurance 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 subject matter information of the assurance engagement\*. A member of the assurance 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 assurance team\*;
- The position the individual holds with the client; and
- The role of the professional on the assurance 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 assurance team\*; or

\* See Definitions for parts A, B and C

- Structuring the responsibilities of the assurance 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.

**291.126** 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 assurance team\* and (b) a director\* or officer\* of the assurance client\* or an employee in a position to exert significant influence over the subject matter information of the assurance engagement\*. 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 assurance team\*;
- The position of the partner\* or employee within the firm\*; and
- The role of the individual within 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 assurance engagement\*; or
- Having a professional accountant\* review the relevant assurance work performed.

**291.127** 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 assurance team\* becoming a director\* or officer\* of the assurance client\* or being in a position to exert significant influence over the subject matter information of the assurance engagement\*, and the relevant professional is removed from the assurance team\*; 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 assurance team\*; or

\* See Definitions for parts A, B and C

- 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 Assurance Clients\***

**291.128** Familiarity or intimidation threats may be created if a director\* or officer\* of the assurance client\*, or an employee who is in a position to exert significant influence over the subject matter information of the assurance engagement\*, has been a member of the assurance team\* or partner\* of the firm\*.

**291.129** If a former member of the assurance team\* or partner\* of the firm\* has joined the assurance client\* in such a position, the existence and significance of any familiarity or intimidation threats will depend on factors such as:

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

In all cases the individual shall not continue to participate in the firm's\* business or professional activities.

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:

- Making arrangements such that the individual is not entitled to any benefits or payments from the firm\*, unless made in accordance with fixed pre-determined arrangements.
- Making arrangements such that any amount owed to the individual is not material to the firm\*;
- Modifying the plan for the assurance engagement\*;
- Assigning individuals to the assurance 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 assurance team\*.

\* See Definitions for parts A, B and C

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

**291.131** A self-interest threat is created when a member of the assurance team\* participates in the assurance engagement\* while knowing that the member of the assurance team\* will, or may, join the client some time in the future. Firm\* policies and procedures shall require members of an assurance 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 assurance team\*; or
- A review of any significant judgments made by that individual while on the team.

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

**291.132** Self-interest, self-review or familiarity threats may be created if a member of the assurance team\* has recently served as a director\*, officer\*, or employee of the assurance client\*. This would be the case when, for example, a member of the assurance team\* has to evaluate elements of the subject matter information the member of the assurance team\* had prepared while with the client.

**291.133** If, during the period covered by the assurance report, a member of the assurance team\* had served as director\* or officer\* of the assurance client\*, or was an employee in a position to exert significant influence over the subject matter information of the assurance engagement\*, 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 assurance team\*.

**291.134** Self-interest, self-review or familiarity threats may be created if, before the period covered by the assurance report, a member of the assurance team\* had served as director\* or officer\* of the assurance client\*, or was an employee in a position to exert significant influence over the subject matter information of the assurance engagement\*. 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 assurance 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 assurance team\*.

\* See Definitions for parts A, B and C

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 part of the assurance team\*.

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

- 291.135** If a partner\* or employee of the firm\* serves a director\* or officer\* of an assurance client\*, the self-review and self-interest threats 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 assurance client\*.
- 291.136** 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 regulation or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.
- 291.137** If a partner\* or employee of the firm\* serves as Company Secretary for an assurance 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 291.135, 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\*.
- 291.138** 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 with Assurance clients\***

- 291.139** Familiarity and self-interest threats are created by using the same senior personnel on an assurance 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 assurance team\*;
  - The role of the individual on the assurance team\*;
  - The structure of the firm\*;
  - The nature of the assurance engagement\*;
  - Whether the client's management team has changed; and

\* See Definitions for parts A, B and C

- Whether the nature or complexity of the subject matter information 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 assurance team\*;
- Having a professional accountant\* who was not a member of the assurance team\* review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

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

**291.140** Firms have traditionally provided to their assurance 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 assurance team\*. The threats created are most often self-review, self-interest and advocacy threats.

**291.141** 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.

**291.142** Before the firm\* accepts an engagement to provide a non-assurance service to an assurance 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 assurance 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.

### **Management Responsibilities**

**291.143** 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.

**291.144** 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;

\* See Definitions for parts A, B and C

- Authorising transactions;
- Deciding which recommendations of the firm\* or other third parties to implement; and
- Taking responsibility for designing, implementing and maintaining internal control.

**291.145** 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 assurance 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.

**291.146** Assuming a management responsibility for an assurance client\* may create threats to independence\*. If a firm\* were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level\*. Accordingly, in providing assurance services to an assurance client\*, a firm\* shall not assume a management responsibility as part of the assurance service. If the firm\* assumes a management responsibility as part of any other services provided to the assurance client\*, it shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement\* provided by the firm\*.

**291.147** To avoid the risk of assuming a management responsibility related to the subject matter or subject matter information of the assurance engagement\*, 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. This 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.

### **Other Considerations**

**291.148** Threats to independence\* may be created when a firm\* provides a non-assurance service related to the subject matter information of an assurance engagement\*. In such cases, an evaluation of the significance of the firm's\* involvement with the subject matter information of the engagement shall be made, and a determination shall be made of whether any self-review threats that are not at an acceptable level\* can be reduced to an acceptable level\* by the application of safeguards.

**291.149** A self-review threat may be created if the firm\* is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement\*. For example, a self-review threat would be

\* See Definitions for parts A, B and C

created if the firm\* developed and prepared prospective financial information and subsequently provided assurance on this information. Consequently, the firm\* shall evaluate the significance of any self-review threat created by the provision of such services and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level\*.

**291.150** When a firm\* performs a valuation that forms part of the subject matter information of an assurance engagement\*, the firm\* shall evaluate the significance of any self-review threat and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level\*.

## **Fees**

### **Fees - Relative Size**

**291.151** When the total fees from an assurance client\* represent a large proportion of the total fees of the firm\* expressing the conclusion, 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:

- 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 assurance judgments.

**291.152** A self-interest or intimidation threat is also created when the fees generated from an assurance client\* represent a large proportion of the revenue from an individual partner's\* clients. 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 having an additional professional accountant\* who was not a member of the assurance team\* review the work or otherwise advise as necessary.

### **Fees - Overdue**

**291.153** A self-interest threat may be created if fees due from an assurance client\* remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report, if any, for the following period. Generally the firm\* is expected to require payment of such fees before any such 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

\* See Definitions for parts A, B and C

example of such a safeguard is having another professional accountant\* who did not take part in the assurance 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 assurance engagement\*.

### **Contingent fees\***

**291.154** 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, fees are not regarded as being contingent if established by a court or other public authority.

**291.155** A contingent fee\* charged directly or indirectly, for example through an intermediary, by a firm\* in respect of an assurance 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.

**291.156** 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 assurance client\* may also create a self-interest threat. If the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement\*, no safeguards could reduce the threat to an acceptable level\*. Accordingly, such arrangements shall not be accepted.

**291.157** For other contingent fee\* arrangements charged by a firm\* for a non-assurance service to an assurance 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 subject matter information.

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 assurance work or otherwise advise as necessary; or
- Using professionals who are not members of the assurance team\* to perform the non-assurance service.

\* See Definitions for parts A, B and C

## **Gifts and Hospitality**

**291.158** Accepting gifts or hospitality from an assurance client\* may create self-interest and familiarity threats. If a firm\* or a member of the assurance 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 assurance team\* shall not accept such gifts or hospitality.

## **Actual or Threatened Litigation**

**291.159** When litigation takes place, or appears likely, between the firm\* or a member of the assurance team\* and the assurance client\*, self-interest and intimidation threats are created. The relationship between client management and the members of the assurance 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:

- The materiality of the litigation; and
- Whether the litigation relates to a prior assurance 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 assurance team\*, removing that individual from the assurance 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 assurance engagement\*.

## **Interpretation 2005-01 (Revised July 2009 to conform to changes resulting from the IESBA's project to improve the clarity of the Code)**

### Application of section 291 to Assurance engagements\* that are not Financial statement\* Audit engagements\*

This interpretation provides guidance on the application of the independence\* requirements contained in section 291 to assurance engagements\* that are not financial statement\* audit engagements\*.

This interpretation focuses on the application issues that are particular to assurance engagements\* that are not financial statement\* audit engagements\*. There are other matters noted in section 291 that are relevant in the consideration of independence\* requirements for all assurance engagements\*. For example, paragraph 291.3 states that an evaluation shall be made of any threats the firm\* has reason to believe are created by

\* See Definitions for parts A, B and C

a network firm's\* interests and relationships. It also states that when the assurance team\* has reason to believe that a related entity\* of such an assurance client\* is relevant to the evaluation of the firm's\* independence\* of the client, the assurance team\* shall include the related entity\* when evaluating threats to independence\* and when necessary applying safeguards. These matters are not specifically addressed in this interpretation.

As explained in the International Framework for Assurance engagements\* issued by the International Auditing and Assurance Standards Board, in an assurance engagement\*, the professional accountant in public practice\* expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

### **Assertion-Based Assurance engagements\***

In an assertion-based assurance engagement\*, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users.

In an assertion-based assurance engagement\* independence\* is required from the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter.

In those assertion-based assurance engagements\* where the responsible party is responsible for the subject matter information but not the subject matter, independence\* is required from the responsible party. In addition, an evaluation shall be made of any threats the firm\* has reason to believe are created by interests and relationships between a member of the assurance team\*, the firm\*, a network firm\* and the party responsible for the subject matter.

### **Direct Reporting Assurance engagements\***

In a direct reporting assurance engagement\*, the professional accountant in public practice\* either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

In a direct reporting assurance engagement\* independence\* is required from the responsible party, which is responsible for the subject matter.

### **Multiple Responsible Parties**

In both assertion-based assurance engagements\* and direct reporting assurance engagements\* there may be several responsible parties. For example, a public accountant in public practice may be asked to provide assurance on the monthly circulation statistics of a number of independently owned newspapers. The assignment could be an assertion based assurance engagement\* where each newspaper measures its circulation and the statistics are presented in an assertion that is available to the intended users. Alternatively, the assignment could be a direct reporting assurance engagement\*, where there is no assertion and there may or may not be a written representation from the newspapers.

\* See Definitions for parts A, B and C

In such engagements, when determining whether it is necessary to apply the provisions in section 291 to each responsible party, the firm\* may take into account whether an interest or relationship between the firm\*, or a member of the assurance team\*, and a particular responsible party would create a threat to independence\* that is not trivial and inconsequential in the context of the subject matter information. This will take into account:

- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
- The degree of public interest that is associated with the engagement.

If the firm\* determines that the threat to independence\* created by any such relationships with a particular responsible party would be trivial and inconsequential it may not be necessary to apply all of the provisions of this section to that responsible party.

**Example**

The following example has been developed to demonstrate the application of section 291. It is assumed that the client is not also a financial statement\* audit client\* of the firm\*, or a network firm\*.

A firm\* is engaged to provide assurance on the total proven oil reserves of 10 independent companies. Each company has conducted geographical and engineering surveys to determine their reserves (subject matter). There are established criteria to determine when a reserve may be considered to be proven which the professional accountant in public practice\* determines to be suitable criteria for the engagement.

The proven reserves for each company as at December 31, 20X0 were as follows:

	<b>Proven oil reserves thousands of barrels</b>
Company 1	5,200
Company 2	725
Company 3	3,260
Company 4	15,000
Company 5	6,700
Company 6	39,126
Company 7	345
Company 8	175
Company 9	24,135
Company 10	9,635

\* See Definitions for parts A, B and C

<b>Total</b>	<b>104,301</b>
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The engagement could be structured in differing ways:

#### Assertion-Based Engagements

- A1 Each company measures its reserves and provides an assertion to the firm\* and to intended users.
- A2 An entity other than the companies measures the reserves and provides an assertion to the firm\* and to intended users.

#### Direct Reporting Engagements

- D1 Each company measures the reserves and provides the firm\* with a written representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.
- D2 The firm\* directly measures the reserves of some of the companies.

#### Application of Approach

- A1 Each company measures its reserves and provides an assertion to the firm\* and to intended users.

There are several responsible parties in this engagement (companies 1-10). When determining whether it is necessary to apply the independence\* provisions to all of the companies, the firm\* may take into account whether an interest or relationship with a particular company would create a threat to independence\* that is not at an acceptable level\*. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement (paragraph 291.28).

For example Company 8 accounts for 0.17% of the total reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6, which accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence\* requirements apply, the assurance team\* and the firm\* are required to be independent of those responsible parties that would be considered to be the assurance client\* (paragraph 291.28).

- A2 An entity other than the companies measures the reserves and provides an assertion to the firm\* and to intended users.

\* See Definitions for parts A, B and C

The firm\* shall be independent of the entity that measures the reserves and provides an assertion to the firm\* and to intended users (paragraph 291.19). That entity is not responsible for the subject matter and so an evaluation shall be made of any threats the firm\* has reason to believe are created by interests/relationships with the party responsible for the subject matter (paragraph 291.19). There are several parties responsible for the subject matter in this engagement (Companies 1-10). As discussed in example A1 above, the firm\* may take into account whether an interest or relationship with a particular company would create a threat to independence\* that is not at an acceptable level\*.

- D1 Each company provides the firm\* with a representation that measures its reserves against the established criteria for measuring proven reserves. The representation is not available to the intended users.

There are several responsible parties in this engagement (Companies 1-10). When determining whether it is necessary to apply the independence\* provisions to all of the companies, the firm\* may take into account whether an interest or relationship with a particular company would create a threat to independence\* that is not at an acceptable level\*. This will take into account factors such as:

- The materiality of the company's proven reserves in relation to the total reserves to be reported on; and
- The degree of public interest associated with the engagement. (Paragraph 291.28).

For example, Company 8 accounts for 0.17% of the reserves, therefore a business relationship or interest with Company 8 would create less of a threat than a similar relationship with Company 6 that accounts for approximately 37.5% of the reserves.

Having determined those companies to which the independence\* requirements apply, the assurance team\* and the firm\* shall be independent of those responsible parties that would be considered to be the assurance client\* (paragraph 291.28).

- D2 The firm\* directly measures the reserves of some of the companies.

The application is the same as in example D1.