
Review of Section 290

Overview

This agenda paper compares Section 290 with current requirements in other jurisdictions including:

- Existing SEC regulations
- The Commission recommendation *Statutory Auditor's Independence in the EU: a set of fundamental principles*

The paper also includes comments received from member bodies that have implemented, or are in the process of implementing Section 8 and relevant comments received in response to the November 2004 exposure draft. The references in [square brackets] are to the comment number contained in Agenda Paper 2-B

The comments received on exposure related to rotation of the engagement quality control reviewer are not included in this paper. The Committee requested comment on this matter in its October 2004 exposure draft. The comments are, therefore, considered as part of Agenda Item 2. Some respondents commented that the partner rotation requirements should be more extensive. These comments are considered in this paper because they relate to the project to consider which parts of Section 290 should be revisited.

Section 290	Other jurisdictions	Task Force comments and preliminary views
Engagement Team		
<p>Engagement team All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement.</p>	<p>EU 2 The independence requirement applies to... professional personnel from other disciplines involved in the audit engagement (e.g., lawyers, actuaries, taxation specialists, IT-specialists, treasury management specialists);</p>	<p>Revised definition is now consistent with IAASB and is relatively in line with the EU definition.</p> <p>One respondent [AICPA 131] questioned whether holding an expert to the same standard as other individuals on the engagement team is appropriate. ISA 620 requires the auditor to assess the objectivity of the expert and take into consideration whether the expert is related to the entity, for example, “<i>by...having an investment in the entity.</i>” Respondent feels this level of assessment is appropriate. Respondent would support the firm <i>giving consideration</i> to the independence of the expert.</p> <p>This matter was discussed when the definitions were revised to align with the IAASB.</p> <p>The TF is of the view that the intent was to capture those external experts that were acting as part of the team and the intent was not to capture all external experts on whom the auditor might place reliance. The TF is of the view that this continues to be the appropriate intent but is concerned that this might not be clear from the wording.</p> <p>The TF is of the view that Section 290 should clarify the intent of the definition. Because it is a definition that is common with the IAASB it would be appropriate to discuss any proposed clarification with the IAASB.</p>

Listed entity		
<p>An entity whose shares stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.</p>	<p>EU – no equivalent definition SEC – no equivalent definition</p>	<p>One respondent to the implementation survey noted that the definition of listed entity did not appear to capture publicly available collective investment schemes (mutual funds).</p> <p>The TF noted that in some jurisdictions publicly available collective investments schemes are not listed or quoted on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body. As such they would not be captured as listed entities.</p> <p>The TF is of the view that an investment in a publicly available collective investment schemes is not different from an investment in a public company.</p> <p>The TF is of the view the requirements for listed entities should apply also to publicly available collective investment schemes.</p> <p>The TF recognizes that, should the Committee agree with the TF's view it will be necessary to consider how related entities of publicly available investment schemes will be addressed. The TF does not as yet have a view on what will be the appropriate application but notes that it is an issue to be addressed.</p>

Section 290	Other jurisdictions	Task Force comments and preliminary views
<p>Related entity – application to non listed</p> <p>Audit client definition: An entity in respect of which a firm conducts an audit engagement. When the audit client is a listed entity, audit client will always include its related entities.</p> <p>290.12 The threats and safeguards identified in this section are generally discussed in the context of interests or relationships between the firm, network firms, a member of the assurance team and the assurance client. In the case of a listed audit client, the firm and any network firms are required to consider the interests and relationships that involve that client's related entities. For all other assurance clients, when the assurance team has reason to believe that a related entity of such an assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards.</p>	<p>EU definition of affiliate comprises an entity that is included in the consolidation accounts and any entity that is connected by means of common ownership, control or management.</p>	<p>One respondent noted that the definition of related entity differed from EU</p> <p>The financial interest prohibitions in Section 290 generally only apply to related entities of a listed entity audit client.. For example under Section 290 there is no explicit prohibition from a firm holding 20% of subsidiary of a non-listed audit client – although the overall threats and safeguards approach and 290.12 would apply.</p> <p>Also under 290 a member of the assurance team would be prohibited from holding a direct financial interest in a non-listed audit client but would not be prohibited from holding a direct financial interest in the parent of the non-listed audit client, even if the subsidiary were material to the parent</p> <p>The TF is of the view that the requirements to consider related entities of audit clients that are not related entities should be strengthened. The TF is of the view that a member of the team on a non-listed entity client should be prohibited from holding a financial interest in the parent of the client. The TF does not believe that it is necessary to change the guidance with respect to the provision of non audit services to such entities.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>Office</p> <p>290 Definition A distinct sub-group, whether organized on geographical or practice lines.</p> <p>290.117 The office in which the engagement partner practices in connection with the financial statement audit 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 assurance team, judgment should be used to determine in which office the partner practices in connection with that audit.</p>	<p>EU The term 'Office' means a distinct sub-group of an Audit Firm or Network, whether distinguished along geographical or practice lines, in which a Key Audit Partner primarily practices.</p> <p>A main criterion for identifying this sub-group should be the close working relationship between its members (e.g. working on the same kind of subjects or clients). In particular, it should be taken into account, that such working relationships are more and more evolving by means of a 'virtual' office, due to technical developments and the increasing multinational activities of Audit Clients.</p> <p>In the case of smaller partnerships, the 'Office' may encompass the whole firm, in which case all of the Partners and employees will be subject to the relevant requirements.</p> <p>SEC The IFAC definition is consistent with the SEC.</p>	<p>One ED respondent noted that there was a difference between the IFAC and EU definitions,</p> <p>The TF considered whether additional guidance should be given on the description of an office. The TF concluded that there are a wide range of different circumstances and that professional judgment is needed to determine the office in which the partner would be considered to act for a particular audit.</p> <p>The TF is of the view that the existing definition of an office is appropriate and that the guidance in this area does not need to be revisited.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>Documentation</p> <p>290.18 When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.</p>	<p>EU 4.3.2 documentation for each Audit Client that summarises the conclusions that have been drawn from the assessment of threats to the Statutory Auditor's independence and the related evaluation of the independence risk. This should include the reasoning for these conclusions. If significant threats are noted, the documentation should include a summary of the steps that were, or are to be, taken to avoid or negate the independence risk, or at least reduce it to an appropriate level;</p>	<p>Requirements are consistent.</p> <p>IOSCO commented that the Code does not “specify requirements to document safeguards that have been applied to mitigate the threats to independence” [127] Also one member body responding to the survey indicated that when implementing the independence requirements this matter was strengthened.</p> <p>Documentation of threats to independence and safeguards applied to eliminate or reduce the threats is an important part of the independence requirements. The requirement is not given much prominence in Section 290 and might be missed.</p> <p>While ISQC1 does not contain requirements for documentation of independence issues it does require the firm to establish policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.</p> <p>The TF is of the view the existing documentation requirement is appropriate but it should be given more prominence.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>Communication with audit committee</p> <p>290.20-21 There should be regular communications between the firm and the audit committee (or other governance body if there is no audit committee) of listed entities regarding relationships and other matters that might, in the firm's opinion, reasonably be thought to bear on independence.</p> <p>The firm should establish policies and procedures relating to independence communications with the audit committee.</p> <p>For listed entities the firm should communicate orally and in writing at least annually, all relationships and other matters between the firm, network firms and the audit client that in the firm's professional judgment may reasonably be thought to bear on independence.</p>	<p>EU 4.1.2 Where a Public Interest Entity has a Governance Body (see A. 4.1.1), the Statutory Auditor should at least annually: (a) disclose to the Governance Body, in writing: (i) the total amount of fees that he, the Audit Firm and its Network members have charged to the Audit Client and its Affiliates for the provision of services during the reporting period. This total amount should be broken down into four broad categories of services: details of all relationships between himself, the Audit Firm and its Network member firms, and the Audit Client and its Affiliates that he believes may reasonably be thought to bear on his independence and objectivity; and (iii) the related safeguards that are in place; confirm in writing that, in his professional judgement, the Statutory Auditor is independent within the meaning of regulatory and professional requirements and the objectivity of the Statutory Auditor is not compromised, or otherwise declare that he has concerns that his independence and objectivity may be compromised.</p> <p>ISB 1 (US) The auditor should:</p> <ul style="list-style-type: none"> • disclose to the audit committee of the company (or the board of directors if there is no audit committee), in writing, all relationships between the auditor and its related entities and the company and its related entities that in the auditor's professional judgment may reasonably be thought to bear on independence; • confirm in the letter that, in its professional judgment, it is independent of the company within the meaning of the Acts; and • discuss the auditor's independence with the audit committee. <p>SEC 2-01 (c)7 requires audit committee prior approval for all services (there is a de minimus exception).</p>	<p>Requirements are generally similar though EU document requires fee information to be disclosed to the governance body of a public interest entity.</p> <p>IAASB standard on Communications with those Charged with Governance proposes to require auditors of listed entities to disclose fees to those charged with governance.</p> <p>The TF considered whether Section 290 should mirror the fee disclosure required in the proposed ISA and whether there should be a requirement for audit committee pre-approval of non-audit services.</p> <p>The TF noted that 290.21 requires annual communication with audit committees in the case of financial statement audits. Certain services are prohibited. If the audit committee is interested in the level of non-audit services they can inquire as to their nature and magnitude.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>

Section 8	EU/SEC and others	Task Force comments and preliminary views
<p>Financial interests</p> <p>290.105 A member of the assurance team, and an immediate family member, is prohibited from holding a direct financial interest of immaterial indirect financial interest in the assurance client.</p>	<p>EU 1 Financial interest in the Audit Client or its Affiliates will be incompatible with the Statutory Auditor's independence, if:</p> <p>(a) the Statutory Auditor, the Audit Firm, or any member of the Engagement Team or the Chain of Command, or any Partner of the firm or its Network who is working in an 'Office' (*) which participates in a significant proportion of an audit engagement, holds</p> <p>(i) any direct financial interest in the Audit Client; or</p> <p>(ii) any indirect financial interest in the Audit Client which is significant to either party; or</p> <p>(iii) any (direct or indirect) financial interest in the client's Affiliates which is significant to either party;</p> <p>(b) any other person within the scope of A. 2, holds any (direct or indirect) financial interest in the Audit Client or its Affiliates which is significant to either party.</p> <p>An individual who is a Statutory Auditor should not accept an audit engagement if one of his close family members:</p> <p>(c) has a financial interest in the Audit Client (see B. 1) unless it is insignificant; or</p>	<p>The TF considered the application of principles to financial interest with related entities of non-listed audit clients.</p> <p>As discussed above the TF is of the view that the guidance regarding holding financial interests in a related entity of a non-listed audit client should be strengthened.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Business relationships		
<p>290.131 A close business relationship between a firm or a member of the assurance team and the assurance client or its management, or between the firm, a network firm and a financial statement audit client, will involve a commercial or common financial interest and may create self-interest and intimidation threats. ...In the case of a financial statement audit client, unless the financial interest is immaterial and the relationship is clearly insignificant to the firm, the network firm and the audit client, no safeguards could reduce the threat to an acceptable level.</p>	<p>EU Business relationships, or commitments to establish such relationships, should be prohibited unless the relationship is in the normal course of business and insignificant in terms of the threat it poses to the independence of the Statutory Auditor.</p> <p>SEC Firm or covered person may not have any “direct or material indirect business relationship with an audit client, or with persons associated with the audit client in a decision-making capacity, such as an audit client’s officers, directors or substantial stockholders. The relationships described in this paragraph do not include a relationship in which the accounting firm or a covered person in the firm provides professional services to an audit client or is a consumer in the ordinary course of business.”</p>	<p>IFAC does not require the relationship to be in the normal course of business.</p> <p>The TF considered whether this requirement should be revisited. It noted that a business relationship would be prohibited unless it is immaterial and insignificant.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>
Family relationships		
<p>Immediate family: A spouse (or equivalent) or dependant.</p> <p>Close family A parent, child or sibling, who is not an immediate family member.</p>	<p>EU The term “close family member” normally refers to parents, siblings, spouses or cohabitants, children and other dependants. Depending on the different cultural and social environments in which the audit takes place the term may extend to other family members who may have less immediate but not necessarily less close relationships with the relevant individual. These could include former spouses or cohabitants and the spouses and children of family members.</p> <p>SEC A close family member (defined as “spouse, spousal equivalent, parent, dependent, nondependent child and sibling”) of a member of the assurance team cannot be in an accounting role or in a financial reporting oversight role.</p>	<p>The EU requirements do not differentiate between immediate and close family members – which in effect results in a more restrictive prohibition. For example the EU requirements would prohibit a person from being on the engagement team if her sibling were in a position to exert direct and significant influence over the content of the financial statements.</p> <p>Under the IFAC Code there would be a prohibition if the client person was a spouse or dependant (i.e. was an immediate family member) but there would not be a prohibition if the person were a sibling. Rather the threats and safeguards described in 290.136 would apply.</p> <p>SEC requirements would also prohibit a sibling from being in such a role.</p> <p>The TF noted that the 290 applies to all assurance engagements.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Employment with an assurance client		
<p>290.143 If a member of the assurance team, partner or former partner of the firm has joined the assurance client, the significance of the self-interest, familiarity or intimidation threats created will depend upon... The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. In all cases, all of the following safeguards are necessary to reduce the threat to an acceptable level:</p> <ul style="list-style-type: none"> • The individual concerned is not entitled to any benefits or payments from the firm unless these are made in accordance with fixed pre-determined arrangements. In addition, any amount owed to the individual should not be of such significance to threaten the firm's independence; and • The individual does not continue to participate or appear to participate in the firm's business or professional activities. 	<p>EU 3.3 Where a former Engagement Team member or an individual within the Chain of Command has joined an Audit Client, policies and procedures of the Audit Firm should ensure that there remains no significant connections between itself and the individual. This includes:</p> <p>(a) regardless of whether the individual was previously involved in the audit engagement, that all capital balances and similar financial interests must be fully settled (including retirement benefits) unless these are made in accordance with pre-determined arrangements that cannot be influenced by any remaining connections between the individual and the Audit Firm;</p> <p>(b) that the individual does not participate or appear to participate further in the Audit Firm's business or professional activities.</p>	<p>Similar provisions</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>290.143 .. the significance of the threat will depend on:</p> <ul style="list-style-type: none"> • The position the individual has taken at the assurance client; • The amount of any involvement that the individual will have with the assurance team; • The length of time that has passed since the individual was a member of the assurance team or firm; and • The former position of the individual within the assurance team or firm. 	<p>EU 3. 4 A Key Audit Partner leaving the audit firm to join the audit client for a Key Management Position, would be perceived to cause an unacceptably high level of independence risk. Therefore, a period of at least two years should have elapsed before a Key Audit Partner can take up a Key Management Position.</p> <p>Key Management Position Any position at the Audit Client which involves the responsibility for fundamental management decisions at the Audit Client, e.g. a CEO or CFO. This management responsibility should also provide influence on the accounting policies and the preparation of the financial statements of the Audit Client. A Key Management Position also comprises contractual and factual arrangements which by substance allow an individual to participate in exercising this management function in a different way, e.g. via a consulting contract.</p> <p>SEC 2-01(c)2B states that a firm is not independent if a member of the audit engagement team joins the client in a financial reporting oversight role within one year after the financial statements have been filed with the SEC.</p>	<p>Both the EU and the SEC contain a mandatory “cooling off period” before a member of the engagement team can join the client in a senior financial position.</p> <p>290 takes a threats and safeguards approach and lists the factors which would be considered in determining whether any threat created was other than clearly insignificant.</p> <p>The TF considered the position taken in 290 and concluded that it would be appropriate to strengthen the requirements to strengthen the appearance of independence.</p> <p>In considering the appropriate cooling off period the TF concluded that a one year period was appropriate because such a period would mean that one reporting period would have been audited before the individual joined the client.</p> <p>The TF is of the view that there should be a one-year cooling off period before the engagement partner joins a listed audit client in a key management/financial position. During the cooling off period the partner could not be part of the engagement team.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>290.144 A self-interest threat is created when a member of the assurance team participates in the assurance engagement while knowing, or having reason to believe, that he or she is to, or may, join the assurance client some time in the future. This threat can be reduced to an acceptable level by the application of all of the following safeguards:</p> <ul style="list-style-type: none"> • Policies and procedures to require the individual to notify the firm when entering serious employment negotiations with the assurance client; and • Removal of the individual from the assurance engagement. <p>In addition, consideration should be given to performing an independent review of any significant judgments made by that individual while on the engagement.</p>	<p>EU 3.1.2 Where a member of the Engagement Team is to leave the Audit Firm and join an Audit Client, policies and procedures of the Audit Firm should provide:</p> <p>(a) a requirement that members of any Engagement Team immediately notify the Audit Firm of any situation involving their potential employment with the Audit Client;</p> <p>(b) the immediate removal of any such Engagement Team member from the audit engagement; and</p> <p>(c) an immediate review of the audit work performed by the resigning or former Engagement Team member in the current and/or (where appropriate) the most recent audit. This review should be performed by a more senior audit professional. If the individual joining the client is an Audit Partner or the Engagement Partner, the review should be performed by an Audit Partner who was not involved in the audit engagement. (Where, due to its size, the Audit Firm does not have a Partner who was not involved in the audit engagement, it may seek either a review by another statutory auditor or advice from its professional regulatory body.)</p>	<p>Generally consistent, although the EU requires an immediate review of the work performed by the departing engagement team member. Section 290 states that consideration should be given to performing such a review.</p> <p>In discussing this the TF concluded that if significant judgments had been made by the individual consideration of the need for an independent review would not be sufficient. Any significant judgments should be subject to an independent review.</p> <p>The TF is of the view that once it is known that an individual is going to join the assurance client there should be an independent review of any significant judgments made by the individual while on the engagement.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Recent service with an assurance client		
<p>290.146 If, during the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement, the threat created would be so significant no safeguard could reduce the threat to an acceptable level.</p>	<p>EU B 5 Where a director or manager of the Audit Client has joined the Audit Firm, this person should not become a member of the Engagement Team at any time in the two year period after leaving the Audit Client. If the person is a member of the Chain of Command, he should not take part in any substantive decisions concerning an audit engagement with this client or with one of its Affiliates at any time in the two year period after leaving the Audit Client. This requirement also applies to a former employee of the Audit Client unless the responsibilities he held and the tasks he performed at the Audit Client were insignificant in relation to the statutory audit function.</p> <p>SEC 2-01(c) 2 A former officer, director or employee of the audit client may not participate in, or be in a position to influence, the audit of the financial statements of the client covering any period during which he or she was employed by the client.</p>	<p>The EU requires a two year “cooling off” period before a director or manager of the client who has joined the firm may participate on the engagement team.</p> <p>SEC prohibits the individual from participating on the audit of financial statements covering any period when the individual was employed by the client.</p> <p>The TF noted that 290.146 applies to all assurance reports.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>
<p>290.147 If, prior to the period covered by the assurance report, a member of the assurance team had served as an officer or director of the assurance client, or had been an employee in a position to exert direct and significant influence over the subject matter of the assurance engagement, this may create self-interest, self-review and familiarity threats... The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level.</p>		

Section 290	EU/SEC and others	Task Force comments and preliminary views
Serving as an officer or director on the Board of an assurance client		
<p>290.148 If a partner or employee of the firm serves as an officer or as a director on the board of an assurance client the self-review and self-interest threats created would be so significant no safeguard could reduce the threats to an acceptable level. In the case of an audit engagement, if a partner or employee of a network firm were to serve as an officer or as a director on the board of an audit client the threats created would be so significant no safeguard could reduce the threats to an acceptable level.</p>	<p>EU B4.1. An individual who is in a position to influence the outcome of the Statutory Audit (a person within the scope of A. 2) should not be a member of any management body (e.g. board of directors) or supervisory body (e.g. audit committee or supervisory board) of an Audit Client. Also, he should not be a member of such a body in an entity which holds directly or indirectly more than 20 % of the voting rights in the client, or in which the client holds directly or indirectly more than 20 % of the voting rights</p>	<p>Positions are comparable for listed entities (under Section 290 related entities are also to be considered for listed entities) but are not similar for non-listed companies.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>
<p>290.150 If a partner or employee of the firm or a network firm serves as Company Secretary for an audit client the self-review and advocacy threats created would generally be so significant, no safeguard could reduce the threat to an acceptable level. When the practice is specifically permitted under local law, professional rules or practice, the duties and functions undertaken should be limited to those of a routine and formal administrative nature such as the preparation of minutes and maintenance of statutory returns.</p>		<p>Neither EU nor SEC explicitly permit such practices.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Long association of senior personnel		
<p>290.152 Using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat.... The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied to reduce the threat to an acceptable level.</p>	<p>EU 10 The Statutory Auditor should also consider the independence risk arising from the prolonged involvement of other members of the Engagement Team, including the senior staff engaged on audits of entities which are consolidated into an Audit Client's consolidated financial statements, and from the composition of the team itself. He should apply safeguards, such as rotation and measures under the Audit Firm's quality assurance scheme, to seek to ensure that the engagement may be properly continued without compromising his independence.</p>	<p>Guidance is similar</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>Long association of senior personnel</p> <p>290.153 Using the same engagement partner or the same individual responsible for the engagement quality control review on a financial statement audit over a prolonged period may create a familiarity threat. This threat is particularly relevant in the context of the financial statement audit of a listed entity and safeguards should be applied in such situations to reduce such threat to an acceptable level. Accordingly in respect of the financial statement audit of listed entities:</p> <ul style="list-style-type: none"> • The engagement partner and the individual responsible for the engagement quality control review should be rotated after serving in either capacity, or a combination thereof, for a pre-defined period, normally no more than seven years; and • Such an individual rotating after a pre-defined period should not participate in the audit engagement until a further period of time, normally two years, has elapsed. 	<p>EU 10 To mitigate a familiarity or trust threat to the independence of a Statutory Auditor who is engaged to audit an Audit Client of public interest, the requirement to replace the Engagement Partner and the other Key Audit Partners of the Engagement Team within a reasonable period of time cannot be replaced by other safeguards. Key Audit Partner An Audit Partner of the Engagement Team (including the Engagement Partner) who is at group level responsible for reporting on significant matters, such as on significant subsidiaries or divisions of the Audit Client, or on significant risk factors that relate to the Statutory Audit of that client.</p> <p>EU 10 When any member of an Engagement Team is replaced because of time served on a particular audit, or because of a related familiarity or trust threat, that individual should not be re-assigned to the team until at least two years have elapsed since his replacement.</p> <p>SEC 2-01(c) 6 requires the following rotation:</p> <ul style="list-style-type: none"> • Lead engagement partner and concurring partner (also called second partner) after 5 years with a 5 year “time-out” period; • All other partner who perform more than 10 hours of audit service for the parent company and lead engagement partner on significant subsidiaries rotate after seven years with a two year “time-out” period. 	<p>The EU requirements extend to Key Audit Partners which is defined as “An audit partner on the engagement team (including the engagement partner) who is at group level responsible for reporting on significant matters, such as on significant subsidiaries or divisions of the Audit Client, or on significant risk factors that relate to the Statutory Audit of that client.”</p> <p>SEC requires rotation of partners other than the engagement partner and EQCR and requires rotation after a shorter period of time with a longer “time-out” period.</p> <p>In considering whether the proposed partner rotation requirements should be extended to cover other partners, the TF considered the views expressed by respondents to the ED regarding the proposal to rotate the engagement quality control reviewer.</p> <p>Several respondents to the Oct ED stated that the rotation provisions should cover other key positions [APB -142, IOSCO –143] and a respondent noted that the rotation requirements in their jurisdiction were after five years,[CICA – PIIC 144].</p> <p>Conversely some respondents felt that rotation of the EQCR should only be mandated when other safeguards were not effective [FAR – 72, FSR –74], and noted that the EQCR does not normally have a close relationship with management and therefore there not likely to be a significant familiarity threat [FEE-73, IDW-75]. Also one respondent noted that imposing addition rotation requirements on the EQCR might create difficulties in jurisdictions where there are few accountants with the relevant expertise and industry knowledge [MIA-77]</p> <p>The TF is of the view that extending the rotation requirements to cover other partners could lower audit quality in those jurisdictions where there are few accountants with the relevant expertise. Also 290.152 requires a consideration of any threats created by long association of senior personnel.</p> <p>The TF is of the view that partner rotation requirements should not be extended to cover other partners.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>290.155 While the engagement partner and the individual responsible for the engagement quality control review should be rotated after such a pre-defined period, some degree of flexibility over timing of rotation may be necessary in certain circumstances. Examples of such circumstances include:</p> <ul style="list-style-type: none"> • Situations when the person's continuity is especially important to the financial statement audit client, for example, when there will be major changes to the audit client's structure that would otherwise coincide with the rotation of the person's; and • Situations when, due to the size of the firm, rotation is not possible or does not constitute an appropriate safeguard <p>In all such circumstances when the person is not rotated after such a pre-defined period equivalent safeguards should be applied to reduce any threats to an acceptable level.</p> <p>290.157 When a firm has only a few people with the necessary knowledge and experience to serve as engagement partner or individual responsible for the engagement quality control review on a financial statement audit client that is a listed entity, rotation may not be an appropriate safeguard. In these circumstances the firm should apply other safeguards to reduce the threat to an acceptable level.</p>	<p>EU 10 There might be situations, where due to the size of the Audit Firm internal rotation of the Engagement Partner and other Key Audit Partners is not possible or may not constitute an appropriate safeguard. For example, in the case of a sole practitioner's practice, or where the day to day relationship between a limited number of Audit Partners is too close. In such situations, the Statutory Auditor should ensure that other safeguards are put in place within a reasonable period of time. Such safeguards could include having the relevant audit engagement covered by an external quality review, or, as a minimum, seeking the advice of his professional regulatory body. If no suitable safeguards can be identified, the Statutory Auditor should consider whether it is appropriate to continue the audit engagement.</p> <p>SEC 2-01 (c)6 Audit firm with less than 5 audit clients that are listed entities and less than 10 partners are exempt from the partner rotation requirements provided the PCAOB conducts a review of such firms at least once every three years.</p>	<p>Requirements are comparable – except that for public interest entities EU does not permit safeguards other than rotation.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Provision of non-assurance services		
<p>290.158 The following activities would generally create self-interest or self-review threats that are so significant that only avoidance of the activity or refusal to perform the assurance engagement would reduce the threats to an acceptable level:</p> <ul style="list-style-type: none"> • Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the assurance client, or having the authority to do so; • Determining which recommendation of the firm should be implemented; and • Reporting, in a management role, to those charged with governance. 	<p>EU 7.1.1 1. Where a Statutory Auditor, an Audit Firm or one of its Network member firms provides services other than statutory audit work (non-audit services) to an Audit Client or to one of its Affiliates, the overall safeguarding system (A 4.3) of the Statutory Auditor has to ensure that:</p> <p>(a) the individuals employed by either the Audit Firm or its Network member firm neither take any decision nor take part in any decision-making on behalf of the Audit Client or one of its Affiliates, or its management while providing a non-audit service; and</p> <p>(b) where an independence risk remains due to specific threats which may result from the nature of a non-audit service, this risk is reduced to an acceptable level.</p> <p>SEC 2-01 (c)4(vi) firm is prohibited from ...performing any decision-making, supervisory or ongoing monitoring function for the client.</p>	<p>Provisions are generally comparable except that 290 states that the activities would <i>generally</i> create too significant a threat. Both EU and SEC prohibit decision-making.</p> <p>The TF discussed the three categories of activities and concluded that in all cases it would be inappropriate to determine which recommendation of the firm should be implemented or to report in a management role to those charged with governance. However, depending how it is defined, it might be acceptable, in certain circumstances, to authorize, execute or consummate a transaction, or otherwise exercise authority on behalf of the assurance client, or have the authority to do so. For example, would filing a tax return for a client be considered to be executing a transaction?</p> <p>The TF is of the view that the second two categories of activity should be prohibited and the first activity would generally be prohibited.</p>
<p>290.160 The following activities may also create self-review or self-interest threats:</p> <ul style="list-style-type: none"> • Having custody of an assurance client's assets. • Supervising assurance client employees in the performance of their normal recurring duties. • Preparing source documents or originating date, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders.) 	<p>EU No directly comparable section but may be captured by general prohibition on decision-making.</p> <p>SEC 2-01 (c)4(vi) firm is prohibited from ...performing any decision-making, supervisory or ongoing monitoring function for the client.</p> <p>SEC 2-01 (c) 4 (viii) firm is prohibited from having custody of assets of the audit client, such as taking temporary possession of securities purchased by the audit client.</p>	<p>Still under consideration by the TF – views will be sent out separately in an addendum to this Agenda Paper.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Accounting Records and Financial Statements		
<p>290.166 It is the responsibility of client management to ensure that accounting records are kept and financial statements are prepared, although they may request the firm to provide assistance. If firm, or network firm, personnel providing such assistance make management decisions, the self-review threat created could not be reduced to an acceptable level by any safeguards. Consequently, personnel should not make such decisions. Examples of such managerial decisions include the following:</p> <ul style="list-style-type: none"> • Determining or changing journal entries, or the classifications for accounts or transaction or other accounting records without obtaining the approval of the audit client; • Authorizing or approving transactions; and • Preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data. 	<p>EU B7.2.1 A self-review threat exists whenever a Statutory Auditor, an Audit Firm, an entity within a Network of firms or a Partner, manager or employee thereof participates in the preparation of the Audit Client's accounting records or financial statements. The significance of the threat depends upon the spectrum of these persons' involvement in the preparation process and upon the level of public interest.</p> <p>EU B7.2.2 The significance of the self-review threat is always considered too high to allow a participation in the preparation process unless the assistance provided is solely of a technical or mechanical nature or the advice given is only of an informative nature.</p> <p>EU 7.2 Examples of assistance which compromise independence include the following:</p> <ul style="list-style-type: none"> • determining or changing journal entries, or the classifications for accounts or transactions, or other accounting records without obtaining the client's approval; • authorising or approving transactions; or • preparing source documents or originating data (including decisions on valuation assumptions), or making changes to such documents or data. 	<p>Provisions are comparable.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>290.167 The audit process involves extensive dialogue between the firm and management of the financial statement audit client. During this process, management requests and receives significant input regarding such matters as accounting principles and financial statement disclosure, the appropriateness of controls and the methods used in determining the stated amounts of assets and liabilities. Technical assistance of this nature and advice on accounting principles for financial statement audit clients are an appropriate means to promote the fair presentation of the financial statements. The provision of such advice does not generally threaten the firm's independence. Similarly, the financial statement audit process may involve assisting an audit client in resolving account reconciliation problems, analyzing and accumulating information for regulatory reporting, assisting in the preparation of consolidated financial statements (including the translation of local statutory accounts to comply with group accounting policies and the transition to a different reporting framework such as International Financial Reporting Standards), drafting disclosure items, proposing adjusting journal entries and providing assistance and advice in the preparation of local statutory accounts of subsidiary entities. These services are considered to be a normal part of the audit process and do not, under normal circumstances, threaten independence.</p>	<p>EU 7.2 Examples of assistance which would not necessarily compromise independence could include: — performing mechanical bookkeeping tasks, such as recording transactions for which the Audit Clients management has determined the appropriate account classification; posting coded transactions to a client's general ledger; posting client-approved entries to a client's trial balance; or providing certain data-processing services; — informing the client about applicable accounting standards or valuation methodologies for the client to decide which should be adopted.</p>	<p>Provisions are comparable.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>290.170 The provision of accounting and bookkeeping services, including payroll services and the preparation of financial statements or financial information which forms the basis of the financial statements on which the audit report is provided, on behalf of a financial statement audit client that is a listed entity, may impair the independence of the firm or network firm, or at least give the appearance of impairing independence. Accordingly, no safeguard other than the prohibition of such services, except in emergency situations and when the services fall within the statutory audit mandate, could reduce the threat created to an acceptable level. Therefore, a firm or a network firm should not, with the limited exceptions below, provide such services to a listed entity that is a financial statement audit client.</p> <p>290.171 The provision of accounting and bookkeeping services of a routine or mechanical nature to divisions or subsidiaries of a financial statement audit client that is a listed entity would not be seen as impairing independence with respect to the audit client provided that the following conditions are met:</p> <ul style="list-style-type: none"> • The services do not involve the exercise of judgment; • The divisions or subsidiaries for which the service is provided are collectively immaterial to the audit client, or the services provided are collectively immaterial to the division or subsidiary; and • The fees to the firm, or network firm, from such services are collectively clearly insignificant. <p>If such services are provided, all of the following safeguards should be applied:</p> <ul style="list-style-type: none"> • The firm, or network firm, should not assume any managerial role nor make any managerial decisions; • The listed audit client should accept responsibility for the results of the work; and <p>Personnel providing the services should not participate in the audit.</p>	<p>EU B 7.2.3 However, where Statutory Audits of Public Interest Entity clients are concerned, the provision of any such assistance other than that which is within the statutory audit mandate would be perceived to cause an unacceptably high level of independence risk, and should therefore be prohibited.</p> <p>SEC 2-01 (c)4 prohibits Bookkeeping or other services related to the accounting records or financial statements of the audit client unless <i>it is reasonable to conclude that the results of the services will not be subject to audit procedures.</i></p> <p>Under SEC requirements there is a rebuttable presumption that the results of such services will be subject to audit procedures. Materiality is not an appropriate basis on which to overcome the presumption.</p>	<p>EU requirements are more stringent – as there is no exemption for services of a routine or mechanical nature and the divisions or subs are collectively immaterial or the services are collectively immaterial to the subsidiary.</p> <p>SEC requirements are more stringent – there is no exemption for emergency situations and there is no exception if the subsidiary or division is immaterial.</p> <p>A respondent to the survey questioned what is meant by “the services provided are collectively immaterial to the division or subsidiary”</p> <p>The TF agreed that the meaning of the phrase is unclear. In considering the threats the TF concluded that the test was whether the services were material to the entity being audited. For example, the TF felt that, provided the services do not involve the exercise of judgment, the provision either all of the bookkeeping services of an immaterial subsidiary or minor bookkeeping services to a material subsidiary would not create an unacceptable threat to independence because the bookkeeping services are not material to the financial statements being audited.</p> <p>The TF is of the view the test should be whether the services are material in relation to the financial statements being audited.</p> <p>The TF also discussed the requirement that the fees to the firm or the network firm from the bookkeeping services are clearly insignificant. The TF considered the following scenario:</p> <p>Firm A in Country A audits Listed Co which has a completely immaterial subsidiary in Country B. A network firm in Country B provides the bookkeeping services for the immaterial subsidiary. The fees from the bookkeeping services are clearly insignificant to the Firm but not to the Network Firm.</p> <p>The TF was of the view that such a situation would probably not create an unacceptable threat to independence, But such a situation would seem to be prohibited under 290.171.</p> <p>The TF also discussed whether the specific guidance was need in this section of whether it was already addressed in 290.205 which states that when the total fees generated by an assurance client represent a large portion of a firm’s total fees a threat to independence may be created.</p> <p>The TF asks for the Committee’s views on the above scenario and whether the bullet addressing fees should be deleted.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>290.172 The provision of accounting and bookkeeping services to a financial statement audit client in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements, would not be considered to pose an unacceptable threat to independence provided:</p> <ul style="list-style-type: none"> • The firm, or network firm, does not assume any managerial role or make any managerial decisions; • The audit client accepts responsibility for the results of the work; and • Personnel providing the services are not members of the assurance team. 	<p>EU 7.2.1 In emergency cases, a Statutory Auditor may participate in the preparation process ...This might arise when, due to external and unforeseeable events, the Statutory Auditor is the only person with the resources and necessary knowledge of the Audit Client's systems and procedures to assist the client in the timely preparation of its accounts and financial statements. A situation could be considered an emergency where the Statutory Auditor's refusal to provide these services would result in a severe burden for the Audit Client (e.g., withdrawal of credit lines), or would even threaten its going concern status.</p> <p>In such an emergency situation, however, the Statutory Auditor should take no part in any final decisions and should seek the client's approvals wherever possible. He should also consider additional safeguards that would allow him to minimize the level of risk to his independence. Where appropriate, he should seek to discuss the situation with the Audit Client's Governance Body and ensure that the services he provided and the reasons for this are summarised in the financial statements.</p>	<p>See point above</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Valuation services		
<p>290.175 If the valuation service involves the valuation of matters material to the financial statements and the valuation involves a significant degree of subjectivity, the self-review threat created could not be reduced to an acceptable level by the application of any safeguard.</p>	<p>EU B 7.2.3 A self-review threat exists whenever a Statutory Auditor, an Audit Firm, an entity within a Network or a Partner, manager or employee thereof provides the Audit Client with valuation services that result in the preparation of a valuation that is to be incorporated into the client's financial statements. The significance of the self-review threat is considered too high to allow the provision of valuation services which lead to the valuation of amounts that are material in relation to the financial statements and where the valuation involves a significant degree of subjectivity inherent in the item concerned.</p> <p>SEC 2-01(c)4(iii) prohibits any valuation service unless it is reasonable to conclude that the results of the services will not be subject to audit procedures.</p>	<p>Section 290 is consistent with the EU.</p> <p>SEC prohibits such services unless it is reasonable to conclude that that the results of the services will not be subject to audit procedures.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited</p>
Provision of taxation services		
<p>290.179 In many jurisdictions, the firm may be asked to provide taxation services to an audit client. Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to independence.</p>	<p>The EU document does not mention tax services.</p> <p>SEC 2-01 (foreword to rule) “Tax services are unique among non-audit services...the commission reiterates its long-standing position that an accounting firm can provide tax services to its audit clients without impairing the firm’s independence...”</p> <p>The PCAOB proposes new independence rules. A firm would not be permitted to provide services “related to planning or opining on a transaction that is based on an aggressive interpretation of applicable tax laws and regulations.”</p> <p>The proposed rule would also prohibit a firm from providing tax services to officers in a financial reporting oversight role of the audit client.</p>	<p>The TF considered the statement in 290.179 and recent developments in this area. The TF concluded that with the broad tax services that can be provided, there are some services that could create a threat to independence. ¶290.163 requires the auditor, before accepting a non-assurance service, to determine whether providing the service would create a threat to independence. This requirement applies to all non-assurance services and would, therefore, cover tax services. However, the TF is of the view that because of the broad range of tax services it would be appropriate to change the guidance in 290.179 and indicate that firms need to consider when deciding whether to undertake an engagement involving tax services whether any threats would be created and if so whether they could be eliminated or reduced to an acceptable level.</p> <p>The TF is of the view the guidance in this area should be strengthened.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>Provision of internal audit services</p> <p>290.183 Performing a significant portion of the financial statement audit client's internal audit activities may create a self-review threat and a firm, or network firm, should consider the threats and proceed with caution before taking on such activities.</p> <p>290.184 Safeguards that should be applied in all circumstances to reduce any threats created to an acceptable level include ensuring that:</p> <ul style="list-style-type: none"> • The audit client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the system of internal controls; • The audit client designates a competent employee, preferably within senior management, to be responsible for internal audit activities; • The audit client, the audit committee or supervisory body approves the scope, risk and frequency of internal audit work; • The audit client is responsible for evaluating and determining which recommendations of the firm should be implemented; • The audit client evaluates the adequacy of the internal audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining and acting on reports from the firm; and • The findings and recommendations resulting from the internal audit activities are reported appropriately to the audit committee or supervisory body. 	<p>EU B 7.2.4 2. To mitigate self-review threats when involved in an Audit Client's internal audit task, the Statutory Auditor should:</p> <p>(a) satisfy himself that the Audit Client's management or Governance Body is at all times responsible for</p> <p>(i) the overall system of internal control (i.e., the establishment and maintenance of internal controls, including the day to day controls and processes in relation to the authorisation, execution and recording of accounting transactions);</p> <p>(ii) determining the scope, risk and frequency of the internal audit procedures to be performed; and</p> <p>(iii) considering and acting on the findings and recommendations provided by internal audit or during the course of a Statutory Audit.</p> <p style="padding-left: 40px;">If the Statutory Auditor is not satisfied that this is the case, neither he, nor the Audit Firm nor any entity within its Network should participate in the Audit Client's internal audit.</p> <p>(b) not accept the outcomes of internal auditing processes for statutory audit purposes without adequate review. This will include a subsequent reassessment of the relevant statutory audit work by an Audit Partner who is involved neither in the Statutory Audit nor in the internal audit engagement.</p>	<p>Section 290 is comparable to the EU provisions but the SEC prohibits provision of internal audit services for listed entities unless it is reasonable to conclude that the results of such services will not be subject to audit procedures.</p> <p>The TF is of the view that if the auditor performs a significant portion of the internal audit services, the auditor in effect becomes an integral part of the client's internal control system or starts to take on the role of management.</p> <p>The TF also noted that 290.184 is somewhat cumbersome and could be streamlined. For example, 290.184 could contain a simple statement that an auditor should not perform internal audit service unless all of the following safeguards are applied...</p> <p>The TF is of the view that the position taken is appropriate but the language should be made less cumbersome.</p>
	<p>SEC 2-01(c)4(v) prohibits a firm providing any internal audit service that has been outsourced by the audit client that relates to the audit client's internal accounting controls, financial systems, or financial statements unless it is reasonable to conclude that the results of the services will not be subject to audit procedures.</p>	<p>See above</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>Provision of IT services</p>		
<p>290.187 The self-review threat is likely to be too significant to allow the provision of such services to a financial statement audit client unless appropriate safeguards are put in place ensuring that:</p> <ul style="list-style-type: none"> • The audit client acknowledges its responsibility for establishing and monitoring a system of internal controls; • The audit client designates a competent employee, preferably within senior management, with the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system; • The audit client makes all management decisions with respect to the design and implementation process; • The audit client evaluates the adequacy and results of the design and implementation of the system; and • The audit client is responsible for the operation of the system (hardware or software) and the data used or generated by the system. 	<p>Design and implementation of financial information technology systems</p> <p>The significance of the self-review threat is considered too high to permit a Statutory Auditor, an Audit Firm or one of its group member firms to provide such FITS services unless:</p> <p>(a) the Audit Client's management acknowledges in writing that they take responsibility for the overall system of internal control;</p> <p>(b) the Statutory Auditor has satisfied himself that the Audit Client's management is not relying on the FITS work as the primary basis for determining the adequacy of its internal controls and financial reporting systems;</p> <p>(c) in the case of an FITS design project, the service provided involves design to specifications set by the Audit Client's management; and</p> <p>(d) the FITS services do not constitute a 'turn key' project (i.e., a project that consists of software design, hardware configuration and the implementation of both), unless the Audit Client or its management explicitly confirms in the written acknowledgement required under (a) that they take responsibility for</p> <p>(i) the design, implementation and evaluation process, including any decision thereon; and</p> <p>(ii) the operation of the system, including the data used or generated by the system.</p> <p>These provisions shall not limit the services a Statutory Auditor, an Audit Firm or a member of its Network performs in connection with the assessment, design, and implementation of internal accounting controls and risk management controls, provided these persons do not act as an employee or perform management functions.</p>	<p>Section 290 is generally comparable with the EU except it does say the threats would generally be too significant.</p> <p>The SEC prohibits design OR implementation services, unless it is reasonable to conclude that the results of the services will not be subject to audit procedures.</p> <p>The TF is of the view that the approach taken is appropriate but the writing is somewhat cumbersome and should be streamlined.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
	<p>SEC 2-01 (c)4(ii) Firms are prohibited from providing and financial information systems and design service unless it is reasonable to conclude that the results of the services will not be subject to audit procedures including:</p> <ul style="list-style-type: none"> • Directly or indirectly operating, or supervising the operation of the clients information system or managing the client's LAN; or • Designing or implementing a hardware or software system that aggregate source data underlying the financial statements or generates information that is significant to the client's financial statements taken as a whole 	<p>See point above</p>
<p>Temporary staff assignments to audit clients</p>		
<p>290.191 The lending of staff by a firm, or network firm, to a financial statement audit client may create a self-review threat when the individual is in a position to influence the preparation of a client's accounts or financial statements. In practice, such assistance may be given (particularly in emergency situations) but only on the understanding that the firm's or network firm's personnel will not be involved in:</p> <ul style="list-style-type: none"> • Making management decisions; • Approving or signing agreements or other similar documents; or • Exercising discretionary authority to commit the client. 	<p>EU 3.1 Dual employment of any individual who is in a position to influence the outcome of the Statutory Audit both in the Audit Firm and in the Audit Client or its Affiliates should be prohibited. Loan staff assignments to an Audit Client or any of its Affiliates are also regarded as dual employment relationships. Where an Audit Firm's employee has worked with an Audit Client under a loan staff assignment and is to be assigned to the audit Engagement Team of that client's Statutory Audit, this individual should not be given audit responsibility for any function or activity that he was required to perform or supervise during the former loan staff assignment.</p> <p>SEC 2-01 (c)4(vi) prohibits acting temporarily or permanently as director, officer or employee of the client.</p>	<p>Section 290 is generally comparable with EU. SEC prohibits temporary employment with a client.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>Provision of litigation support services</p> <p>290.192 Litigation support services may include such activities as acting as an expert witness, calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute, and assistance with document management and retrieval in relation to a dispute or litigation.</p> <p>290.193 A self-review threat may be created when the litigation support services provided to a financial statement audit client include the estimation of the possible outcome and thereby affects the amounts or disclosures to be reflected in the financial statements... The firm, or network firm, should evaluate the significance of any threat created and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.</p>	<p>EU B 7.2.5 An advocacy threat exists whenever a Statutory Auditor, an Audit Firm, an entity within a Network or a Partner, manager or employee thereof acts for the Audit Client in the resolution of a dispute or litigation. A self-review threat may also arise where such a service includes the estimation of the Audit Client's chances in the resolution of litigation, and thereby affects the amounts to be reflected in the financial statements.</p> <p>SEC 2-01(c)4(x) prohibits providing an expert opinion or other expert service for an audit client, or the client's legal representative, for the purpose of advocating a client's interests in litigation or in a regulatory or administrative proceeding or investigation. Independence is not deemed to be impaired if the accountant provides factual accounts, including testimony, of work performed or explains the positions taken or conclusions reached during the performance of any service provided by the accountant.</p>	<p>Section 290 is generally comparable with the EU provisions, SEC prohibitions are more specific in the area of expert services.</p> <p>The TF noted that certain litigation support services, such as acting as an expert witness, could create an advocacy threat to independence.</p> <p>The TF is of the view that it would be appropriate to provide guidance on the need to consider advocacy threats that might be created by certain litigation support services.</p>
<p>Provision of legal services</p> <p>290.197 The provision of legal services to a financial statement audit client which involve matters that would not be expected to have a material effect on the financial statements are not considered to create an unacceptable threat to independence.</p> <p>290.199 Acting for an audit client in the resolution of a dispute or litigation in such circumstances when the amounts involved are material in relation to the financial statements of the audit client would create advocacy and self-review threats so significant no safeguard could reduce the threat to an acceptable level.</p>	<p>EU 7.2.5 The significance of both the advocacy and the self-review threat is considered too high to allow a Statutory Auditor, an Audit Firm, an entity within a Network or a partner, manager or employee thereof to act for an Audit Client in the resolution of litigation which involves matters that would reasonably be expected to have a material impact on the client's financial statements and a significant degree of subjectivity inherent to the case concerned.</p> <p>SEC 2-01(c)4(ix) prohibits providing any service under circumstances in which the service provided could only be provided by a lawyer.</p>	<p>Section 290 is generally comparable with EU. SEC prohibits all legal services (which are defined as those services that can only be provided by a lawyer)</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>Recruiting senior management</p> <p>290.202 The recruitment of senior management for an assurance client, such as those in a position to affect the subject of the assurance engagement, may create current or future self-interest, familiarity and intimidation threats.... The firm could generally provide such services as reviewing the professional qualifications of a number of applicants and provide advice on their suitability for the post. In addition, the firm could generally produce a short-list of candidates for interview, provided it has been drawn up using criteria specified by the assurance client.</p>	<p>EU B 7.2.6 Where a Statutory Auditor, an Audit Firm, an entity within a Network or a Partner, manager or employee thereof is involved in the recruitment of senior or key staff for the Audit Client, different kinds of threats to independence may arise. These can include self-interest, trust or intimidation threats.</p> <p>Before accepting any engagement to assist in the recruitment of senior or key staff, the Statutory Auditor should assess the current and future threats to his independence which may arise. He should then consider appropriate safeguards to mitigate such threats.</p> <p>When recruiting staff to key financial and administrative posts, the significance of the threats to the Statutory Auditor's independence is very high. As such, the Statutory Auditor should carefully consider whether there might be circumstances where even the provision of a list of potential candidates for such posts may cause an unacceptable level of independence risk. Where Statutory Audits of Public Interest Entities are concerned the independence risk would be perceived to be too high to allow the provision of such a short-list.</p> <p>SEC 2-01 prohibits performing the following HR services:</p> <ul style="list-style-type: none"> • Searching for or seeking out prospective candidates for managerial, executive or director positions; • Engaging in psychological testing, or other formal testing or evaluation programs; • Undertaking reference checks of prospective candidates for an executive or director position; • Acting as a negotiator on the audit client's behalf, such as determining position, status or title, compensation, fringe benefits, or other conditions of employment; or • Recommending, or advising the audit client to hire, a specific candidate for a specific job (except that an accounting firm may, upon request by the audit client, interview candidate and advise the audit client on the candidate's competence for financial accounting, administrative or control positions). 	<p>Both EU and SEC are more restrictive than Code. EU states that recruiting staff to key financial and administrative roles would create a high threat to independence. Also for auditors of PIEs the provision of a short-list would create too high a threat to independence.</p> <p>SEC contains more specific prohibitions.</p> <p>The TF is of the view that the guidance in the Code should be strengthened. The TF considered whether this was an area where the threats to independence for a listed entity were greater than for non-listed. The TF is of the view that while the threats may be different it is not appropriate to have a different standard for listed entities. For example, in family controlled entities there may be few structures in place to monitor and assess the performance of a person in a financial position – which could increase the threat to independence, had the auditor recommended that individual to the client.</p> <p>The TF is of the view that acting as a negotiator on behalf of an assurance client would create an unacceptable threat to independence because such assistance would constitute making management decisions.</p> <p>The TF is also of the view that recommending an individual for a particular position could create a threat to independence – particularly if the position was a key financial position.</p> <p>The TF is of the view that the guidance in this area should be strengthened and an auditor should be prohibited from acting as a negotiator.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Corporate finance and similar activities		
<p>290.203 The provision of corporate finance services, advice or assistance to an assurance client may create advocacy and self-review threats. In the case of certain corporate finance services, the independence threats created would be so significant no safeguards could be applied to reduce the threats to an acceptable level. For example, promoting, dealing in, or underwriting of an assurance client's shares is not compatible with providing assurance services. Moreover, committing the assurance client to the terms of a transaction or consummating a transaction on behalf of the client would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level. In the case of an audit client the provision of those corporate finance services referred to above by a firm or a network firm would create a threat to independence so significant no safeguard could reduce the threat to an acceptable level.</p>	<p>SEC 2-01(c)4(viii) prohibits corporate finance activities including acting as a broker-dealer, promoter or underwriter on behalf of an audit client, making investment decisions on behalf of the client or otherwise having discretionary authority over the client's investment.</p>	<p>SEC prohibitions are more stringent but relate only to audit clients that are listed entities. EU does not specifically refer to such activities.</p> <p>The TF is of the view that the prohibition on corporate finance and similar activities should apply to audit clients and for other assurance clients the threats and safeguards approach is appropriate.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Fees and pricing		
<p>290.205 When the total fees generated by an assurance client represent a large proportion of a firm's total fees, the dependence on that client or client group and concern about the possibility of losing the client may create a self-interest threat...The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level</p>	<p>EU 8.2 Excessive dependence on audit and non-audit fees from one Audit Client or one client group clearly gives rise to a self-interest threat to the Statutory Auditor's independence</p> <p>EU 8.2 An analysis should be performed of all fees received for audit and non-audit services from a particular client or client group compared to the firm's or Network's total income, If this analysis indicates a level of dependency and a need for safeguards, an Audit Partner who has not been engaged in any of the audit or non-audit work for the client should carry out a review of the significant audit and non-audit work done for the client and advise as necessary. The review should also take into consideration any audit and non-audit work that has been contracted or is the subject of an outstanding proposal. Where doubts remain, or where, because of the size of the firm, no such partner is available, the Statutory Auditor should seek the advice of his professional regulatory body or a review by another statutory auditor</p>	<p>Provisions are generally similar but EU provides more specific guidance with respect to safeguards to be applied.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>290.208 When a firm obtains an assurance engagement at a significantly lower fee level than that charged by the predecessor firm, or quoted by other firms, the self-interest threat created will not be reduced to an acceptable level unless:</p> <ul style="list-style-type: none"> • The firm is able to demonstrate that appropriate time and qualified staff are assigned to the task; and • All applicable assurance standards, guidelines and quality control procedures are being complied with. 	<p>A Statutory Auditor must be able to demonstrate that the fee for an audit engagement is adequate to cover the assignment of appropriate time and qualified staff to the task and compliance with all auditing standards, guidelines and quality control procedures. He should also be able to demonstrate that the resources allocated are at least those which would be allocated to other work of a similar nature.</p> <p>EU 8.4 A Statutory Auditor must be able to demonstrate that the fee he charges for any audit engagement is reasonable, particularly if it is significantly lower than that charged by a predecessor or quoted by other firms bidding for the engagement. He must also be able to demonstrate that a quoted audit fee is not dependent on the expected provision of non-audit services, and that a client has not been misled as to the basis on which future audit and non-audit fees would be charged when negotiating the current audit fees. The Statutory Auditor should have policies and procedures in place to be able to demonstrate that his fees meet these requirements.</p> <p>EU 8.4 Where Statutory Audits of Public Interest Entities are concerned, the Statutory Auditor should seek to discuss the basis for calculating the audit fee with the Governance Body.</p>	<p>Provisions are generally similar but EU provides more specific guidance with respect to safeguards to be applied.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
<p>290.210 A contingent fee charged by a firm in respect of an assurance engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by the application of any safeguard. Accordingly, a firm should not enter into any fee arrangement for an assurance engagement under which the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement.</p>	<p>EU 8.1 . Fee arrangements for audit engagements in which the amount of the remuneration is contingent upon the results of the service provided raise self-interest and advocacy threats which are considered to bear an unacceptable level of independence risk. It is therefore required that: (a) audit engagements should never be accepted on a contingent fee basis; and (b) in order to avoid any appearance of contingency, the basis for the calculation of the audit fees must be agreed each year in advance. This should include scope for variation so as to take account of unexpected factors in the work.</p>	<p>Provisions are comparable.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>
<p>290.211 A contingent fee charged by a firm in respect of a non-assurance service provided to an assurance client may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement was agreed to, or contemplated, during an assurance engagement and was contingent on the result of that assurance engagement, the threats could not be reduced to an acceptable level by the application of any safeguard.</p>	<p>Threats to independence may also arise from contingent fee arrangements for non-audit services which the Statutory Auditor, the Audit Firm or an entity within its Network provides to an Audit Client or to one of its Affiliates. The Statutory Auditor's safeguarding system should therefore ensure that: (a) such an arrangement is never concluded without first assessing the independence risk it might create and ensuring that appropriate safeguards are available to reduce this risk to an acceptable level; and (b) unless the Statutory Auditor is satisfied that there are appropriate safeguards in place to overcome the independence threats, either the non-audit engagement must be refused or the Statutory Auditor must resign from the Statutory Audit to allow the acceptance of the nonaudit work.</p>	<p>Slight difference in approach – EU states that a contingent fee for a non-audit engagement should not be accepted without first assessing the independence implications.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>

Section 290	EU/SEC and others	Task Force comments and preliminary views
Gifts and hospitality		
<p>290.212 Accepting gifts or hospitality from an assurance client may create self-interest and familiarity threats. When a firm or a member of the assurance team accepts gifts or hospitality, unless the value is clearly insignificant, the threats to independence cannot be reduced to an acceptable level by the application of any safeguard. Consequently, a firm or a member of the assurance team should not accept such gifts or hospitality.</p>		<p>No comparable EU or SEC prohibitions</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>
Actual or threatened litigation		
<p>290.213 When litigation takes place, or appears likely, between the firm or a member of the assurance team and the assurance client, a self-interest or intimidation threat may be created. The relationship between client management and the members of the assurance team must be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. The firm and the client's management may be placed in adversarial positions by litigation, affecting management's willingness to make complete disclosures and the firm may face a self-interest threat.... Once the significance of the threat has been evaluated the following safeguards should be applied, if necessary, to reduce the threats to an acceptable level</p>	<p>EU 9 — if an Audit Client alleges deficiencies in statutory audit work, and the Statutory Auditor concludes that it is probable that a claim will be filed, the Statutory Auditor should first discuss the basis of the allegations with the Governance Body of the Audit Client or, where such body does not exist, with his professional regulatory body. If this confirms the judgement that it is probable that a claim will be filed, then — subject to local legal requirements — the Statutory Auditor should resign;</p>	<p>EU requires, subject to local legal requirements, resignation, if it is probable that a claim will be filed.</p> <p>The TF is of the view that the guidance in this area is appropriate and does not need to be revisited.</p>
Other rules – partner compensation		
	<p>SEC 2-01(c)8 prohibits an audit partner from earning or receiving compensation based on the partner procuring non-audit services from his/her audit client. (firms with fewer than 10 partners and fewer than 5 listed audit clients are exempt from this rule)</p>	<p>The TF is of the view that a threat to independence could be created when an audit partner is compensated for procuring non-audit services from an audit client that is a listed entity.</p> <p>The TF is of the view that the Code should state that a threat to independence may be created when an audit partner is compensated for procuring non audit services from listed entity audit clients.</p>