

## Section 291

### Independence—Other Assurance Engagements

#### Objectives and Structure of this Section

- 291.1 This section addresses independence requirements for assurance engagements that are not audit or review engagements. Independence requirements for audit and review engagements are addressed in Section 290. If the assurance client is also an audit or review client, the requirements in Section 290 also apply to the firm and to the members of the audit or review team.
- 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 International Standards on Assurance Engagements (ISAEs) that apply. For a description of the elements and objectives of an assurance engagement reference should be made to the Assurance Framework.
- 291.3 In the case of an assurance engagement it is in the public interest and, therefore, required by this Code of Ethics, that members of **assurance teams**\* and firms be independent of assurance clients and consideration be given to any threats that the firm has reason to believe may be created by network firm interests and relationships. In addition when the assurance team has reason to believe that a related entity of the assurance client is relevant to the evaluation of the firm's independence of the client, the assurance team should consider the related entity when evaluating independence and applying appropriate safeguards.
- 291.4 The objective of this section is to assist firms and members of assurance teams in:
- (a) Identifying threats to independence;
  - (b) Evaluating whether these threats are clearly insignificant; and
  - (c) In cases when the threats are not clearly insignificant, identifying and applying appropriate safeguards to eliminate or reduce the threats to an acceptable level.
- Professional judgment should be used to determine the appropriate safeguards to eliminate threats or to reduce them to an acceptable level. If appropriate safeguards are not available the assurance engagement should be declined or terminated
- 291.5 This section is not prescriptive as to the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending upon the size, structure and organization of a firm. Accordingly, it is necessary for firms to have policies and procedures, appropriately documented and communicated, to assign responsibility for identifying and evaluating threats to independence and

applying appropriate safeguards to eliminate any threats or reduce them to an acceptable level.

- 291.6 This section concludes with some examples (paragraphs 291.100 onwards) of how the conceptual approach to independence is to be applied to specific circumstances and relationships. The examples are not intended to be all-inclusive.

### **A Conceptual Approach to Independence**

- 291.7 Independence requires:

#### *Independence of Mind*

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

#### *Independence in Appearance*

The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism has been compromised.

- 291.8 Many different circumstances, or combination of circumstances, may be relevant in assessing independence. Accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. A conceptual framework that requires firms and members of assurance teams to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore, in the public interest.
- 291.9 In deciding whether it is appropriate to accept or continue an engagement, or whether a particular individual should be a member of the assurance team, a firm should, therefore, evaluate the relevant circumstances, the nature of the assurance engagement and the threats to independence, as well as the nature of the safeguards required. Assurance engagements encompass a broad range engagements and can take many forms. The evaluation should be supported by information obtained before accepting the engagement and while it is being performed.

### **Assurance Engagements**

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

- 291.11 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. The term “subject matter information” is used to mean the outcome of the evaluation or measurement of subject matter. For example, the Framework states that an assertion about the effectiveness of internal control (subject matter information) results from applying a framework for evaluating the effectiveness of internal control, such as COSO<sup>1</sup> or CoCo<sup>2</sup>, (criteria) to internal control, a process (subject matter).
- 291.12 Assurance engagements may be assertion-based or direct reporting. In either case they involve three separate parties: a public accountant in public practice, a responsible party and intended users.
- 291.13 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.
- 291.14 In a direct reporting assurance engagement the professional accountant in public practice either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.

#### ***Assertion-based Assurance Engagements***

- 291.15 In an assertion-based assurance engagement the members of the assurance team and the firm are required to be independent of the assurance client (the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter). Such independence requirements include prohibitions regarding certain relationships between members of the assurance team and directors, officers and employees of the client in a position to exert significant influence over the subject matter information. Also, consideration should be given to whether threats to independence are created by relationships with employees of the client in a position to exert significant influence over the subject matter of the engagement. Consideration should also be given to any threats that the firm has reason to believe may be created by network firm<sup>3</sup> interests and relationships.
- 291.16 In the majority of assertion-based assurance engagements the responsible party is responsible for the subject matter information and the subject matter. However, in some engagements the responsible party may not be responsible for the subject matter. For example, when a professional accountant in public practice is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared

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

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

<sup>3</sup> See paragraphs 290.11-22 for guidance on what constitutes a network firm.

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).

- 291.17 In those assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter the members of the assurance team and the firm are required to be independent of the party responsible for the subject matter information (the assurance client). In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.

### ***Direct Reporting Assurance Engagements***

- 291.18 In a direct reporting assurance engagement the members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter). Consideration should also be given to any threats that the firm has reason to believe may be created by network firm interests and relationships.

### ***Restricted Use Reports***

- 291.19 An assurance report in respect of an assurance client that is not an audit or review client may be expressly restricted for use by only the intended users specified in the report. In such engagements, the users of the report are considered to be knowledgeable as to the purpose, subject matter information and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to deliver the services, including the criteria against which the subject matter are to be evaluated or measured. This knowledge and the enhanced ability of the firm to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence in appearance. These circumstances are relevant to the evaluation of the threats to independence and the consideration of the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level.
- 291.20 In applying the provisions of this section to members of the assurance team, all members of the engagement team are required to be independent of the assurance client, accordingly the provisions of this section apply to those individuals and where relevant their immediate and close family members. In addition, consideration should be given to whether threats to independence are created by interests and relationships between the following other members of the assurance team and the assurance client:
- Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - Those who provide quality control for the engagement, including those who perform the engagement quality control review.

Consideration should also be given to any threats that the engagement team has reason to believe may be 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 of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement.

- 291.21 If the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, the firm should not have such a financial interest. In addition, the firm is required to comply with the other applicable provisions of this section described in paragraphs 291.112 – 291.155. Consideration should also be given to any threats that the firm has reason to believe may be created by network firm interests and relationships.

### ***Multiple Responsible Parties***

- 291.22 In some assurance engagements, whether assertion-based or direct reporting there might be several responsible parties. In such engagements, in determining whether it is necessary to apply the provisions in this section to each responsible party, the firm may take into account whether an interest or relationship between the firm, or a member of the assurance team, and a particular responsible party would create a threat to independence that is other than clearly insignificant in the context of the subject matter information. This will take into account factors such as:
- The materiality of the subject matter information (or the subject matter) for which the particular responsible party is responsible; and
  - The degree of public interest associated with the engagement.

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

### **Documentation**

- 291.23 While documentation is not, in itself a determinant of whether a firm is independent, 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 the threats or reduce them to an acceptable level.

### **Engagement Period**

- 291.24 The members of the assurance team and the firm should be independent of the assurance client 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, except when the engagement is of a recurring nature. In such a case 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.

291.25 When an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express an opinion, the firm should consider whether any threats to independence may be created.

- Financial or business relationships with the assurance client during or after the period covered by the subject matter information, but prior to the acceptance of the assurance engagement; or
- Previous services provided to the assurance client.

291.26 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 commencement of professional services in connection with the assurance engagement and the service would be prohibited during the period of the assurance engagement, consideration should be given to the threats to independence, if any, arising from the service. If the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards may include:

- Obtaining the client's acknowledgement of responsibility for the results of the non-assurance service;
- Precluding personnel who provided the non-assurance service from being members of the assurance team; or
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.

### **Other Considerations**

291.27 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it would generally not compromise independence with respect to the client provided the firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

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

## APPLICATION OF FRAMEWORK TO SPECIFIC SITUATIONS

### CONTENTS

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	Paragraph
Introduction .....	291.100
[To be developed] .....	

## **Introduction**

- 291.100 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats created and the safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples are not all inclusive. In practice, the firm and the members of the assurance team will be required to assess the implications of similar, but different, circumstances and relationships and to determine whether safeguards, including the safeguards in paragraphs 200.12 through 200.15 can be applied to satisfactorily address the threats to independence.
- 291.101 The examples illustrate how the framework applies to assurance engagements. The examples should be read in conjunction with paragraphs 291.23 which explain that, in the majority of assurance engagements, there is one responsible party and that responsible party comprises the assurance client. However, in some assurance engagements there are two or more responsible parties. In such circumstances, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter. For assurance reports expressly restricted for use by identified users the examples should be read in the context of paragraphs 291.20 – 291.22.
- 291.102 Interpretation 2005-01 to this section provides further guidance on the application of the independence requirements contained in this section to assurance engagements.

## **Financial Interests**

- 291.103 A financial interest in an assurance client may create a self-interest threat. In evaluating the significance of any threat, and the appropriate safeguards to be applied to eliminate the threat or reduce it to an acceptable level, it is necessary to examine the nature of the financial interest. This includes an evaluation of the role of the person holding the financial interest, the materiality of the financial interest and whether the financial interest is direct or indirect.
- 291.104 When evaluating the type of financial interest, consideration should be given to the fact that financial interests range from those where the individual has no control over the investment vehicle or the financial interest it holds (e.g., a mutual fund, unit trust or similar intermediary vehicle) to those where the individual has control over the financial interest (e.g., as a trustee) or is able to influence investment decisions. In evaluating the significance of any threat to independence, it is important to consider the nature of the financial interest it holds, whether control can be exercised over the intermediary and its investment strategy. When control exists, the financial interest should be considered direct. Conversely, when the holder of the financial interest has no ability to exercise control the financial interest should be considered indirect.
- 291.105 If a member of the assurance team, or his or her immediate family member, 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 no safeguards could eliminate or reduce the threat to an acceptable level. Therefore, a member of the assurance team, his or her immediate family member, or a firm should not have a direct financial interest or a material indirect financial interest in the client.

291.106 When a member of the assurance team knows that his or her close family member has a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat may be created. In evaluating the significance of any threat, consideration should be given to the nature of the relationship between the member of the assurance team and the close family member and the materiality of the financial interest. The significance of any threat should be evaluated, and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- 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 such that the remaining interest is no longer material;
- Involving a professional accountant to perform an additional review of the work performed by the relevant member of the assurance team; or
- Removing the individual from the assurance team.

291.107 If a member of the assurance team, his or her immediate family member, or a firm has a 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 no safeguard could reduce the threat to an acceptable level. Therefore, a firm should not have such a financial interest.

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

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

291.109 Consideration should be given by the assurance team as to whether a self-interest threat may be created by any known financial interests in the assurance client held by other individuals. Such individuals would include:

- Partners, and professional employees of the firm, other than those referred to above, their immediate family members; and
- Individuals who have a close personal relationship with a member of the assurance team.

Whether the interests held by such individuals create a self-interest threat will depend upon factors such as:

- The firm's organizational, operating and reporting structure; and
- The nature of the relationship between the individual and the member of the assurance team.

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

- Removing the member of the assurance team with the personal relationship from the assurance team;
- Excluding the member of the assurance team with the personal relationship from any significant decision-making concerning the assurance engagement; or
- Involving a professional accountant to perform an addition review of the work performed by the relevant member of the assurance team.

291.110 If a firm, a member of the assurance team, or his or her immediate family member, receives, by way of, for example, an inheritance, gift or, as a result of a merger, a direct financial interest or a material indirect financial interest in an assurance client 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 should be disposed of immediately, or a sufficient amount of an indirect financial interest should be disposed of so that the remaining interest is no longer material, or the firm should withdraw from the assurance engagement.
- (b) If the interest is received by a member of the assurance team, or his or her immediate family member, the individual should immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material, or the individual should be removed from the team.

291.111 An inadvertent violation of this section as it relates to a financial interest in an assurance client would not impair the independence provided:

- (a) The firm has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client;

- (b) The individual, in the case of a purchase, is advised that the financial interest should be disposed or the disposal takes place at the earliest date after the identification of the issue or in other circumstances the actions prescribed in paragraph 291.110 are taken;
- (c) In the case of a purchase by the firm, the disposal takes place at the earliest date after the identification of the issue and;
- (d) The firm considers whether any safeguards should be applied. Such safeguards might include:
  - Involving an additional professional accountant to review the work performed by the relevant member of the assurance team;
  - Excluding the individual from any significant decision-making concerning the assurance engagement; or
  - Discussing the matter with those charged with governance.

## **Loans and Guarantees**

- 291.112 A loan, or a guarantee of a loan, to 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 requirements the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, a firm should not accept such a loan or guarantee of a loan.
- 291.113 If the loan is made under normal lending procedures, terms and requirements and is material to the assurance client or to the firm it may be possible, through the application of safeguards, to reduce the self-interest threat created to an acceptable level. Such safeguards might include involving an additional professional accountant from outside the firm, to review the work performed.
- 291.114 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 his or her immediate family member would not create a threat to independence provided the loan, or guarantee, is made under normal lending procedures, terms and requirements. Examples of such loans include home mortgages, bank overdrafts, car loans and credit card balances.
- 291.115 If the firm, or a member of the assurance team, or his or her immediate family member, makes a loan to an assurance client, that is not a bank or similar institution, or guarantees such an assurance client's borrowing, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team, or his or her immediate family member, and the assurance client.
- 291.116 Similarly, if the firm or a member of the assurance team, or his or her immediate family member, accepts a loan from, or has borrowing guaranteed by, an assurance client that is not a bank or similar institution, the self-interest threat created would be so

significant no safeguard could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the assurance team, or his or her immediate family member, and the assurance client.

### **Close Business Relationships with Assurance Clients**

291.117 A close business relationship between a firm or a member of the assurance team and the assurance client, or his or her immediate family member, or its management, will involve a commercial relationship or common financial interest. The following are examples of such relationships:

- Having a financial interest in a joint venture with the client or a controlling owner, director, officer or other individual who performs senior managerial functions for that client.
- Arrangements to combine one or more services or products of the firm with one or more services or products of the assurance client and to market the package with reference to both parties.
- Distribution or marketing arrangements under which the firm acts as a distributor or marketer of the assurance client's products or services, or the assurance client acts as the distributor or marketer of the products or services of the firm.

Unless any financial interest is immaterial and the relationship is clearly insignificant to the firm and the client, no safeguard could reduce the threat to an acceptable level. Therefore, in such circumstances if the magnitude of the relationship cannot be reduced so that the financial interest is immaterial and the relationship is clearly insignificant:

- (a) The business relationship should be terminated; or
- (b) The firm should refuse to perform the assurance engagement.

Unless any such financial interest is immaterial and the relationship is clearly insignificant to the member of the audit team, the individual should be removed from the audit team.

Such a close business relationship may create self-interest and intimidation threats. The significance of any threat will depend on:

If the close business relationship is between an immediate family member of a member of the audit team and the audit client or its management, the significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.

291.118 The purchase of goods and services from an assurance client by the firm or a member of the assurance team, or his or her immediate family member, would not generally create a threat to independence providing the transaction is in the normal course of business and on an arm's length basis. However, such transactions may be of a nature or magnitude so as to create a self-interest threat. If the threat created is other than

clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Eliminating or reducing the magnitude of the transaction; or
- Removing the individual from the assurance team.

## **Family and Personal Relationships**

291.119 Family and personal relationships between a member of the assurance team and a director, an officer or certain employees, depending on his or her role, of the assurance client, may create self-interest, familiarity or intimidation threats. The significance of any threats will depend upon a number of factors, including the individual's responsibilities on the assurance engagement, the closeness of the relationship and the role of the family member or other individual within the client. Consequently, there is a wide spectrum of circumstances that will need to be evaluated and safeguards to assess the significance of the threats.

291.120 When an immediate family member of a member of the assurance team is a director, an officer, of the assurance client or an employee in a position to exert significant influence over the subject matter information of the assurance engagement, or was in such a position during any period covered by the engagement, the threats to independence can only be reduced to an acceptable level by removing the individual from the assurance team. The closeness of the relationship is such that no other safeguard could reduce the threat to independence to an acceptable level. If this safeguard is not applied the firm should withdraw from the assurance engagement.

291.121 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, threats to independence may be created. The significance of the threats will depend on factors such as:

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

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

- Removing the individual from the assurance team; or
- Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the immediate family member.

291.122 When a close family member of a member of the assurance team is a director or an officer of the assurance client or an employee in a position to exert significant influence over the subject matter information of the assurance engagement, threats to

independence may be created. The significance of the threats will depend on factors such as:

- The nature of the relationship between the member of the assurance team and his or her close family member;
- The position the close family member holds with the client; and
- The role of the professional on the assurance team.

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

- Removing the individual from the assurance team; or
- Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the close family member.

291.123 When a person who is other than an immediate or close family member of a member of the assurance team has a close relationship with the member of the assurance team and is a director or an officer or an employee in a position to exert significant influence over the subject matter information of the assurance engagement threats to independence may be created. The significance of the threats will depend upon:

- The nature of the relationship between the individual and the member of the assurance team;
- The position the individual holds with the client; and
- The role of the professional on the assurance team.

Members of the assurance team are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures. The significance of any threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Removing the professional from the assurance team; or
- Structuring the responsibilities of the assurance team so that the professional does not deal with matters that are within the responsibility of the individual with whom he or she has a close relationship.

291.124 Consideration should be given to whether self-interest, familiarity or intimidation threats may be created by a personal or family relationship between a partner or employee of the firm who is not a member of the assurance team and a director or an officer of the assurance client or an employee in a position to exert significant influence

over the subject matter information of the assurance engagement. The significance of any threat created will depend upon factors such as:

- The nature of the relationship between the partner or employee of the firm the client director, officer or employee;
- The interaction of the partner or employee of the firm with the assurance team;
- The position of the partner or employee within the firm; and
- The role of the individual within the client.

Partner and employees of the firm are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures. The significance of any threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Structuring the partners or employee's responsibilities to reduce the level of interaction with the assurance team; or
- Involving another professional accountant to review the work performed or otherwise advise as necessary.

291.125 An inadvertent violation of this section as it relates to family and personal relationships would not compromise independence provided:

- (a) The firm has established policies and procedures that require all professionals to report promptly to the firm any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence;
- (b) If the inadvertent violation relates to an immediate family member of a member of the assurance team becoming a director or an officer of the audit client or an employee in a position to exert significant influence over the subject matter information of the assurance engagement, the relevant professional is removed from the assurance team; and
- (c) The firm considers whether any other safeguards should be applied. Such safeguards may include:
  - Involving an additional professional accountant to review the work performed by the member of the audit team; or
  - Excluding the individual from any significant decision-making concerning the engagement.

## **Employment with Assurance Clients**

291.126 A firm or a member of the assurance team's independence may be threatened if a director or an 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. Such circumstances may create self-interest, familiarity and intimidation threats particularly when significant connections remain between the individual and his or her former firm.

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

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

In all cases the following safeguards are necessary to ensure that no significant connection remains between the firm and the individual:

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

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

- Modifying the assurance plan for the engagement;
- Assigning an assurance team to the subsequent assurance engagement that is of sufficient experience in relation to the individual who has joined the assurance client; or
- Involving an additional professional accountant to review the work done or otherwise advise as necessary.

291.128 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, any threats to independence should be evaluated and if the threats are other than clearly insignificant safeguards should be considered and applied, as necessary, to eliminate the threat or reduce it to an acceptable level.

291.129 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. Firms should have policies and procedures to require the individual to notify the firm when entering employment negotiations with the client. Upon receiving such notification, the significance of the threat to independence should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- (a) Removal of the individual from the assurance engagement; or
- (b) A review of any significant judgments made by that individual while on the engagement.

### **Recent Service with an Assurance Client**

291.130 If a former officer, director or employee of the assurance client serves as a member of the assurance team self-interest, self-review and familiarity threats may be created. This would be particularly true when, for example, a member of the assurance team has to evaluate subject matter information he or she had prepared while with the assurance client.

291.131 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 significant influence over the subject matter information of the assurance engagement, the threat created would be so significant no safeguard could reduce the threat to an acceptable level. Consequently, such individuals should not be assigned to the assurance team.

291.132 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 significant influence over the subject matter information of the assurance engagement, self-interest, self-review and familiarity threats may be created. For example, such threats would be created if a decision made or work performed by the individual in the prior period, while employed by the assurance client, is to be evaluated in the current period as part of the current assurance engagement. The significance of the threats will depend upon factors such as:

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

The significance of the threat should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include conducting an additional review of the performed done by the individual as part of the team.

### **Serving as a Director or an Officer of an Assurance Client**

- 291.133 If a partner or employee of the firm serves at the same time as a director or an officer 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. Therefore, if such an individual were to accept such a position the firm should decline or withdraw from the assurance engagement.
- 291.134 The position of Company Secretary has different implications in different jurisdictions. The duties may range from administrative duties such as personnel management and the maintenance of company records and registers, to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Generally this position is seen to imply a close degree of association with the entity and may create self-review and advocacy threats.
- 291.135 If a partner or employee of the firm serves as Company Secretary for an assurance 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.
- 291.136 Routine administrative services to support a company secretarial function or advisory work in relation to company secretarial administration matters are generally not perceived to compromise independence, provided client management makes all relevant decisions.

### **Long Association of Senior Personnel with Assurance Clients**

- 291.137 Using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat. The significance of the threat will depend upon factors such as:
- The length of time that the individual has been a member of the assurance team;
  - The role of the individual on the assurance team;
  - The structure of the firm;
  - The nature of the assurance engagement;
  - Whether a new management team has been installed at the assurance client; and
  - Whether there has been a change in the nature or complexity of the subject matter information.

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 eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Rotating the senior personnel off the assurance team;

- Involving an additional professional accountant who was not a member of the assurance team to review the work performed by the senior personnel; or
- Independent internal or external quality reviews of the engagement.

### **Provision of Non-assurance Services to Assurance Clients**

- 291.138 Firms have traditionally provided to their clients a range of non-assurance services that are consistent with their skills and expertise. The provision of non-assurance services to an assurance client may, however, create threats to the independence of the firm or the members of the assurance team. Before the firm accepts an engagement to provide a non-assurance service to an assurance client, consideration should be given to whether the provision of such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration should be given to any additional threat that the team has reason to believe may be created by other non-assurance services. In some cases it may be possible to eliminate or reduce the threat created by application of safeguards. In other cases no safeguards are available to reduce the threat to an acceptable level and accordingly the non-assurance service should not be provided.
- 291.139 New developments in business, the evolution of financial markets, rapid changes in information technology, and the consequences for management and control, make it impossible to draw up an all-inclusive list of all situations when providing non-assurance services to an assurance client might create threats to independence and of the different safeguards that might eliminate these threats or reduce them to an acceptable level.

### **Management Responsibilities**

- 291.140 Management of an entity performs many functions in order to carry out its responsibility to manage the entity in the best interests of stakeholders. It is not possible to specify every function which is a management responsibility. However, management functions involve leading and directing an entity including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.
- 291.141 The determination of whether an activity is a management function will depend on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered management functions include:
- Setting policies and strategic direction;
  - Authorizing transactions;
  - Deciding which recommendations of the firm or other third parties should be implemented; and
  - Taking responsibility for designing, implementing and maintaining internal control.

- 291.142 Performing management functions for an assurance client that is not an audit or review client may create threats to independence. If a firm performs management functions as part of the assurance service the threats created could not be reduced to an acceptable level by any safeguard. Accordingly, in providing assurance services to an assurance client that is not an audit or review client, a firm should not perform management functions as part of the assurance service. If the firm performs a management function as part of any other services provided to the assurance client, it should ensure that the function is not related to the subject matter and subject matter information of an assurance engagement provided by the firm.
- 291.143 Some activities would not be considered management functions because they are routine and administrative, involve matters that are insignificant or do not otherwise represent a management responsibility. For example, executing a clearly insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an assurance client of such forthcoming dates would not be considered management functions. Further providing advice and recommendations to assist management in performing their functions or providing elements of a client's internal training program would not be considered a management function.
- 291.144 In order to avoid the risk of performing management functions related to the subject matter or subject matter information of the assurance engagement, the firm should be satisfied that a member of management of the client has been designated to make all significant judgments and decisions connected with the performance of the services and accept responsibility for the results of the service received. This reduces the risk of the firm inadvertently making any significant judgment or decision. This risk is further reduced when the firm gives the client the opportunity to make judgments and decisions on the basis of an objective and transparent analysis and presentation of the issues.
- 291.145 Threats to independence might be created when a firm provides a non-assurance service related to the subject matter information of an assurance engagement. In such cases, consideration should be given to the significance of the firm's involvement with the subject matter information of the engagement, whether any self-review threats are created and whether any threat to independence that are other than clearly insignificant can be reduced to an acceptable level by the application of safeguards.
- 291.146 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 should evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat created is other than clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level.
- 291.147 When a firm performs a valuation that forms part of the subject matter information of an assurance engagement the firm should consider any self-review threat. 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.

## **Fees**

### **Fees–Relative Size**

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

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

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

- Taking steps to reduce dependency on the client;
- External quality control reviews; or
- Consulting a third party, such as a professional regulatory body or another professional accountant.

291.149 A self-interest threat may also be 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 should be evaluated and, if the threat is other than clearly insignificant, safeguards should be considered and applied as necessary to reduce the threat to an acceptable level. Such safeguards might include:

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

### **Fees–Overdue**

291.150 A self-interest threat may be created if fees due from an assurance client for professional services remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report, if any, for the following period. Generally the payment of such fees should be required before any such report is issued. The following safeguard may be applicable involving an additional professional accountant who did not take part in the assurance engagement to provide advice or review the work performed. The firm should also consider whether the overdue fees might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed.

## **Contingent Fees**

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

291.152 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 such fee arrangement.

291.153 A contingent fee charged by a firm in respect of a non-assurance engagement 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 the assurance engagement, the threats could not be reduced to an acceptable level by the application of any safeguard. Accordingly, such arrangements should not be accepted. For other types of contingent fee arrangements, the significance of the threats created will depend on factors such as:

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

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

- Review or determination of the final fee by an unrelated third party; or
- Quality and control policies and procedures.

## **Gifts and Hospitality**

291.154 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.

## **Actual or Threatened Litigation**

291.155 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. The significance of the threat created will depend upon such factors as:

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

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

- (a) If the litigation involves a member of the assurance team, removing that individual from the assurance team; or
- (b) Involving an additional professional accountant in the firm who was not a member of the assurance team to review the work done or otherwise advise as necessary.

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