

Section 290 Independence – Assurance engagements*

Scope

290.0 When conducting audit engagements* in the UK and Republic of Ireland, members* should comply with the requirements of the Auditing Practices Board's ('APB's') Ethical Standards¹. Before undertaking other assurance engagements* for audit clients, members* should consider the impact of the proposed engagement on the integrity and independence* of the audit, by reference to the APB's Ethical Standards.

290.0A When performing audit engagements* in other territories, professional accountants* should comply with the requirements of Section 290 of the IFAC Code of Ethics (www.ifac.org/Store/) in force at the time of the engagement. The Auditing Practices Board (APB) has stated, in ISA (UK and Ireland) 200, that it is not aware of any significant instances where the relevant parts of the IFAC Code of Ethics are more restrictive than the Ethical Standards.

290.0B The remainder of this Section applies to assurance engagements* other than audits. Accordingly, elements of Section 290 of the IFAC Code of Ethics which relate only to audit engagements* have not been reproduced in this Section and paragraph numbering is therefore not sequential.

290.0C Note that the Statements of Investment Circular Reporting Standards (SIRS), issued by the APB, require compliance with an Ethical Statement for Reporting Accountants (ESRA), also issued by the APB. 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.

290.1 In the case of an assurance engagement* it is in the public interest and, therefore, required by this Code of Ethics, that members of assurance teams*, firms* and, when applicable, network firms* be independent of assurance clients*.

Objectivity required in respect of non-assurance engagements* is considered in Section 280.

Other Assurance Engagements*

290.2 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 Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAES) apply. For a description of the elements and objectives of an assurance engagement*, reference should be made to the Assurance Framework (www.ifac.org/IAASB/).

290.3 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.

290.4 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 subject matter. For example:

- The recognition, measurement, presentation and disclosure represented in the financial statements* (subject matter information) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as International Financial Reporting Standards (criteria), to an entity's financial position, financial performance and cash flows (subject matter).
- 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 COSO² or CoCo³ (criteria), to internal control, a process (subject matter).

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

290.6 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.

290.7 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.

¹ APB Ethical Standards 1 to 5 and the Provisions Available for Smaller Entities, available at www.frc.org.uk/apb/publications.

* See Definitions

² A U.S. publication used to conduct an evaluation of an organisation's internal control system.

³ A publication from the Canadian Institute of Chartered Accountants which provides advice and guidance on the criteria for control.

290.8 Independence* requires:

Independence* of Mind

The state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

Independence* in Appearance

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's*, integrity, objectivity or professional scepticism had been compromised.

290.9 The use of the word 'independence*' on its own may create misunderstandings. Standing alone, the word may lead observers to suppose that a person exercising professional judgement ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.

290.10 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence* and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements* may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires firms* and members of assurance teams* to identify, evaluate and address threats to independence*, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.

A Conceptual Approach to Independence*

290.11 Members of assurance teams*, firms* and network firms* are required to apply the conceptual framework contained in Section 100 to the particular circumstances under consideration. In addition to identifying relationships between the firm*, network firms*, members of the assurance team* and the assurance client*, consideration should be given to whether relationships between individuals outside of the assurance team* and the assurance client* create threats to independence*.

290.12 The examples presented in this Section are intended to illustrate the application of the conceptual framework and are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to independence*. Consequently, it is not sufficient for a member of an assurance team*, a firm* or a network firm* merely to comply with the examples presented, rather they should apply the framework to the particular circumstances they face.

290.13 The nature of the threats to independence* and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level differ depending on the characteristics of the individual assurance engagement*, that is, the purpose, subject matter information and intended users of the report. A firm* should, therefore, evaluate the relevant circumstances, the nature of the assurance engagement* and the threats to independence* in deciding whether it is appropriate to accept or continue an engagement, as well as the nature of the safeguards required and whether a particular individual should be a member of the assurance team*.

Further consideration of the nature of threats and safeguards that may be appropriate is included in Section 200.

Assertion-based Assurance Engagements⁴

290.15 In an assertion-based assurance engagement*, the members of the assurance team* and the firm* are required to be independent of the assurance client* (the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter). Such independence* requirements include prohibitions regarding certain relationships between members of the assurance team* and directors, officers and employees of the client in a position to exert direct and significant influence over the subject matter information. Also, consideration should be given to whether threats to independence* are created by relationships with employees of the client in a position to exert direct and significant influence over the subject matter of the engagement. Consideration should also be given to any threats that the firm* has reason to believe may be created by network firm* interests and relationships.

290.16 In the majority of assertion-based assurance engagements*, the responsible party is responsible for 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).

290.17 In those 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* are required to be independent of the party responsible for the subject matter information (the assurance client*). In addition, consideration

* See Definitions

⁴ See appendix to Definitions, paragraph 10

should be given to any threats the firm* has reason to believe may be 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 Engagements⁵

290.18 In a direct reporting assurance engagement* the members of the assurance team* and the firm* are required to be independent of the assurance client* (the party responsible for the subject matter).

Restricted use reports

290.19 In the case of an assurance report expressly restricted for use by identified users, the users of the report are considered to be knowledgeable as to the purpose, subject matter information and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to deliver the services, including the criteria against which the subject matter are to be evaluated or measured. This knowledge and the enhanced ability of the firm* to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence* in appearance. These circumstances may be taken into account by the firm* in evaluating the threats to independence* and considering the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level. At a minimum, it will be necessary to apply the provisions of this Section in evaluating the independence* of members of the assurance team* and their immediate and close family*. Further, 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 no safeguard could reduce the threat to an acceptable level. Limited consideration of any threats created by network firm* interests and relationships may be sufficient.

Independence* from Assurance Client* – Summary

290.19A The independent requirements for assurance engagements* can be summarised as follows:

Parties needing to be independent of the assurance client*	Type of assurance engagement*
Assurance team*	All assurance engagements*.
Firm*	Assurance engagements* where there is not a restricted use report. For assurance engagements* for non-audit clients, where there is a restricted use report, the firm* may not need to comply with the full independence* requirements of this Statement but should not have a material financial interest* in the client.
Network firms*	All assurance engagements* for financial statement audit clients* (because of auditor independence* requirements)

Multiple Responsible Parties

290.20 In some assurance engagements*, whether assertion-based or direct reporting, there might be several responsible parties. In such engagements, in determining whether it is necessary to apply the provisions in this Section 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 other than clearly insignificant* in the context of the subject matter information. This will take into account factors such as:

- 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 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 clearly insignificant* it may not be necessary to apply all of the provisions of this Section to that responsible party.

Other Considerations

290.21 The threats and safeguards identified in this Section are generally discussed in the context of interests or relationships between the firm*, network firms*, members of the assurance team* and the assurance client*. When the assurance team* has reason to believe that a related entity* of an assurance client* is relevant to the evaluation of the firm's* independence* of the client, the assurance team* should consider that related entity* when evaluating independence* and applying appropriate safeguards.

290.22 The evaluation of threats to independence* and subsequent action should be supported by evidence obtained before accepting the engagement and while it is being performed. The obligation to make such an evaluation and take action arises when a firm*, a network firm* or a member of the assurance team* knows, or could reasonably be expected

⁵ See appendix to Definitions, paragraph 10

* See Definitions

* See Definitions

to know, of circumstances or relationships that might compromise independence*. There may be occasions when the firm*, a network firm* or an individual inadvertently violates this Section. If such an inadvertent violation occurs, it would generally not compromise independence* with respect to an assurance client* provided the firm* has appropriate quality control policies and procedures in place to promote independence* and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

290.23 Throughout this Section, reference is made to significant and clearly insignificant* threats in the evaluation of independence*. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant* only if it is deemed to be both trivial and inconsequential.

Objective and Structure of this Section

290.24 The objective of this Section is to assist firms* and members of assurance teams* in:

- (a) Identifying threats to independence*;
- (b) Evaluating whether these threats are clearly insignificant* ; and
- (c) In cases when the threats are not clearly insignificant , identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

Consideration should always be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable. In situations when no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement*.

290.25 This Section concludes with some examples of how this conceptual approach to independence* is to be applied to specific circumstances and relationships. The examples discuss threats to independence* that may be created by specific circumstances and relationships (paragraphs 290.100 onwards). Professional judgement is used to determine the appropriate safeguards to eliminate threats to independence* or to reduce them to an acceptable level. In certain examples, the threats to independence* are so significant the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement*. In other examples, the threat can be eliminated or reduced to an acceptable level by the application of safeguards. The examples are not intended to be all-inclusive.

290.27 When threats to independence* that are not clearly insignificant* are identified, and the firm* decides to accept or continue the assurance engagement*, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

290.29 Audit committees* can have an important corporate governance role when they are independent of client management and can assist the Board of Directors in satisfying themselves that a firm* is independent in carrying out its audit role. There should be regular communications between the firm* and the audit committee* (or other governance body if there is no audit committee*) of listed entities regarding relationships and other matters that might, in the firm's* opinion, reasonably be thought to bear on independence*.

290.30 Firms* should establish policies and procedures relating to independence* communications with audit committees*, or others charged with governance of the client. Matters to be communicated will vary in each circumstance and should be decided by the firm*, but should generally address the relevant matters set out in this Section.

Engagement Period

290.31 The members of the assurance team* and the firm* should be independent of the assurance client* during the period of the assurance engagement*. The period of the engagement starts when the assurance team* begins to perform assurance services and ends when the assurance report is issued, except when the assurance engagement* is of a recurring nature. If the assurance engagement* is expected to recur, the period of the assurance engagement* ends with the notification by either party that the professional relationship has terminated or the issuance of the final assurance report, whichever is later.

290.32 The firm* should consider whether any financial or business relationships or previous services may create threats to independence*.

* See Definitions

APPLICATION OF FRAMEWORK TO SPECIFIC SITUATIONS: CONTENTS

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Introduction

290.100 The following examples describe specific circumstances and relationships that may create threats to independence*. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all inclusive. In practice, the firm*, network firms* and the members of the assurance team* will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 200.12 to 200.15 can be applied to satisfactorily address the threats to independence*.

290.101 The examples illustrate how safeguards should be applied to fulfill the requirement for the members of the assurance team* and the firm* to be independent of an assurance client* that is not a financial statement audit client*. The examples do not include assurance reports expressly restricted for use by identified users. As stated in paragraph 290.19 for such engagements, members of the assurance team* and their immediate and close family* are required to be independent of the assurance client*. Further, the firm* should not have a material financial interest, direct or indirect, in the assurance client*.

290.102 The examples should be read in conjunction with paragraphs 290.20 which explain that, in the majority of assurance engagements*, there is one responsible party and that responsible party comprises the assurance client*. However, in some assurance engagements* there are two responsible parties. In such circumstances, consideration should be given to any threats the firm* has reason to believe may be 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.

290.103 Interpretation 2005–01 to this Section provides further guidance on the application of the independence* requirements contained in this Section to assurance engagements* that are not financial statement audit engagements* *in a number of example situations. This is included as an Appendix to this Section.*

Financial Interests*

290.104 A financial interest* in an assurance client* may create a self-interest threat. In evaluating the significance of the threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest*. This includes an evaluation of the role of the person holding the financial interest*, the materiality of the financial interest* and the type of financial interest* (direct or indirect).

290.105 When evaluating the type of financial interest*, consideration should be given to the fact that financial interests* range from those where the individual has no control over the investment vehicle or the financial interest* held (e.g., a mutual fund, unit trust or similar intermediary vehicle) to those where the individual has control over the financial interest* (e.g., as a trustee) or is able to influence investment decisions. In evaluating the significance of any threat to independence*, it is important to consider the degree of control or influence that can be exercised over the intermediary, the financial interest* held, or its investment strategy. When control exists, the financial interest* should be considered direct. Conversely, when the holder of the financial interest* has no ability to exercise such control the financial interest* should be considered indirect.

* See Definitions

290.106 If a member of the assurance team*, or their immediate family* member, has a direct financial interest*, or a material indirect financial interest*, in the assurance client*, the self-interest threat created would be so significant the only safeguards available to eliminate the threat or reduce it to an acceptable level would be to:

- (a) Dispose of the direct financial interest* prior to the individual becoming a member of the assurance team*;
- (b) Dispose of the indirect financial interest* in total or dispose of a sufficient amount of it so that the remaining interest is no longer material prior to the individual becoming a member of the assurance team*;
- (c) Remove the member of the assurance team* from the assurance engagement*.

290.107 If a member of the assurance team*, or their immediate family* member receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest* or a material indirect financial interest* in the assurance client*, a self-interest threat would be created. The following safeguards should be applied to eliminate the threat or reduce it to an acceptable level:

- (a) Disposing of the financial interest* at the earliest practical date; or
- (b) Removing the member of the assurance team* from the assurance engagement*.

During the period prior to disposal of the financial interest* or the removal of the individual from the assurance team*, consideration should be given to whether additional safeguards are necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Discussing the matter with those charged with governance, such as the audit committee*;
- Involving an additional professional accountant* to review the work done, or otherwise advise as necessary.

290.108 When a member of the assurance team* knows that his or her close family* member has a direct financial interest* or a material indirect financial interest* in the assurance client*, a self-interest threat may be created. In evaluating the significance of any threat, consideration should be given to the nature of the relationship between the member of the assurance team* and the close family* member and the materiality of the financial interest*. Once the significance of the threat has been evaluated, safeguards should be considered and applied as necessary. Such safeguards might include:

- The close family* member disposing of all or a sufficient portion of the financial interest* at the earliest practical date;
- Discussing the matter with those charged with governance, such as the audit committee*;
- Involving an additional professional accountant* who did not take part in the assurance engagement* to review the work done by the member of the assurance team* with the close family* relationship or otherwise advise as necessary; or
- Removing the individual from the assurance engagement*.

290.109 When a firm* or a member of the assurance team* holds a direct financial interest* or a material indirect financial interest* in the assurance client* as a trustee, a self-interest threat may be created by the possible influence of the trust over the assurance client*. Accordingly, such an interest should only be held when:

- (a) The member of the assurance team*, an immediate family* member of the member of the assurance team*, and the firm* are not beneficiaries of the trust;
- (b) The interest held by the trust in the assurance client* is not material to the trust;
- (c) The trust is not able to exercise significant influence over the assurance client*;
- (d) The member of the assurance team* or the firm* does not have significant influence over any investment decision involving a financial interest* in the assurance client*.

290.110 Consideration should be given to whether a self-interest threat may be created by the financial interests* of individuals outside of the assurance team* and their immediate and close family* members. Such individuals would include:

- Partners*, and their immediate family* members, who are not members of the assurance team*;
- Partners and managerial employees who provide non-assurance services to the assurance client*;
- Individuals who have a close personal relationship with a member of the assurance team*.

Whether the interests held by such individuals may create a self-interest threat will depend upon 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 the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Where appropriate, policies to restrict people from holding such interests;
- Discussing the matter with those charged with governance, such as the audit committee*;
- Involving an additional professional accountant* who did not take part in the assurance engagement* to review the work done or otherwise advise as necessary.

290.111 An inadvertent violation of this Section as it relates to a financial interest* in an assurance client* would not impair the independence* of the firm*, the network firm* or a member of the assurance team* when:

* See Definitions

- (a) The firm*, and the network firm*, have established policies and procedures that require all professionals to report promptly to the firm* any breaches resulting from the purchase, inheritance or other acquisition of a financial interest* in the assurance client*;
- (b) The firm*, and the network firm*, promptly notify the professional that the financial interest* should be disposed of; and
- (c) The disposal occurs at the earliest practical date after identification of the issue, or the professional is removed from the assurance team*.

290.112 When an inadvertent violation of this Section relating to a financial interest* in an assurance client* has occurred, the firm* should consider whether any safeguards should be applied. Such safeguards might include:

- Involving an additional professional accountant* who did not take part in the assurance engagement* to review the work done by the member of the assurance team*;
- Excluding the individual from any substantive decision-making concerning the assurance engagement*.

290.122 If a firm* has a direct financial interest* in an assurance client* the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, disposal of the financial interest* would be the only action appropriate to permit the firm* to perform the engagement.

290.123 If a firm* has a material indirect financial interest* in an assurance client* a self-interest threat is also created. The only action appropriate to permit the firm* to perform the engagement would be for the firm* to either dispose of the indirect interest in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

290.124 If a firm* has a material financial interest* in an entity that has a controlling interest in an assurance client*, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. The only action appropriate to permit the firm* to perform the engagement would be for the firm* either to dispose of the financial interest* in total or to dispose of a sufficient amount of it so that the remaining interest is no longer material.

290.125 When a restricted use report for an assurance engagement* is issued, exceptions to the provisions in paragraphs 290.106 to 290.110 and 290.122 to 290.124 are set out in 290.19.

Loans* and Guarantees

290.126 A loan*, or a guarantee of a loan*, to the firm* from an assurance client* that is a bank or a similar institution, would not create a threat to independence* provided the loan*, or guarantee, is made under normal lending procedures, terms and requirements and the loan* is immaterial to both the firm* and the assurance client*. If the loan* is material to the assurance client* or the firm* it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional professional accountant* from outside the firm*, or network firm*, to review the work performed.

290.127 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 their immediate family* would not create a threat to independence* provided the loan*, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans* include home mortgages, bank overdrafts, car loans* and credit card balances.

290.128 Similarly, deposits made by, or brokerage accounts of, a firm* or a member of the assurance team* with an assurance client* that is a bank, broker or similar institution would not create a threat to independence* provided the deposit or account is held under normal commercial terms.

290.129 If the firm*, or a member of the assurance team*, makes a loan* to an assurance client*, that is not a bank or similar institution, or guarantees such an assurance client's* borrowing, the self-interest threat created would be so significant no safeguard 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 assurance client*.

290.130 Similarly, if the firm* or a member of the assurance team* accepts a loan* from, or has borrowing guaranteed by, an assurance client* that is not a bank or similar institution, the self-interest threat created would be so significant no safeguard 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 assurance client*.

Close Business Relationships with Assurance Clients*

290.132 A close business relationship between a firm* or a member of the assurance team* and the assurance client* or its management, will involve a commercial or common financial interest* and may create self-interest and intimidation threats. The following are examples of such relationships:

- Having a material financial interest* in a joint venture with the assurance client* or a controlling owner, director, officer or other individual who performs senior managerial functions for that client.
- Arrangements to combine one or more services or products of the firm* with one or more services or products of the assurance client* and to market the package with reference to both parties.

* See Definitions

- Distribution or marketing arrangements under which the firm* acts as a distributor or marketer of the assurance client's* products or services, or the assurance client* acts as the distributor or marketer of the products or services of the firm*.

Unless the financial interest* is immaterial and the relationship is clearly insignificant* to the firm* and the assurance client*, no safeguards could reduce the threat to an acceptable level. Consequently, in both these circumstances the only possible courses of action are to:

- Terminate the business relationship;
- Reduce the magnitude of the relationship so that the financial interest* is immaterial and the relationship is clearly insignificant*; or
- Refuse to perform the assurance engagement*.

Unless any such financial interest* is immaterial and the relationship is clearly insignificant* to the member of the assurance team*, the only appropriate safeguard would be to remove the individual from the assurance team*.

290.134 The purchase of goods and services from an assurance client* by the firm* or a member of the assurance team* would not generally create a threat to independence* providing the transaction is in the normal course of business and on an arm's length basis. However, such transactions may be of a nature or magnitude so as to create a self-interest threat. If the threat created is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Eliminating or reducing the magnitude of the transaction;
- Removing the individual from the assurance team*; or
- Discussing the issue with those charged with governance, such as the audit committee*.

Family and Personal Relationships

290.135 Family and personal relationships between a member of the assurance team* and a director, an officer or certain employees, depending on their role, of the assurance client*, may create self-interest, familiarity or intimidation threats. It is impracticable to attempt to describe in detail the significance of the threats that such relationships may create. The significance will depend upon a number of factors including the individual's responsibilities on the assurance engagement*, the closeness of the relationship and the role of the family member or other individual within the assurance client*. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to be applied to reduce the threat to an acceptable level.

290.136 When an immediate family* member of a member of the assurance team* is a director, an officer or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement*, or was in such a position during any period covered by the engagement, 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 safeguard could reduce the threat to independence* to an acceptable level. If application of this safeguard is not used, the only course of action is to withdraw from the assurance engagement*.

290.137 When an immediate family* member of a member of the assurance team* is an employee in a position to exert direct and significant influence over the subject matter of the engagement, threats to independence* may be created. The significance of the threats will depend on factors such as:

- The position the immediate family* member holds with the client; and
- The role of the professional on the assurance team .

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Removing the individual from the assurance team*;
- Where possible, 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; or
- Policies and procedures to empower staff to communicate to senior levels within the firm* any issue of independence* and objectivity that concerns them.

290.138 When a close family* member of a member of the assurance team* is a director, an officer, or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement*, threats to independence* may be created. The significance of the threats will depend on factors such as:

- The position the close family* member holds with the client; and
- The role of the professional on the assurance team*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Removing the individual from the assurance team*;

* See Definitions

- Where possible, 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; or
- Policies and procedures to empower staff to communicate to senior levels within the firm* any issue of independence* and objectivity that concerns them.

290.139 In addition, self-interest, familiarity or intimidation threats may be created when a person who is other than an immediate or close family* member of a member of the assurance team* has a close relationship with the member of the assurance team* and is a director, an officer or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement*. Therefore, members of the assurance team* are responsible for identifying any such persons and for consulting in accordance with firm* procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship and the role of the individual within the assurance client*.

290.140 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a partner* or employee of the firm* who is not a member of the assurance team* and a director, an officer or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement*. Therefore partners* and employees of the firm* are responsible for identifying any such relationships and for consulting in accordance with firm* procedures. The evaluation of the significance of any threat created and the safeguards appropriate to eliminate the threat or reduce it to an acceptable level will include considering matters such as the closeness of the relationship, the interaction of the firm* professional with the assurance team*, the position held within the firm*, and the role of the individual within the assurance client*.

290.141 An inadvertent violation of this Section as it relates to family and personal relationships would not impair the independence* of a firm* or a member of the assurance team* when:

- (a) The firm* has established policies and procedures that require all professionals to report promptly to the firm* 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) Either the responsibilities of the assurance team* are re-structured so that the professional does not deal with matters that are within the responsibility of the person with whom he or she is related or has a personal relationship, or, if this is not possible, the firm* promptly removes the professional from the assurance engagement*; and
- (c) Additional care is given to reviewing the work of the professional.

290.142 When an inadvertent violation of this Section relating to family and personal relationships has occurred, the firm* should consider whether any safeguards should be applied. Such safeguards might include:

- Involving an additional professional accountant* who did not take part in the assurance engagement* to review the work done by the member of the assurance team*; or
- Excluding the individual from any substantive decision-making concerning the assurance engagement*.

Employment with Assurance Clients*

290.143 A firm* or a member of the assurance team's* independence* may be threatened if a director, an officer or an employee of the assurance client* in a position to exert direct and significant influence over the subject matter information of the assurance engagement* has been a member of the assurance team* or partner* of the firm*. Such circumstances may create self-interest, familiarity and intimidation threats particularly when significant connections remain between the individual and his or her former firm*. Similarly, a member of the assurance team's* independence* may be threatened when an individual participates in the assurance engagement* knowing, or having reason to believe, that he or she is to, or may, join the assurance client* some time in the future.

290.144 If a member of the assurance team*, partner* or former partner of the firm* has joined the assurance client*, the significance of the self-interest, familiarity or intimidation threats created will depend upon the following factors:

- (a) The position the individual has taken at the assurance client*.
- (b) The amount of any involvement the individual will have with the assurance team*.
- (c) The length of time that has passed since the individual was a member of the assurance team* or firm*.
- (d) The former position of the individual within the assurance team* or firm*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Considering the appropriateness or necessity of modifying the assurance plan for the assurance engagement*;
- Assigning an assurance team* to the subsequent assurance engagement* that is of sufficient experience in relation to the individual who has joined the assurance client*;
- Involving an additional professional accountant* who was not a member of the assurance team* to review the work done or otherwise advise as necessary; or
- Quality control review of the assurance engagement*.

In all cases, all of the following safeguards are necessary to reduce the threat to an acceptable level:

* See Definitions

* See Definitions

- (a) The individual concerned is not entitled to any benefits or payments from the firm* unless these are made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be of such significance to threaten the firm's* independence*.
- (b) The individual does not continue to participate or appear to participate in the firm's* business or professional activities.

290.145 A self-interest threat is created when a member of the assurance team* participates in the assurance engagement* while knowing, or having reason to believe, that he or she is to, or may, join the assurance client* some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:

- (a) Policies and procedures to require the individual to notify the firm* when entering serious employment negotiations with the assurance client*.
- (b) Removal of the individual from the assurance engagement*.

In addition, consideration should be given to performing an independent review of any significant judgements made by that individual while on the engagement.

Recent Service with Assurance Clients*

290.146 To have a former officer, director or employee of the assurance client* serve as a member of the assurance team* may create self-interest, self-review and familiarity threats. This would be particularly true when a member of the assurance team* has to report on, for example, subject matter information he or she had prepared or elements of the financial statements* he or she had valued while with the assurance client*.

290.147 If, during the period covered by the assurance report, a member of the assurance team* had served as an officer or director of the assurance client*, or had been an employee in a position to exert direct and significant influence over the subject matter information of the assurance engagement*, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the assurance team*.

290.148 If, prior to the period covered by the assurance report, a member of the assurance team* had served as an officer or director of the assurance client*, or had been an employee in a position to exert direct and significant influence over the subject matter information of the assurance engagement*, this may create self-interest, self-review and familiarity threats. 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 assurance client*, is to be evaluated in the current period as part of the current assurance engagement*. The significance of the threats will depend upon factors such as:

- The position the individual held with the assurance client*;
- The length of time that has passed since the individual left the assurance client*; and
- The role the individual plays on the assurance team*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Involving an additional professional accountant* to review the work done by the individual as part of the assurance team* or otherwise advise as necessary; or
- Discussing the issue with those charged with governance, such as the audit committee*.

Serving as an Officer or Director on the Board of Assurance Clients*

290.149 If a partner or employee of the firm* serves as an officer or as a director on the board of an assurance client* the self-review and self-interest threats created would be so significant no safeguard could reduce the threats to an acceptable level. Consequently, if such an individual were to accept such a position the only course of action is to refuse to perform, or to withdraw from the assurance engagement*.

290.150 The position of Company Secretary has different implications in different jurisdictions. The 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 degree of association with the entity and may create self-review and advocacy threats.

290.152 Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters is generally not perceived to impair independence*, provided client management makes all relevant decisions.

Long Association of Senior Personnel with Assurance Clients*

290.153 Using the same senior personnel on an assurance engagement* over a long period of time may create a familiarity threat. The significance of the threat will depend upon factors such as:

- The length of time that the individual has been a member of the assurance team*;
- The role of the individual on the assurance team*;
- The structure of the firm*; and

* See Definitions

- The nature of the assurance engagement*.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied to reduce the threat to an acceptable level. Such safeguards might include:

- Rotating the senior personnel off the assurance team*;
- Involving an additional professional accountant* who was not a member of the assurance team* to review the work done by the senior personnel or otherwise advise as necessary; or
- Independent internal quality reviews.

Provision of Non-assurance Services to Assurance Clients*

290.158 Firms* have traditionally provided to their assurance clients* a range of non-assurance services that are consistent with their skills and expertise. Assurance clients* value the benefits that derive from having these firms*, which have a good understanding of the business, bring their knowledge and skill to bear in other areas. Furthermore, the provision of such non-assurance services will often result in the assurance team* obtaining information regarding the assurance client's* business and operations that is helpful in relation to the assurance engagement*. The greater the knowledge of the assurance client's* business, the better the assurance team* will understand the assurance client's* procedures and controls, and the business and financial risks that it faces. The provision of non-assurance services may, however, create threats to the independence* of the firm*, a network firm* or the members of the assurance team*, particularly with respect to perceived threats to independence*. Consequently, it is necessary to evaluate the significance of any threat created by the provision of such services. In some cases, it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases, no safeguards are available to reduce the threat to an acceptable level.

290.159 The following activities would generally create self-interest or self-review threats that are so significant that only avoidance of the activity or refusal to perform the assurance engagement* would reduce the threats to an acceptable level:

- Authorising, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client*, or having the authority to do so.
- Determining which recommendation of the firm* should be implemented.
- Reporting, in a management role, to those charged with governance.

290.160 The examples set out in paragraphs 290.169 to 290.205 are addressed in the context of the provision of non-assurance services to an assurance client*. The subject matter information of *non-audit* assurance services may be limited in nature. Threats to independence*, however, may arise when a firm* provides a non-assurance service related to the subject matter information, of a non-financial statement audit assurance engagement*. In such cases, consideration should be given to the significance of the firm's* involvement with the subject matter information, of the engagement, whether any self-review threats are created and whether any threats to independence* could be reduced to an acceptable level by application of safeguards, or whether the engagement should be declined. When the non-assurance service is not related to the subject matter information, of the non-financial statement audit assurance engagement*, the threats to independence* will generally be clearly insignificant*.

290.161 The following activities may also create self-review or self-interest threats:

- Having custody of an assurance client's* assets.
- Supervising assurance client* employees in the performance of their normal recurring activities.
- Preparing 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).

The significance of any threat created should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Making arrangements so that personnel providing such services do not participate in the assurance engagement*;
- Involving an additional professional accountant* to advise on the potential impact of the activities on the independence* of the firm* and the assurance team*.

290.162 New developments in business, the evolution of financial markets, rapid changes in information technology, and the consequences for management and control, make it impossible to draw up an all-inclusive list of all situations when providing non-assurance services to an assurance client* might create threats to independence* and of the different safeguards that might eliminate these threats or reduce them to an acceptable level. In general, however, a firm* may provide services beyond the assurance engagement* provided any threats to independence* have been reduced to an acceptable level.

290.163 The following safeguards may be particularly relevant in reducing to an acceptable level threats created by the provision of non-assurance services to assurance clients*:

- Policies and procedures to prohibit professional staff from making management decisions for the assurance client*, or assuming responsibility for such decisions.

* See Definitions

- Discussing independence* issues related to the provision of non-assurance services with those charged with governance, such as the audit committee*.
- Policies within the assurance client* regarding the oversight responsibility for provision of non-assurance services by the firm*.
- Involving an additional professional accountant* to advise on the potential impact of the non-assurance engagement* on the independence* of the member of the assurance team* and the firm*.
- Involving an additional professional accountant* outside of the firm* to provide assurance on a discrete aspect of the assurance engagement*.
- Obtaining the assurance client's* acknowledgement of responsibility for the results of the work performed by the firm*.
- Disclosing to those charged with governance, such as the audit committee*, the nature and extent of fees charged.
- Making arrangements so that personnel providing non-assurance services do not participate in the assurance engagement*.

290.164 Before the firm* accepts an engagement to provide a non-assurance service to an assurance client*, consideration should be given to whether the provision of such a service would create a threat to independence*. In situations when a threat created is other than clearly insignificant*, the non-assurance engagement* should be declined unless appropriate safeguards can be applied to eliminate the threat or reduce it to an acceptable level.

Preparing Accounting Records and Financial Statements*

290.169 Self-review threats may be created if, for example, the firm* developed and prepared prospective financial information and subsequently provided assurance on this prospective financial information. Consequently, the firm* should evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat is other than clearly insignificant* safeguards should be considered and applied as necessary to reduce the threat to an acceptable level.

Such safeguards might include:

- *Making arrangements so such services are not performed by a member of the assurance team*;*
- *Implementing policies and procedures to prohibit the individual providing such services from making any managerial decisions on behalf of the assurance client*;*
- *Requiring the source data for the accounting entries to be originated by the assurance client*;*
- *Requiring the underlying assumptions to be originated and approved by the assurance client*.*

Valuation Services

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

290.179 When the firm* performs a valuation that forms part of the subject matter information of an assurance engagement*, the firm* should consider any self-review threats. If the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

Such safeguards might include:

- *Involving an additional professional accountant* who was not a member of the assurance team* to review the work done or otherwise advise as necessary;*
- *Confirming with the assurance client* their understanding of the underlying assumptions of the valuation and the methodology to be used and obtaining approval for their use;*
- *Obtaining the assurance client's* acknowledgement of responsibility for the results of the work performed by the firm*;*
- *Making arrangements so that personnel providing such services do not participate in the assurance engagement*, and*
- *The extent and clarity of any disclosures.*

In determining whether the above safeguards would be effective, consideration should be given to the following matters:

- *The extent of the assurance client's* knowledge, experience and ability to evaluate the issues concerned, and the extent of their involvement in determining and approving significant matters of judgement.*
- *The degree to which established methodologies and professional guidelines are applied when performing a particular valuation service.*
- *For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item concerned.*
- *The reliability and extent of the underlying data.*
- *The degree of dependence on future events of a nature which could create significant volatility inherent in the amounts involved.*

Recruiting Senior Management

290.203 The recruitment of senior management for an assurance client*, such as those in a position to affect the subject matter information of the assurance engagement*, may create current or future self-interest, familiarity and intimidation threats. The significance of the threat will depend upon factors such as:

- The role of the person to be recruited; and

* See Definitions

- The nature of the assistance sought.

The firm* could generally provide such services as reviewing the professional qualifications of a number of applicants and provide advice on their suitability for the post. In addition, the firm* could generally produce a short-list of candidates for interview, provided it has been drawn up using criteria specified by the assurance client*.

The significance of the threat created should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. In all cases, the firm* should not make management decisions and the decision as to whom to hire should be left to the client.

Corporate Finance and Similar Activities

290.204 The provision of corporate finance services, advice or assistance to an assurance client* may create advocacy and self-review threats. In the case of certain corporate finance services, the independence* threats created would be so significant no safeguards could be applied to reduce the threats to an acceptable level. For example, promoting, dealing in, or underwriting of an assurance client's* shares* is not compatible with providing assurance services. Moreover, committing the assurance client* to the terms of a transaction or consummating a transaction on behalf of the client would create a threat to independence* so significant no safeguard could reduce the threat to an acceptable level.

290.205 Other corporate finance services may create advocacy or self-review threats; however, safeguards may be available to reduce these threats to an acceptable level. Examples of such services include assisting a client in developing corporate strategies, assisting in identifying or introducing a client to possible sources of capital that meet the client specifications or criteria, and providing structuring advice and assisting a client in analyzing the accounting effects of proposed transactions. Safeguards that should be considered include:

- Policies and procedures to prohibit individuals assisting the assurance client* from making managerial decisions on behalf of the client;
- Using professionals who are not members of the assurance team* to provide the services; and
- Ensuring the firm* does not commit the assurance client* to the terms of any transaction or consummate a transaction on behalf of the client.

Fees – Relative Size

290.206 When the total fees generated by an assurance client* represent a large proportion of a firm's* total fees, the dependence on that client or client group and concern about the possibility of losing the client may create a self-interest threat. The significance of the threat will depend upon factors such as:

- The structure of the firm*; and
- Whether the firm* is well established or newly created.

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Discussing the extent and nature of fees charged with the audit committee* or others charged with governance;
- Taking steps to reduce dependency on the client;
- External quality control reviews; and
- Consulting a third party, such as a professional regulatory body or another professional accountant*.

A presumption of dependence on a client or intermediary arises where it is expected that annual fee income from all services provided by the firm or its network firm* to that client or a related entity*, or intermediary, will regularly exceed 15 per cent of the aggregate gross practice income of the firm* or its network. In the case of listed entities the proportion falls to 10 per cent.*

Where the percentage of income from a client represents 10 per cent or more of the firm's total income it should carry out a review to ensure that there is no significant threat to independence* and apply safeguards where necessary. In the case of listed clients the firm* should initiate a review where the income from the client represents 5 per cent or more of the firm's* total income and disclose this percentage to the assurance client's* governance body.*

290.207 A self-interest threat may also be created when the fees generated by the assurance client* represent a large proportion of the revenue of an individual partner*. The significance of the threat should be evaluated and, if the threat is other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

- Policies and procedures to monitor and implement quality control of assurance engagements*; and
- Involving an additional professional accountant* who was not a member of the assurance team* to review the work done or otherwise advise as necessary.

Fees – Overdue

290.208 A self-interest threat may be created if fees due from an assurance client* for professional services* remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report for the following year. Generally the payment of such fees should be required before the report is issued. The following safeguards may be applicable:

* See Definitions

- Discussing the level of outstanding fees with the audit committee* or others charged with governance.
- Involving an additional professional accountant* who did not take part in the assurance engagement* to provide advice or review the work performed.

The firm* should also consider whether the overdue fees might be regarded as being equivalent to a loan* to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm* to be re-appointed.

Pricing

290.209 When a firm* obtains an assurance engagement* at a significantly lower fee level than that charged by the predecessor firm*, or quoted by other firms*, the self-interest threat created will not be reduced to an acceptable level unless:

- (a) The firm* is able to demonstrate that appropriate time and qualified staff are assigned to the task; and
- (b) All applicable assurance standards, guidelines and quality control procedures are being complied with.

Contingent Fees*

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

290.211 A contingent fee* charged by a firm* in respect of an assurance engagement* creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard. Accordingly, a firm* should not enter into any fee arrangement for an assurance engagement* under which the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter information of the assurance engagement*.

290.212 A contingent fee* charged by a firm* in respect of a non-assurance service provided to an assurance client* may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement* was agreed to, or contemplated, during an assurance engagement* and was contingent on the result of that assurance engagement*, the threats could not be reduced to an acceptable level by the application of any safeguard. Accordingly, the only acceptable action is not to accept such arrangements. For other types of contingent fee* arrangements, the significance of the threats created will depend on factors such as:

- The range of possible fee amounts;
- The degree of variability;
- The basis on which the fee is to be determined;
- Whether the outcome or result of the transaction is to be reviewed by an independent third party; and
- The effect of the event or transaction on the assurance engagement*.

The significance of the threats should be evaluated and, if the threats are other than clearly insignificant*, safeguards should be considered and applied as necessary to reduce the threats to an acceptable level. Such safeguards might include:

- Disclosing to the audit committee* or others charged with governance, the extent and nature of fees charged;
- Review or determination of the final fee by an unrelated third party; or
- Quality and control policies and procedures.

Due diligence assignments, particularly those performed in relation to a prospective transaction, typically involve a high level of risk and responsibility. A firm* carrying out a due diligence* assignment may charge a higher fee for work relating to a completed transaction than for the same transaction if it is not completed, for whatever reason, provided that the difference reflects any additional risk and responsibility.*

Gifts and Hospitality

290.213 Accepting gifts or hospitality from an assurance client* may create self-interest and familiarity threats. When a firm* or a member of the assurance team* accepts gifts or hospitality, unless the value is clearly insignificant*, the threats to independence* cannot be reduced to an acceptable level by the application of any safeguard. Consequently, a firm* or a member of the assurance team* should not accept such gifts or hospitality.

A similar consideration will apply to an immediate or close family member of a member of the assurance team* other than where a person receives a benefit in their own right and not because of the connection.*

Actual or Threatened Litigation

290.214 When litigation takes place, or appears likely, between the firm* or a member of the assurance team* and the assurance client*, a self-interest or intimidation threat may be created. The relationship between client management and the members of the assurance team* must be characterised by complete candor and full disclosure regarding all aspects of a client's business operations. The firm* and the client's management may be placed in adversarial positions by litigation, affecting management's willingness to make complete disclosures and the firm* may face a self-interest threat. The significance of the threat created will depend upon such factors as:

- The materiality of the litigation;

* See Definitions

- The nature of the assurance engagement*; and
- Whether the litigation relates to a prior assurance engagement*.

Once the significance of the threat has been evaluated the following safeguards should be applied, if necessary, to reduce the threats to an acceptable level:

- (a) Disclosing to the audit committee*, or others charged with governance, the extent and nature of the litigation;
- (b) If the litigation involves a member of the assurance team*, removing that individual from the assurance team*; or
- (c) Involving an additional professional accountant* in the firm* who was not a member of the assurance team* to review the work done or otherwise advise as necessary.

If such safeguards do not reduce the threat to an appropriate level, the only appropriate action is to withdraw from, or refuse to accept, the assurance engagement*.

Appendix to Section 290

This interpretation (2005–01) provides guidance on the application of the independence* requirements contained in Section 290 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 290 that are relevant in the consideration of independence* requirements for all assurance engagements*. For example, paragraph 290.15 states that consideration should be given to any threats the firm* has reason to believe may be created by network firms* interests and relationships. Similarly, paragraph 290.21 states that for assurance clients*, that are other than listed entity* financial statement audit clients*, 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* should consider that related entity* when evaluating independence* and applying appropriate 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, consideration should be given to any threats the firm* has reason to believe may be 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.

In such engagements, when determining whether it is necessary to apply the provisions in Section 290 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 other than clearly insignificant in the context of the subject matter information. This will take into account:

* See Definitions

- 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 clearly insignificant it may not be necessary to apply all of the provisions of this Section to that responsible party.

The following example has been developed to demonstrate the application of Section 290. 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:

	Proven oil reserves thousands barrels
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
Total	104,301

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 other than clearly insignificant*. 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 290.20).

For example Company 8 accounts for 0.16% 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.

* See Definitions

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 which would be considered to be the assurance client* (paragraph 290.20).

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

The firm* would be required to be independent of the entity that measures the reserves and provides an assertion to the firm* and to intended users (paragraph 290.17). That entity is not responsible for the subject matter and so consideration should be given to any threats the firm* has reason to believe may be created by interests/relationships with the party responsible for the subject matter (paragraph 290.17). There are several parties responsible for 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 other than clearly insignificant*.

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 other than clearly insignificant*. 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 290.20).

For example Company 8 accounts for 0.16% of the reserves, therefore a business relationship or interest with the 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* are required to be independent of those responsible parties which would be considered to be the assurance client* (paragraph 290.20).

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

The application is the same as in example D1.