

# Code of Professional Ethics:

*independence provisions relating to  
review and assurance engagements*

## Contents

|  |    |
|--|----|
| Foreword .....   | 4  |
| Introduction.....  | 5  |
| Glossary of Terms.....   | 6  |
| Part A. Licensed members.....  | 13 |
| Section 290. Independence – review and assurance engagements.....                            | 13 |
| Structure of section.....  | 13 |
| A conceptual framework approach to independence .....  | 13 |
| Networks and network firms .....   | 15 |
| Public interest entities .....   | 17 |
| Related entities.....  | 17 |
| Those Charged with Governance.....   | 17 |
| Documentation .....  | 18 |
| Engagement period .....  | 18 |
| Mergers and acquisitions .....   | 19 |
| Application of the conceptual framework approach to independence.....                        | 21 |
| Financial interests.....   | 21 |
| Loans and guarantees.....  | 25 |
| Business relationships.....  | 26 |
| Family and personal relationships.....   | 27 |
| Employment with a review client .....  | 29 |
| Temporary staff assignments .....  | 30 |
| Recent service with a review client .....  | 31 |
| Serving as a Director or Officer of a review client .....                                    | 31 |
| Long association of senior personnel (including partner rotation) with a review client ..... | 32 |
| Provision of non-assurance services to audit clients .....                                   | 33 |
| Fees.....  | 33 |
| Gifts and hospitality .....  | 35 |
| Actual or threatened litigation.....   | 35 |
| Section 291. Independence   Other Assurance Engagements .....                                | 37 |
| Structure of section.....  | 37 |
| A conceptual framework approach to independence .....  | 38 |
| Assurance engagements.....   | 39 |
| Assertion-based assurance engagements.....   | 40 |
| Direct reporting assurance engagements .....   | 40 |
| Reports that include a restriction on use and distribution .....                             | 40 |

|  |    |
|--|----|
| Multiple responsible parties .....                                     | 42 |
| Documentation .....  | 42 |
| Engagement period .....  | 43 |
| Other considerations .....   | 44 |
| Application of the Conceptual Framework Approach to Independence ..... | 44 |
| Financial interests.....   | 45 |
| Loans and guarantees.....  | 47 |
| Business relationship .....  | 48 |
| Family and personal relationships.....                                 | 49 |
| Employment with assurance clients .....                                | 51 |
| Recent service with an assurance client .....                          | 52 |
| Serving as a Director or Officer of an assurance client.....           | 53 |
| Long association of senior personnel with assurance clients .....      | 54 |
| Provision of non-assurance services to assurance clients.....          | 54 |
| Fees.....  | 56 |
| Gifts and hospitality .....  | 58 |
| Actual or threatened litigation.....                                   | 58 |

## Foreword

The AAT *Code of Professional Ethics* independence provisions relating to review and assurance engagements is based on the *Code of Ethics for Professional Accountants* of the International Ethics Standards Board for Accountants, published by the International Federation of Accountants (IFAC) in April 2010 and is used with permission of IFAC.

Being a member of AAT is more than a qualification. AAT is well recognised and respected throughout a wide range of businesses and, in order to maintain this reputation and to continue to offer quality training and support, we require our members to have a professional and ethical approach throughout their lives. It is because of our exceptionally high standards, quality training and the professionalism of our members that we are so highly regarded. This is a benefit to us as an Association and to you as a member. To help our members maintain these standards and offer the highest levels of professional service at all times, we publish the *AAT Code of Professional Ethics* which set out a *Code* of fundamental ethical principles and supporting guidance.

The decisions you make in the everyday course of your professional lives can have real ethical implications. This is where the *Code* helps.

The *Code*:

- sets out the required standards of professional behaviour with guidance to help you achieve them
- helps you to protect the public interest
- helps you to maintain AAT's good reputation.

## Introduction

This *Code* was revised in 2017, and approved by AAT Council, to come into force on 15 July 2017..

It is based on the *Code of Ethics for Professional Accountants* approved by International Ethics Standards Board for Accountants (IESBA) which came into force on 1 January 2011. A number of revisions were made to this *Code* since, and these have been incorporated by AAT. AAT is a full member of IFAC. The mission of IFAC, as set out in its constitution, is “the worldwide development and enhancement of an accountancy profession with harmonised standards, able to provide services of consistently high quality in the public interest.” In pursuing this mission, the IFAC Board has established IESBA to develop and issue, under its own authority, high quality ethical standards and other pronouncements for members for use around the world. The *IESBA Code of Ethics* on which this *Code* is based establishes ethical requirements for IFAC members.

Many revisions were made to the independence provisions detailed in the previous iteration of the IESBA *Code*. To ensure that these are tailored to meet the needs of licensed members who are licensed in the area of limited assurance engagements, the provisions have been codified through the *AAT Code of Professional Ethics: independence provisions relating to review and assurance engagements*. This *Code* is supplementary to the *Code of Professional Ethics* and on this basis members are expected to comply with both publications.

AAT licensed members are not permitted to undertake audit work on the basis of their practising licence. Should a licensed member wish to undertake auditing work then they should refer to the guidance of the professional body who licenses them in that area

Four key words are used throughout this document to guide members in the action needed in order to comply with the fundamental principles:

- The word “shall” is used in this *Code* when licensed members are required to comply with the specific provision unless an exception is permitted by the *Code*.
- The word “consider” is used when members are required to think about several matters.
- The word “evaluate” is used when members are required to think about several matters and assess the positive and negative elements.
- The word “determine” is used when members are required to conclude and make a decision.

There may be occasions when members, whether having sought independent advice or not, and having considered the application of the *Code of Professional Ethics* in a particular situation, are still in doubt about the proper course of action to be taken. In such cases they should contact the Ethics Advice line on: 0845 863 0787 (UK), +44 (0)20 7397 3014 (outside UK), e:[aatstandards@aat.org.uk](mailto:aatstandards@aat.org.uk) giving all the relevant facts.

Members should note that misconduct is defined as ‘professional or personal conduct, in breach of the *Code of Professional Ethics*, which poses a risk to the public or is likely to undermine public confidence in the *Association* or its *members*’. It is expected that members are familiar with the requirements of this *Code*.

Members should note that where they are also a member of another professional or regulatory body which is a member of a chartered or certified accountancy body, there may be differences in some areas between the professional and ethical conduct requirements of the different bodies. Where there are differences, members should follow the more stringent provision and must do so where the more stringent provision is an AAT requirement.

## Glossary of Terms

In the *AAT Code of Professional Ethics* for members, the following expressions have the following meanings assigned to them:

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| AAT                               | Association of Accounting Technicians  |
| Acceptable level                  | A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the member at that time, that compliance with the fundamental principles is not compromised.  |
| Advertising                       | The communication to the public of information as to the services or skills provided by Licensed members with a view to procuring professional business.   |
| Anti-money laundering legislation | The Proceeds of Crime Act 2002 (as amended), the Terrorism Act 2000 (as amended), the <i>Money Laundering Regulations 2007</i> (as amended), related statutory instruments and any amending or superseding legislation.  |
| Associate                         | Business partner or colleague  |
| Assurance client                  | <p>The responsible party that is the person (or persons) who:</p> <ul style="list-style-type: none"><li>• in a direct reporting engagement, is responsible for the subject matter or</li><li>• in an assertion-based engagement, is responsible for the subject matter information and may be responsible for the subject matter.</li></ul> <p>(For an assurance client that is a financial statement audit client see the definition of financial statement audit client.)</p>  |
| Assurance engagement              | <p>An engagement in which a Licensed member 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.</p> <p>(For guidance on assurance engagements see the International Framework for Assurance Engagements issued by the International Auditing and Assurance Standards Board which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.)</p> |

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| Assurance team                               | <ul style="list-style-type: none"> <li>• All members of the engagement team for the assurance engagement</li> <li>• All others within a firm who can directly influence the outcome of the assurance engagement, including: <ul style="list-style-type: none"> <li>- those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement. For the purposes of a financial statement audit engagement this includes those at all successively senior levels above the engagement partner through the firm's chief executive</li> <li>- those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement, and</li> <li>- those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement and</li> </ul> </li> <li>• For the purposes of a financial statement audit client, all those within a network firm who can directly influence the outcome of the financial statement audit engagement</li> </ul> |
| Audit client                                 | An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control.   |
| Clearly insignificant                        | A matter that is deemed to be both trivial and inconsequential.  |
| Close or personal relation/<br>relationship  | A spouse (including a civil partner); a parent, child, grandparent, grandchild, sibling, aunt, uncle, nephew, niece or cousin (including in each case where applicable those related on a half, step or in-law basis); a dependant; or a person who would be regarded as a friend by a reasonable and informed third party having knowledge of all relevant information.   |
| Contingent fee                               | A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.  |
| Continuing Professional Development<br>(CPD) | The process of a member continuously maintaining and developing knowledge, skills and competence to improve their performance at work.   |
| Direct financial interest                    | A financial interest: <ul style="list-style-type: none"> <li>• owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others) or</li> <li>• beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control.</li> </ul>   |

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| Director or officer                  | A person charged with or otherwise having significant influence or control of the governance of an entity (including a shadow director), regardless of his or her title, which may vary from country to country.  |
| Engagement partner                   | The partner or other person in the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, where required, has the appropriate authority from a professional, legal or regulatory body.   |
| Engagement quality control review    | A process designed to provide an objective evaluation, before the report is issued, of the significant judgements the engagement team made and the conclusions they reached in formulating the report   |
| Engagement team                      | <p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), Using the Work of Internal Auditors.</p> |
| Existing accountant                  | A Licensed member, or an individual who is a member of another IFAC member body, currently holding an audit appointment or carrying out accounting, taxation, consulting or similar professional services for a client.   |
| Fiduciary relationship               | A relationship which arises between a Licensed member and his or her client where the trust and confidence in the relationship is such that the client is entitled to trust the member to act only in the client’s interests and not in the member’s own interest. This would be likely to include, for the purposes of these <i>Code</i> , where the member acts as the client’s agent.  |
| Financial interest                   | An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.  |
| Financial statements                 | The balance sheets, income statements or profit and loss accounts, statements of changes in financial position (which may be presented in a variety of ways, for example, as a statement of cash flows or a statement of fund flows), notes and other statements and explanatory material which are identified as being part of the financial statements.   |
| Financial statement audit client     | <p>An entity in respect of which a firm conducts a financial statement audit engagement.</p> <p>When the client is a listed entity, the financial statement audit client will always include its related entities.</p>  |
| Financial statement audit engagement | A reasonable assurance engagement in which a Licensed member expresses an opinion whether financial statements are prepared in all material respects in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a statutory audit, which is a financial statement audit required by legislation, other regulation or other documents.  |



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| Financial statements on which the firm will express an opinion | In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.   |
| Firm   | A sole practitioner who is a member, or a partnership, or a body corporate or a limited liability partnership comprised in whole or in part of members, the business of whom or of which includes carrying on the profession of accountancy.  |
| IFAC   | International Federation of Accountants.  |
| Independence   | <p>Independence is:</p> <ul style="list-style-type: none"> <li>• independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional judgement</li> <li>• independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional scepticism had been compromised.</li> </ul> |
| Key review partner   | The engagement partner, the individual responsible for the engagement quality control review, and other partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the review of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the review, "other partners" may include, for example, partners responsible for significant subsidiaries or divisions.  |
| Indirect financial interest                                    | A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.  |
| Listed entity  | An entity whose shares, stock or debt are quoted or listed on a recognised investment exchange, or are marketed under the regulations of a recognised investment exchange. A domestic or overseas investment exchange is recognised in the UK if recognised by the Financial Services Authority..   |
| Member   | A student, affiliate, associate, full or fellow member of AAT.  |
| Member in business   | A member employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a member contracted by such entities. This includes AAT members who are employed by others in such areas, as well as AAT members who work (whether or not in an employed capacity) in fields other than accountancy.   |

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| Licensed member                           | A member who provides accountancy, taxation or related consultancy services to the public or to another business on a self-employed basis, whether as a sole trader, or trading through a partnership or a limited company. This includes all AAT members who are registered, or who are required to register, annually with AAT in accordance with the Licensing Regulations.   |
| Money Laundering Regulations              | The <i>Money Laundering Regulations 2007</i> or any superseding regulations. These regulations are included in the definition of anti-money laundering legislation but are specifically referred to throughout this guidance when necessary.   |
| Money Laundering Reporting Officer (MLRO) | The officer within a firm who has been nominated to receive and assess internal reports of knowledge or suspicions of money laundering or terrorist financing.   |
| Network                                   | A larger structure: <ul style="list-style-type: none"> <li>• that is aimed at cooperation</li> <li>• that is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li> </ul>  |
| Network firm                              | <ul style="list-style-type: none"> <li>• a firm that is part of a larger structure and: <ul style="list-style-type: none"> <li>- uses a name in its firm name that is common to the larger structure or</li> <li>- shares significant professional resources with other firms in the larger structure or</li> <li>- shares profits or costs with other firms within the larger structure</li> </ul> </li> <li>• an entity that controls, is controlled by, or is under common control with the firm through ownership, management or other means.</li> </ul> |
| Professional activity                     | An activity requiring accountancy or related skills undertaken by a member, including accounting, auditing, taxation, management consulting and financial management.  |
| Professional services                     | Professional activities performed for clients  |
| Public interest entity                    | <ul style="list-style-type: none"> <li>• A listed entity</li> <li>• An entity: <ul style="list-style-type: none"> <li>- defined by regulation or legislation as a public interest entity for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.</li> </ul> </li> </ul>   |

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| Related entity    | <p>An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> <li>i an entity that has direct or indirect control over the client if the client is material to such entity</li> <li>ii an entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity</li> <li>iii an entity over which the client has direct or indirect control</li> <li>iv an entity in which the client, or an entity related to the client under (iii) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (iii)</li> <li>v an entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.</li> </ul>  |
| Relevant person   | <p>As defined by Regulation 3 of the <i>Money Laundering Regulations 2007</i>, including (but not exhaustively):</p> <ul style="list-style-type: none"> <li>• an external accountant - a firm or sole practitioner who by way of business provides accountancy services to other persons (Licensed members)</li> <li>• tax advisors - a firm or sole practitioner who by way of business provides advice about the tax affairs of other persons</li> <li>• a trust or company service provider - a firm or sole practitioner who by way of business provides any of the following services to other persons: <ul style="list-style-type: none"> <li>- forming companies or legal persons</li> <li>- acting, or arranging for another person to act: <ul style="list-style-type: none"> <li>i. as a director or secretary of a company</li> <li>ii. as a partner of a partnership, or</li> <li>iii. in a similar position in relation to other legal persons</li> </ul> </li> <li>- providing a registered office for a company, partnership or any other legal person or arrangement</li> <li>- acting, or arranging for another person to act as: <ul style="list-style-type: none"> <li>i. a trustee of an express trust or similar legal arrangement</li> <li>ii. a nominee shareholder for a person other than a company whose securities are listed on a regulated market.</li> </ul> </li> </ul> </li> </ul> |
| Responsible party | <p>The person (or persons) who is either:</p> <ul style="list-style-type: none"> <li>• in a direct reporting assurance engagement, is responsible for the subject matter</li> <li>• in an assertion-based assurance engagement, is responsible for the subject matter information and may be responsible for the subject matter.</li> </ul>  |
| Review client     | <p>An entity in respect of which a firm conducts a review engagement.</p>  |

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| Review engagement             | An assurance engagement, conducted in accordance with International Standards on Review Engagements or equivalent, in which a member in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.  |
| Review team                   | <ul style="list-style-type: none"> <li>• All members of the engagement team for the review engagement; and</li> <li>• all others within a firm who can directly influence the outcome of the review engagement, including: <ul style="list-style-type: none"> <li>- those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's</li> <li>- Senior or Managing Partner (Chief Executive or equivalent)</li> <li>- those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement</li> <li>- those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement</li> <li>- all those within a network firm who can directly influence the outcome of the review engagement.</li> </ul> </li> </ul> |
| NCA                           | National Crime Agency  |
| Those charged with governance | The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.  |
| Working papers and records    | Papers, background notes and reference materials that are used to prepare or complete other documents.   |

## Part A. Licensed members

### Section 290. Independence – review and assurance engagements

#### Structure of section

**290.1** These sections address the independence requirements for review and assurance engagements, which are assurance engagements in which a licensed member expresses a conclusion on financial statements. Such engagements comprise review engagements to report on a complete set of financial statements and a single financial statement and assurance engagements. Assurance engagements may be assertion-based or direct reporting. In either case they involve three separate parties: a licensed member or member of another IFAC member body, a responsible party and intended users.

**290.2** In this section the term “firm” includes network firm except where otherwise stated.

#### A conceptual framework approach to independence

**290.3** In the case of a review or assurance engagement it is in the public interest and, therefore, required by the fundamental principles set out in this *Code*, that members of review or assurance teams, firms and, when applicable, network firms be independent of review or assurance clients. The independence requirements that apply to audit and other insurance engagements are not applicable to compilation of financial statements. However, the fundamental principles apply to all professional and business activities.

**290.4** The objective of this section is to assist firms and members of review teams in applying the conceptual framework approach described below to achieving and maintaining independence.

**290.5** 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 be likely to conclude weighing all the facts and circumstances, that a firm's, or a member of the review or assurance team's, integrity, objectivity or professional scepticism has been compromised.

**290.6** The conceptual framework approach shall be applied by members to:

- identify threats to independence
- evaluate the significance of the threats identified and if they are not clearly insignificant

- apply safeguards in cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

When a member determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the member shall eliminate the circumstance or relationship creating the threats or decline or terminate the review or assurance engagement.

A member shall use professional judgment in applying this conceptual framework.

- 290.7** Many different circumstances, or combination of circumstances, may be relevant in assessing threats to independence. It is impossible to define every situation that creates threats to independence and specify the appropriate safeguarding action that should be taken. In addition, the nature of review or assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. The conceptual framework approach accommodates many variations in circumstances that create threats to independence and can deter a member from concluding that a situation is permitted if it is not specifically prohibited.
- 290.8** Paragraphs 290.100 and onwards describe how the conceptual framework approach to independence is to be applied. These paragraphs do not address all the circumstances and relationships that create or may create threats to independence.
- 290.9** In deciding whether to accept or continue an engagement or whether a particular individual may be a member of the review team, a firm shall identify and evaluate threats to independence. If the threats are not at an acceptable level and the decision is whether to accept an engagement or include a particular individual on the review or assurance team, the firm shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level. If the decision is whether to continue an engagement, the firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence comes to the attention of the firm during the engagement, the firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.
- 290.10** 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.
- 290.11** 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 (ISQCs) to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. In addition, International Standards on Review Engagements 2400 (ISRE 2400) requires the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.

## Networks and network firms

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

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

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

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

- common systems that enable firms to exchange information such as client data, billing and time records
- partners and staff
- technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements
- review methodology or review manuals
- training courses and facilities.

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



## Public interest entities

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

- all listed entities
- any entity:
  - defined by regulation or legislation as a public interest entity
  - for which audit as opposed to review is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

**290.25** Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

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

## Related entities

**290.26** In the case of a review client that is a listed entity, references to a review client in this section include related entities of the client (unless otherwise stated). For all other review clients, references to a review client in this section include related entities over which the client has direct or indirect control. When the review team knows or has reason to believe that a relationship or circumstance involving another related entity of the client is relevant to the evaluation of the firm's independence from the client, the review team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.

## Those Charged with Governance

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

- consider the firm's judgments in identifying and evaluating threats to independence;
- consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level; and
- take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

In complying with requirements in this section to communicate with those charged with governance, the firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

## Documentation

**290.28** Documentation provides evidence of a licensed member's judgments in forming conclusions regarding compliance with independence requirements. The absence of documentation is not a determinant of whether a firm considered a particular matter or whether it is independent.

The licensed member shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:

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

## Engagement period

**290.29** Independence from the review client is required both during the engagement and the period covered by financial statements. The engagement period starts when the review team begins to perform review services. The engagement period ends when the review 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 review report.

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

- financial or business relationships with the review client during or after the period covered by the financial statements but before accepting the review engagement
- previous services provided to the review client.

**290.31** If a non-assurance service was provided to the review client during or after the period covered by the financial statements but before the review 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 a threat is not at an acceptable level, the review engagement shall only be accepted if safeguards are applied to eliminate the risks 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 review team
- having a professional accountant review the review and non-assurance work as appropriate
- 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.

## Mergers and acquisitions

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

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

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

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

**290.34** If those charged with governance request the firm to continue with the review engagement, the firm shall do so, only if:

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

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

**290.35** The firm may have completed a significant amount of work on the review prior to the effective date of the merger or acquisition and may be able to complete the remaining review procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the review while continuing with an interest or relationship identified in paragraph 290.32, the firm shall do so only if it:

- has evaluated the significance of the threat created by such interest or relationship and discussed the evaluation with those charged with governance
- complies with the requirements of paragraph 290.34(b)-(c)
- ceases to be the review firm no later than the issuance of the review report.

**290.36** When addressing previous and current interests and relationships covered by paragraphs 290.32 to 290.35, the firm shall determine whether, even if all the requirements could be met, the interests and relationships create threats that would remain so significant that objectivity would be compromised and, if so, the firm shall cease to be the review firm.

**290.37** The licensed member shall document any interests or relationships covered by paragraphs 290.33 and 35 that will not be terminated by the effective date of the merger or acquisition and the reasons why they will not be terminated, the transitional measures applied, the results of the discussion with those charged with governance and the rationale as to why the previous and current interests and relationships do not create threats that would remain so significant that objectivity would be compromised.

**290.38** There may be occasions where there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally will be deemed not to compromise independence provided that the firm has appropriate quality control policies and procedures in place, equivalent to those required by ISQCs 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.

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| Paragraphs 290.40 to 290.99 are intentionally blank |
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## Application of the conceptual framework approach to independence

**290.100** Paragraphs 290.102 to 290.156 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 help eliminate the threats or reduce them 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 review team shall evaluate the implications of similar, but different, circumstances and relationships and determine whether safeguards.

**290.101** Paragraphs 290.102 to 290.156 contain references to the materiality of a financial interest, loan, or guarantee, or the significance of a business relationship. For the purpose of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

### Financial interests

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

- the role of the person holding the financial interest
- whether the financial interest is direct or indirect
- the materiality of the financial interest

**290.103** Financial interests may be held through an intermediary (for example, 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 guidance 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 guidance defines that financial interest to be an indirect financial interest.

**290.104** If a member of the review 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 review 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 review team; a member of that individual's immediate family; or the firm.

**290.105** When a member of the review team has a close family member who the review team member knows has a direct financial interest or a material indirect financial interest in the review 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 review team and the close family member
- 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 review team
- removing the individual from the review team.

**290.106** If a member of the review 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 review 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 review team; a member of that individual's immediate family; and the firm.

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

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

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

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

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

- a partner located in the office in which the engagement partner practices in connection with the review engagement
- a partner or managerial employee who provides non-audit services to the audit client, is deemed not to compromise independence if the financial interest is received as a result of the immediate family member's employment right (for example, through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to independence or reduce it to an acceptable level.

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

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

- dispose of the interest
- dispose of a sufficient amount of the interest so that the remaining interest is no longer material.

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

- the role of the professional on the review team
- whether ownership of the entity is closely or widely held
- whether the interest gives the investor the ability to control or significantly influence the entity
- the materiality of the financial interest.

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

- removing the member of the review team with the financial interest from the review team
- excluding the member of the review team from any significant decision-making concerning the review engagement
- having a professional accountant review the work of the member of the review team.

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

- a partner in the office in which the engagement partner practices in connection with the review engagement
- other partners and managerial employees who provide non-assurance services to the review client, except those whose involvement is minimal
- their immediate family members, hold a direct financial interest or a material indirect financial interest in the review client as trustee.

Such an interest shall not be held unless:

- neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust
- the interest in the review client held by the trust is not material to the trust
- the trust is not able to exercise significant influence over the review client
- the trustee, an immediate family member of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the review client.

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

- partners and professional employees of the firm, other than those referred to above, or their immediate family members
- individuals with a close personal relationship with a member of the review team.

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

- the firm's organisational, operating and reporting structure
- the nature of the relationship between the individual and the member of the review 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 review team with the personal relationship from the review team
- excluding the member of the review team from any significant decision-making concerning the review engagement
- having a professional accountant review the work of the member of the review team.

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

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



- 290.117** When an inadvertent violation of this section as it related to a financial interest in a review client occurs, it is deemed not to compromise independence if:
- the firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the review client
  - the actions in paragraph 290.116 (a)-(c) are taken as applicable
  - 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 review team
    - excluding the individual from any significant decision-making concerning the review engagement.

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

## Loans and guarantees

- 290.118** A loan or a guarantee of a loan, to a member of the review team, or a member of that individual's immediate family, or the firm from a review 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 review team, a member of that individual's immediate family, nor a firm shall accept such a loan or guarantee.
- 290.119** If a loan to a firm from a review client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the review 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 review work nor received the loan.
- 290.120** A loan, or a guarantee of a loan, from a review client that is a bank or similar institution to a member of the review team, or a member of that individual's immediate family, does not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.
- 290.121** If the firm or a member of the review team, or a member of that individual's immediate family, accepts a loan from, or has a borrowing guaranteed by, a review client that is not a bank or similar institution, the self-interest threat created would be so significant that no safeguards could reduce threat to an acceptable level, unless the loan or guarantee is immaterial to both (a) the firm or the member of the review team and the immediate family member, and (b) the client.
- 290.122** Similarly, if the firm or a member of the review team, or a member of that individual's immediate family, makes or guarantees a loan to a review client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both (a) the firm or the member of the review team and the immediate family member, and (b) the client.

**290.123** If a firm or a member of the review team, or a member of that individual's immediate family, has deposits or a brokerage account with a review client that is a bank, broker or similar institution, a threat to independence is not created if the deposit or account is held under normal commercial terms.

## **Business relationships**

**290.124** A close business relationship between a firm, or a member of the review team, or a member of that individual's immediate family, and the review client or its management, arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Examples of such relationships include:

- having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client
- arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties
- distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.

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

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

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

- the business relationship is insignificant to the firm, the member of the review team and the immediate family member, and the client
- the financial interest is immaterial to the investor or group or investors
- the financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

**290.126** The purchase of goods and services from a review client by the firm, or a member of the review 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
- removing the individual from the review team.

## Family and personal relationships

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

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

- a director or officer of the review client
- an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,

or was in such a position during any period covered by the engagement or the financial statements, the threats to independence can only be reduced to an acceptable level by removing the individual from the review 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 review team.

**290.129** Threats to independence are created when an immediate family member of a member of the review team is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flows. The significance of the threats will depend on factors such as:

- the position held by the immediate family member
- the role of the professional on the review 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 review team
- structuring the responsibilities of the review team so that the professional does not deal with matters that are within the responsibility of the immediate family member.

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

- a director or officer of the review client
- an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

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

- the nature of the relationship between the member of the review team and the close family member
- the position held by the close family member
- the role of the professional on the review 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 review team
- structuring the responsibilities of the review team so that the professional does not deal with matters that are within the responsibility of the close family member.

**290.131** Threats to independence are created when a member of the review team has a close relationship with a person who is not an immediate or close family member, but who is a director or officer or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion. A member of the review 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 review team
- the position the individual holds with the client • the role of the professional on the review 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 review team
- structuring the responsibilities of the review team so that the professional does not deal with matters that are within the responsibility of the individual with whom the professional has a close relationship.

**290.132** Self-interest, familiarity or intimidation threats may be created by a personal or family relationship between (a) a partner or employee of the firm who is not a member of the review team and (b) a director or officer of the review client or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion. Partners and employees of the firm who are aware of such relationships shall consult in accordance with firm policies and procedures. The existence and significance of any threat will depend on factors such as:

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

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

- structuring the partner's or employee's responsibilities to reduce any potential influence over the review engagement
- having a professional accountant review the relevant review work performed.

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

- 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
- the inadvertent violation relates to an immediate family member of a member of the review team becoming a director or officer of the review client or being in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, and the relevant professional is removed from the review team
- 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 review team
  - 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 a review client

**290.134** Familiarity or intimidation threats may be created if a director or officer of the review client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, has been a member of the review team or partner of the firm.

**290.135** If a former member of the review team or partner of the firm has joined the review client in such a position and a significant connection remains between the firm and the individual, the threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, independence would be deemed to be compromised if a former member of the review team or partner joins the review client as a director or officer, or as an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, unless:

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

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

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

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

- modifying the review plan
- assigning individuals to the review team who have sufficient experience in relation to the individual who has joined the client
- having a professional accountant review the work of the former member of the review team.

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

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

## Temporary staff assignments

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

- providing non-assurance services that would not be permitted under this section
- assuming management responsibilities.

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

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

- conducting an additional review of the work performed by the loaned staff

- not giving the loaned staff responsibility for reviewing any function or activity that the staff performed during the temporary staff assignment
- not including the loaned staff as a member of the review team.

## Recent service with a review client

**290.140** Self-interest, self-review or familiarity threats may be created if a member of the review team has recently served as a director, officer, or employee of the review client. This would be the case when, for example, a member of the review team has to evaluate elements of the financial statements for which the member of the review team had prepared the accounting records while with the client.

**290.141** If, during the period covered by the review report, a member of the review team had served as a director or officer of the review client, or was an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Consequently, such individuals shall not be assigned to the review team.

**290.142** Self-interest, self-review or familiarity threats may be created if, before the period covered by the review report, a member of the review team had served as a director or officer of the review client, or was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current review 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
- the role of the professional on the review team.

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

## Serving as a Director or Officer of a review client

**290.143** If a partner or employee of the firm serves as a director or officer of a review client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, no partner or employee shall serve as a director or officer of a review client.

**290.144** The position of Company Secretary has different implications in different jurisdictions. Duties may range from administrative duties, such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally, this position is seen to imply a close association with the entity.

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

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

## **Long association of senior personnel (including partner rotation) with a review client**

### **General provisions**

**290.147** Familiarity and self-interest threats are created by using the same senior personnel on a review 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 review team
- the role of the individual on the review team
- the structure of the firm
- the nature of the review engagement
- whether the client's management team has changed
- whether the nature or complexity of the client's accounting and reporting issues has changed.

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

Examples of such safeguards include:

- rotating the senior personnel off the review team
- having a professional accountant who was not a member of the review team review the work of the senior personnel
- regular independent internal or external quality reviews of the engagement.



## Provision of non-assurance services to audit clients

Licensed members who are providing a review engagements or assurance engagements to clients should apply the Auditing Practices Board's guidance "Ethical standard 5 non-audit services provided to audit clients" which can be found at the FRC's website: <https://www.frc.org.uk/Our-Work/Publications/APB/ES-5-Non-audit-services-provided-to-audit-clients.pdf>

## Fees

### Fees - relative size

**290.148** When the total fees from a review client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. The significance of the threat will depend on factors such as:

- the operating structure of the firm
- whether the firm is well established or new
- 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
- consulting a third party, such as a professional regulatory body or a professional accountant, on key review judgments.

**290.149** A self-interest or intimidation threat is also created when the fees generated from a review client represent a large proportion of the revenue from an individual partner's clients or a large proportion of the revenue of an individual office of the firm. The significance of the threat will depend upon factors such as:

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

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

- reducing the dependency on the review client
- having a professional accountant review the work or otherwise advise as necessary
- regular independent internal or external quality reviews of the engagement.

## **Fees - overdue**

**290.150** A self-interest threat may be created if fees due from a review client remain unpaid for a long time, especially if a significant part is not paid before the issue of the review report for the following year. Generally the firm is expected to require payment of such fees before such review report is issued. If fees remain unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

An example of such a safeguard is having an additional professional accountant, who was not involved with the review 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 review engagement.

## **Contingent fees**

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

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

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

- The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm
- The fee is charged by a network firm that participates in a significant part of the review and the fee is material or expected to be material to that firm;
- The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the review of a material amount in the financial statements.

Accordingly, such arrangements shall not be accepted.

**290.154** For other contingent fee arrangements charged by a firm for a non-assurance service to a review 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
- the effect of the event or transaction on the financial statements.

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

- having a professional accountant review the relevant review work or otherwise advise as necessary
- using professionals who are not members of the review team to perform the non-assurance service.

## **Compensation and evaluation policies**

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

- the proportion of the individual's compensation or performance evaluation that is based on the sale of such services
- the role of the individual on the review team
- whether promotion decisions are influenced by the sale of such services.

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

- removing such members from the review team
- having a professional accountant review the work of the member of the review team.

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

## **Gifts and hospitality**

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

## **Actual or threatened litigation**

**290.158** When litigation takes place, or appears likely, between the firm or a member of the review team and the review client, self-interest and intimidation threats are created. The relationship between client management and the members of the review 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
- whether the litigation relates to a prior review 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 review team, removing that individual from the review team
- 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 review engagement.

## Section 291. Independence | Other Assurance Engagements

### Structure of section

- 291.1** This section addresses independence requirements for assurance engagements that are not review engagements. Independence requirements for review engagements are addressed in Section 290. If the assurance client is also a review client, the requirements in Section 290 also apply to the firm, network firms and members of the 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 paragraphs 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 engagements, 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 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 be likely to conclude weighing all the facts and circumstances, that a firm's, or a member of the review or assurance team's, integrity, objectivity or professional scepticism has been compromised.

**291.6** The conceptual framework approach shall be applied by members to:

- identify threats to independence
- evaluate the significance of the threats identified and if they are not clearly insignificant
- apply safeguards in cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.

When a member determines that appropriate safeguards are not available or cannot be applied to eliminate the threats or reduce them to an acceptable level, the member shall eliminate the circumstance or relationship creating the threats or decline or terminate the review or assurance engagement.

A member 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 that 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 licensed members in complying with the ethical requirements in this *Code*. It accommodates many variations in circumstances that create threats to independence and can deter a member 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 review team, a firm shall identify and evaluate threats to

independence. If the threats are not at an acceptable level and the decision is whether to accept an engagement or include a particular individual on the review or assurance team, the firm shall determine whether safeguards are available to eliminate the threats or reduce them to an acceptable level. If the decision is whether to continue an engagement, the firm shall determine whether any existing safeguards will continue to be effective to eliminate the threats or reduce them to an acceptable level or whether other safeguards will need to be applied or whether the engagement needs to be terminated. Whenever new information about a threat to independence comes to the attention of the firm during the engagement, the firm shall evaluate the significance of the threat in accordance with the conceptual framework approach.

- 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 (ISQCs) to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. In addition, International Standards on Review Engagements 2400 (ISRE 2400) requires the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.

## **Assurance engagements**

- 291.12** As further explained in the Assurance Framework, in an assurance engagement the licensed member 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 of 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 the Turnbull guidance on 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 licensed member, 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 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 licensed member 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 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 licensed member 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 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 paragraph 219.22 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 matter, 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:

- those who provide consultation regarding technical or industry specific issues, transactions or events
- 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
- the degree of public interest associated with the engagement.

**291.29** 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**

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

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

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

## Engagement period

**291.32** 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.

**291.33** 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:

- 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
- previous services provided to the assurance client.

**291.34** 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
- having a professional accountant review the assurance and non-assurance work as appropriate
- 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:

- the non-assurance service will be completed within a short period of time
- 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

**291.35** 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 ISQCs 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.

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## 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 of *AAT's Code of Professional Ethics* 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 explain that, in the majority of assurance engagements, there is 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 291.119 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:

- the role of the person holding the financial interest
- whether the financial interest is direct or indirect
- the materiality of the financial interest.

**291.105** Financial interests may be held through an intermediary (for example, 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 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 the 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; 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 indirect financial interest in the assurance client, a self-interest threat is created. The significance of the threat will depend of factors such as:

- the nature of the relationship between the member of the assurance team and the close family member
- 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
- 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:

- neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust
- the interest in the assurance client held by the trust is not material to the trust
- the trust is not able to exercise significant influence over the assurance client
- 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:

- partners and professional employees of the firm, other than those referred to above, or their immediate family members
- individuals with a close personal relationship with a member of the assurance team.

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

- the firm's organisational, operating and reporting structure
- 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
- 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:

- 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
- 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:

- the firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client
- the actions taken in paragraph 291.111 are taken as applicable
- 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
- 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 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 relationship**

**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.

**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
- 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 director or officer of the assurance client
- 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 engagements 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 of factors such as:

- the position held by the immediate family member
- 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
- 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

- an employee in a position to exert significant influence over the subject matter information of 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
- 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
- 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 • 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
- 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
- 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
- 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 relationships occurs, it is deemed not to compromise independence if:

- 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
- 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
- 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
  - 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
- 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 predetermined 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.

**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
- a review of any insignificant 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 an 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
- the role of the professional on the assurance team.

The significance of any threat shall be evaluated and safeguards applied when necessary to reduce the threat to an acceptable level. An example of such a safeguard is conducting a review of the work performed by the individual as 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 as 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
- 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
- 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;
  - authorising transactions;
  - deciding which recommendations of the firm or other third parties to implement
  - 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 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
- 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
- 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 provide advice 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.

**291.154** An example of such a safeguard is having another professional accountant, who was not involved with 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**

**291.155** 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.

**291.156** 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.

**291.157** 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.

**291.158** 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

- 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
- using professionals who are not members of the assurance team to perform the non-assurance service.

## **Gifts and hospitality**

**291.159** 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 threat 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**

**291.160** 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 threat created will depend of such factors as:

- the materiality of the litigation
- whether the litigation related 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
- 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 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 licensed member 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 licensed member 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 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
- 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 network firm.

A firm is engaged to provide assurance on the total proven oil reserves of ten 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 licensed member 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   |
| <b>Total</b> | <b>104,301</b>                                  |

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 intender 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
- 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.

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
- 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 (291.28).

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

The application is the same as in example D1.

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