Accountants (Certified General) Act

Bylaws

Code of Ethical Principles and Rules of Conduct

Independence Standard

Public Practice Policies and Providing Voluntary Services

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Certified General Accountants Association of British Columbia

Independence Standard

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DEFINITIONS

"Assurance client"

The responsible party in respect of which a firm conducts an assurance engagement. Where the assurance client is a public interest entity, the assurance client will always include its related entities.

"Assurance engagement"

An engagement defined by the recommendations and generally accepted standards for assurance engagements contained in the *CICA Handbook — Assurance*. Where, pursuant to an accountability relationship between two or more parties, a practitioner is engaged to issue a written communication expressing a conclusion concerning a subject matter for which the accountable party is responsible.

"Assurance team"

a) All members of the engagement team for the assurance engagement;

b) All others within a firm who can directly influence the outcome of the assurance engagement, including:

   i) 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, including for the purposes of an audit engagement those at all successively senior levels above the lead engagement partner through to the firm's chief executive;

   ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the assurance engagement;

   iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review.

c) For the purpose of an audit client, all those within a network firm who can directly influence the outcome of an audit engagement.

"Audit client"

An entity in respect of which a firm conducts an audit engagement. When the audit client is a public interest entity, the audit client will always include its related entities.

"Audit engagement"

An assurance engagement as defined by the recommendations of standards for audit engagements as contained in the *CICA Handbook — Assurance*, where there is an accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria.

"Audit team"

a) All members of the engagement team for the audit engagement;

b) All others within a firm who can directly influence the outcome of the audit engagement including:
   i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through the firm's chief executive;
   ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events of the engagement; and
   iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and

c) All those within a network firm who can directly influence the outcome of the audit engagement.

"Close family"

A parent, non-dependent child or sibling.

"Clearly insignificant"

A matter that is deemed to be both trivial and inconsequential.

"Direct financial interest"

A financial interest that is:

a) owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others);

b) beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control; or

c) owned through an investment club or private mutual fund in which the individual participates in the investment decisions.

"Engagement Quality Control Review"

A process designed to provide an objective evaluation, in accordance with the general standards of quality control for firms performing assurance engagements contained in the *CICA Handbook — Assurance*, of the significant judgements the engagement team made and the conclusions reached in formulating the report.

"Engagement team"

All personnel performing the engagement and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by personnel of the firm.

"Financial interest"

An interest in equity or other security, debenture, loan, or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

"Firm"

a) A sole practitioner, partnership, limited liability partnership, professional corporation, or a corporation engaged in the practice of public accounting;

b) An entity that controls such parties through ownership, management or other means; and

c) An entity controlled by such parties through ownership, management or other means.

"Fund manager"

With respect to a mutual fund, an entity that is responsible for investing the mutual fund's assets, managing its portfolio trading, and providing it with administrative and other services, pursuant to a management contract.

"Immediate family"

A spouse (or equivalent) or dependent.

"Indirect financial interest"

A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control.

"Key audit or review partner"

The engagement partner, the individual responsible for the engagement quality control review, and other audit or review partners on the engagement team (such as lead partners on significant subsidiaries or divisions), who are responsible for key decisions or judgements on significant matters with respect to the audit or review of the financial statements on which the firm will express an opinion.

"Member"

An individual who holds a Certified General Accountant designation and is in good standing. Where applicable, the term includes duly registered CGA students.

"Mutual fund"

A mutual fund that is a reporting issuer under the applicable Canadian provincial or territorial securities legislation.

"Network firm"[1]

A firm or entity that belongs to a network.

[1] See page 17 for further explanatory requirements for networks and network firms.

"Network"[2]

A larger structure:

a) that is aimed at cooperation; and

b) that is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

"Office"

A distinct sub-group, whether organized on geographical or practice lines.

"Other assurance engagement"

An assurance engagement is defined by the recommendations and generally accepted standards for assurance engagements contained in the *CICA Handbook — Assurance*, where, pursuant to an accountability relationship between two or more parties, a practitioner is engaged to issue a written communication expressing a conclusion concerning a subject matter for which the accountable party is responsible. An other assurance engagement excludes those engagements where the primary purpose is to provide an audit or review engagement report of a set of financial statements.

"Professional colleague"

An accountant recognized by statutory authority.

"Public interest entity"

Public interest entities are defined to include:

a) All reporting issuers; and

b) Entities that, due to the large number and wide range of stakeholders, size and number of employees, and nature or fiduciary capacity, reflect a broad extent of public interest (for example, private for-profit enterprises, co-operative business enterprises, not-for-profit organizations, and governments and other entities in the public sector).

"Related entity"

An entity that has any of the following relationships with the client:

a) direct or indirect control over the client provided the client is material to such entity;

b) a direct financial interest in the client provided such entity has significant influence over the client and the interest in the client is material to such entity;

c) the client has direct or indirect control over the entity;

d) an entity in which the client, or a related entity as described in c), has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity as described in c); or

[2] See page 17 for further explanatory requirements for networks and network firms.

e) an entity that is under common control with the client (hereinafter a "sister entity") provided the sister entity and the client are both material to the entity that controls both the client and sister entity.

In the case of a reporting issuer that is a mutual fund, the term "related entity" is limited to any entity that is:

- the fund manager of the mutual fund; and
- another mutual fund that has the same fund manager as the mutual fund and that is audited by the same firm or a network firm.

"Reporting issuer"

An entity that is deemed to be a reporting issuer under the applicable Canadian provincial or territorial securities legislation, other than an entity that has, in respect of a particular fiscal year, a market capitalization or total assets that are each less than $10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming $10,000,000 or more in respect of a particular fiscal year will be considered to be a reporting issuer thence forward unless and until the entity ceases to have its shares, units or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization threshold for a period of two years.

In the case of a period in which an entity makes a public offering:

a) the term "market capitalization" shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured during the closing price on the day of the public offering; and

b) the term "total assets" shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document.

In the case of a reporting issuer that does not have listed securities or publicly traded debt, the definition of reporting issuer shall be read without reference to market capitalization.

"Review client"

An entity in respect of which a firm conducts a review engagement.

"Review engagement"

An assurance engagement defined by the recommendations and generally accepted standards for review engagements of the *CICA Handbook — Assurance* where there is enquiry, analytical procedures, and discussion relating to information supplied by the review client with the limited objective of assessing whether the information being reported on is plausible within the framework of appropriate criteria.

"Review team"

a) All members of the engagement team for the review engagement; and
b) All others within a firm who can directly influence the outcome of the review engagement, including:
   i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior

levels above the engagement partner through to the individual who is the firm's senior or managing partner (chief executive officer or equivalent);

ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and

iii) those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and

c) All those within a network firm who can directly influence the outcome of the review engagement.

"Those charged with governance"

The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

1. INTRODUCTION

1.1 It is in the public interest that members, engagement teams, and firms be independent of assurance clients. This independence is necessary in order to provide a reasonable level of assurance that any engagement conducted and subsequent report issued is grounded on professional judgement that is free of conflict of interest or bias.

1.2 This requirement for independence in assurance and specified auditing procedures engagements is formally set out in the 2nd Ethical Principle – Trust and Duties; 7th Ethical Principle – Independence; and rules R701 to R744 in the CGA-BC *Code of Ethical Principles and Rules of Conduct* (CEPROC) of which this Standard forms an integral component. The 7th Ethical Principle requires that a member shall be free of any influence, interest or relationship in respect of a client's affairs that impairs the member's professional judgement or objectivity, or that, in the view of a reasonable observer, may have that effect.

Rules R701 and R702 prohibits a member from issuing a communication in assurance or specified auditing procedures engagements unless the member has considered and either reduced to an acceptable level or eliminated any threats to the member's independence.

This requirement creates an ongoing obligation for members, engagement teams, and firms to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate these threats or reduce them to an acceptable level by the application of safeguards. Furthermore, rule R741 obligates a member to ensure that personnel of the firm are in compliance with these independence requirements.

1.3 This Standard provides members, engagement teams, and firms with a conceptual framework for identifying, evaluating, and responding to threats to independence.

1.4 This Standard makes use of the conceptual framework contained in the International Federation of Accountants Code of Ethics for Professional Accountants.

A Conceptual Framework Approach to Independence

1.5 Independence requires:

a) Independence of mind:

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

and

b) Independence in appearance:

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

1.6 In the context of this Standard, the word "independence" should not be construed to mean that a person exercising professional judgement ought to be free from all economic, financial, and other relationships. This is impossible, as every member of society has relationships with others. Rather, it requires that the significance of economic, financial, and other relationships be evaluated in the light of what a reasonable and informed third party, weighing all the specific facts and circumstances available to the member at the time, would be likely to conclude that the threats would be eliminated or reduced to an acceptable level by the

application of the safeguards, such that compliance with the fundamental principles is not compromised.

1.7 Many different circumstances, or combinations of circumstances, may be relevant in assessing threats to independence. It is impossible to define every situation that creates threats to independence and specify the appropriate action. Therefore, the *CGA-BC Independence Standard* provides a conceptual framework approach that assists members in practice in complying with the ethical requirements of both the *Code of Ethical Principles and Rules of Conduct* and the *CGA-BC Independence Standard*. It accommodates many variations in circumstances that create threats to independence and can deter a member from concluding a situation is permitted if it is not specifically prohibited.

2. FRAMEWORK FOR ASSESSING INDEPENDENCE

2.1 In accordance with the 7th Ethical Principle and rules R701 to R744 in CEPROC, this Standard provides a framework that members, engagement teams, and firms must use to:

a) identify threats to independence;

b) evaluate whether these threats, considered individually and collectively, are clearly insignificant; and

c) in cases where the threats are not clearly insignificant, identify and apply safeguards to eliminate or reduce the threats to an acceptable level, such that independence of mind and independence in appearance are not compromised.

2.2 In cases where no safeguards are available to reduce the threat to an acceptable level, the only possible actions are to eliminate the activities or interest creating the threat, or to decline to accept or continue the assurance engagement. It is not possible to identify all such cases. However, there are specific circumstances identified in this Standard that result in such a case. Those identified are denoted by italics and constitute a specified prohibition which must be complied with in accordance with CEPROC rules R701 to R744.

2.3 In accordance with the 7th Ethical Principle in CEPROC, members, engagement teams, and firms are obligated to identify and evaluate circumstances and relationships that create threats to independence. This obligation includes identifying and evaluating relationships between the member, engagement team, firm and network firms and the assurance client. In addition, consideration should be given as to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence.

Consideration of Type of Engagement

2.4 This Standard applies to all assurance and specified auditing procedures engagements. The nature of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level will differ depending on the characteristics of the individual engagement. Therefore, the evaluation of relevant circumstances must include consideration of whether the assurance engagement is an audit or review engagement or another type of engagement, and in the case of an assurance engagement that is not an audit or review engagement, the purpose, subject matter, and intended users of the report issued as a result of that engagement.

2.5 At a minimum, it will be necessary to apply the provisions of this Standard when evaluating the independence of the member of the engagement team, the firm, and their immediate family and close relatives. Further, if the member, engagement team, or firm has a material financial interest in the client, whether direct or indirect, the self-interest threat would be so

significant no safeguard could reduce that threat to an acceptable level. Limited consideration of any threats created by network firm interests and relationships may be sufficient.

Audit and Review Engagements

2.6 Paragraphs 2.27 to 2.32 of this Standard identify threats to independence. Paragraphs 2.33 to 2.41 analyze the safeguards capable of eliminating these threats or reducing them to an acceptable level. The threats and safeguards in this Standard are generally discussed in the context of interests or relationships between the member, engagement team, or firm and the audit or review client. In certain cases, the interest and relationships should be extended as follows:

a) where a client is a public interest entity, the member, engagement team or firm is required to further consider the interests and relationships that involve the client's related entities and specific prohibitions are extended to the related entities; and

b) in the case of an audit or review client, the prohibitions with respect to financial interests are extended to related entities of the client.

For interests and relationships that require consideration, independence assessment should be completed in advance of accepting an engagement. The evaluation of threats to independence, subsequent safeguards, and whether a particular individual person will be a member of the engagement team should be supported by evidence obtained before deciding whether it is appropriate to accept an engagement.

Other Assurance Engagements

2.7 For assurance engagements where the client is not an audit or review client and the engagement is not expressly restricted for use by identified users, the member, assurance team and firm are required to be independent of the client. In addition, in the case of these engagements, consideration should be given to any threats that the member or firm has reason to believe may be created by network firm interests and relationships.

2.8 For assurance engagements where the client is not an audit or review client and the engagement is expressly restricted for use by identified users, the users are considered to be knowledgeable as to the purpose, subject matter, and limitations of that report through their participation in establishing the nature and scope of the member's or firm's instructions to deliver the services, including the criteria by which the subject matter is to be evaluated. This knowledge and enhanced ability of the member or firm to communicate with all users of the report increases the effectiveness of safeguards to independence in appearance. These circumstances may be taken into account by the member or firm in evaluating the threats to independence and considering the applicable safeguards necessary to eliminate threats or reduce them to an acceptable level.

2.9 Paragraphs 2.27 to 2.32 of this Standard identify threats to independence. Paragraphs 2.33 to 2.41 analyze the safeguards capable of eliminating these threats or reducing them to an acceptable level. The threats and safeguards in this Standard are generally discussed in the context of interests or relationships between the member, engagement team, or firm and the audit or review client. In certain cases, the interest and relationships should be extended as follows:

a) 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 member's or firm's independence, the member or the assurance team should consider that related entity when evaluating independence and applying appropriate safeguards.

Related Entities

Audit or Review Clients that are Listed Public Interest Entities

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

Audit or Review Clients that are Non-listed Public Interest Entities

2.11 In the case of non-listed public interest entities, references to an audit or review client will, unless otherwise stated, generally include its related entities; in certain circumstances, depending on the nature and structure of the client's organization, it may not be necessary to apply the enhanced safeguards referred to above to all related entities to maintain independence from the client. This might be the case, for example, in the audit of a government-controlled entity.

2.12 In the case of an audit or review engagement when the conditions set out in paragraphs 5.1 to 5.4 are met, it is not necessary to apply the additional requirements in paragraphs 4.2 to 4.127 that apply to engagements for public interest entities.

2.13 In the case of an engagement when the conditions set out in paragraphs 5.1 to 5.4 are met, references to an audit or review client do not include its related entities. However, when the engagement team knows or has reason to believe that a related entity of the client is relevant to the evaluation of the firm's independence of the client, the engagement team shall consider that related entity when evaluating threats to independence and applying appropriate safeguards.

Networks and Network Firms

2.14 In the case of an engagement when the conditions set out in paragraphs 5.1 to 5.4 are met, reference to the firm does not include network firms. However, where the firm knows or has reason to believe that threats may be created by any interests and relationships of a network firm, they shall be considered in the evaluation of threats to independence.

Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

2.15 In the case of an engagement when the conditions set out in paragraphs 5.1 to 5.4 are met, the relevant provisions set out in paragraphs 4.2 to 4.46 apply to all members of the engagement team, their immediate family members and close family members.

2.16 In addition, consideration shall be given to whether threats to independence are created by interests and relationships, as described in paragraphs 4.2 to 4.46, between the audit or review client and the following members of the engagement team:

a) those who provide consultation regarding technical or industry-specific issues, transactions or events; and

b) those who provide quality control for the engagement, including those who perform the engagement quality control review.

2.17 Consideration shall also be given to any threats that the engagement team has reason to believe may be created by interests and relationships between the audit or review client and others within the firm who can directly influence the outcome of the engagement, including those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit or review engagement (including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent)).

2.18 Consideration shall also be given to any threats that the engagement team has reason to believe may be created by financial interests in the audit or review client held by individuals, as described in paragraphs 4.8 to 4.10 and paragraphs 4.13 to 4.15.

Where a threat to independence that is not clearly insignificant is identified, safeguards shall be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

2.19 In applying the provisions set out in paragraphs 4.6 to 4.15 to interests of the firm, if the firm had a material financial interest, whether direct or indirect, in the audit or review client, the self-interest threat would be so significant that no safeguard could reduce the threat to an acceptable level. Therefore, the firm shall not have such a financial interest.

Employment with an Audit or Review Client

2.20 Consideration shall also be given to threats from any employment relationships as described in paragraphs 4.35 to 4.39. Where a threat exists that is not clearly insignificant, safeguards shall be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Appropriate safeguards might include those set out in paragraph 4.37.

Provision of Non-Assurance Services to Audit or Review Clients

2.21 If the firm provides a non-assurance service to an audit or review client, the provisions of paragraphs 4.55 to 4.127 shall be complied with, subject to paragraphs 5.5 to 5.8.

Other Considerations

2.22 The evaluation should be ongoing while the engagement is being performed to determine if the engagement should be continued. The obligation to make such an evaluation and take action arises when a member, engagement team, firm or network firm knows, or could reasonably be expected to know, of circumstances or relationships that might compromise independence.

2.23 There may be occasions when the member, engagement team, or the firm inadvertently violates the obligation to make such an evaluation. If such an inadvertent violation occurs, it generally does not compromise independence with respect to an assurance client, provided the member or firm has appropriate policies and procedures in place to promote independence, and once discovered, the violation is corrected promptly and any necessary safeguards applied.

2.24 In accordance with CEPROC rule R703, when threats to independence that are not insignificant are identified, and the member or firm decides to accept or continue the engagement, the decision must be documented. The documentation must include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

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

2.26 This Standard concludes with examples of how the conceptual framework approach to independence is applied to specific circumstances and relationships that may create threats to independence, and considers how these threats can be eliminated or reduced to an acceptable level by the application of safeguards. In certain examples, the threats to independence are so significant the only possible actions are to eliminate the threat or decline to accept or continue the assurance engagement. The examples presented are intended to illustrate the application of this Standard but are not intended to be, nor should they be interpreted as, an exhaustive list of all circumstances that may create threats to independence. Consequently, it is not sufficient for a member engagement team, firm or network firm to comply with these examples; rather, professional judgement must be used in applying this Standard to identify, evaluate, and eliminate or reduce to an acceptable level threats to independence.

Threats to Independence

2.27 Independence is potentially affected by self-interest, self-review, advocacy, familiarity, and intimidation threats.

2.28 A self-interest threat occurs when a financial or other interest will inappropriately influence the member of the engagement team's, firm's or network firm's judgement or behaviour.

Examples of circumstances that may create this threat include:

a) a direct financial interest in a client;

b) undue dependence on total fees from a client;

c) a significant close business relationship with a client;

d) being concerned about the possibility of losing a significant client;

e) entering into employment negotiations with a client; and

f) discovering a significant error when evaluating the results of a previous professional service performed by a member's firm.

2.29 A self-review threat occurs when a member will not appropriately evaluate the results of a previous judgement made or service performed by the member, or by another individual within the firm or employing organization, on which the member will rely when forming a judgement as part of providing a current service. Examples of circumstances that may create this threat include:

a) a firm issuing an engagement report on the effectiveness of the operation of financial systems after designing or implementing the systems;

b) a firm having prepared the original data used to generate records that are the subject matter of an engagement;

c) a member or member of the engagement team being, or having recently been, a director or officer of the client;

d) a member or member of the engagement team being, or having recently been, employed by the client in a position to exert significant influence over the subject matter of the

engagement, and performing a service for a client that directly affects the subject matter information of the engagement.

2.30 An advocacy threat occurs when a member promotes a client's or employer's position to the point that the member's objectivity is compromised. Examples of circumstances that may create this threat include:

a) promoting shares in a client; and

b) acting as an advocate on behalf of a client in litigation or disputes with third parties.

2.31 A familiarity threat occurs when, due to a long or close relationship with a client or employer, a member will be too sympathetic to their interests or too accepting of their work.

Examples of circumstances that may create this threat include:

a) a member of the engagement team having a close or immediate family member who is a director or an officer of the client;

b) a member of the engagement team having a close or immediate family member who, as an employee of the client, is in a position to exert direct and significant influence over the subject matter of the assurance engagement;

c) a director or officer of the client or an employee in a position to exert significant influence over the subject matter of the engagement having recently been a partner of the firm; and

d) accepting gifts or preferential treatment from a client, unless the value is trivial or inconsequential.

2.32 An intimidation threat occurs when a member will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the member.

Examples of circumstances that may create this threat include:

a) a firm being threatened with dismissal from a client engagement;

b) a client indicating that it will not award a planned non-assurance contract to the firm if the firm continues to disagree with the client's accounting treatment for a particular transaction;

c) a firm being threatened with litigation by the client;

d) a firm being pressured to reduce inappropriately the extent of work performed in order to reduce fees;

e) a member feeling pressured to agree with the judgement of a client employee because the employee has more expertise on a matter in question; and

f) a member being informed by a partner of the firm that a planned promotion will not occur unless the member agrees with a client's inappropriate accounting treatment.

Safeguards

2.33 When threats that are more than clearly insignificant are identified, appropriate safeguards must be identified to eliminate the threats or reduce them to an acceptable level. The nature of the safeguards to be applied will vary depending on the circumstances of a particular engagement. Consideration must always be given to what a reasonable and informed third

party having knowledge of all of the relevant information, including safeguards, would reasonably conclude to be unacceptable. Such consideration will be affected by matters such as the significance of the threat, the nature of the assurance engagement, the intended users of the report, and the structure of the firm.

2.34 Safeguards fall into two broad categories:

a) those created by the profession, legislation or regulation; and

b) those in the work environment.

2.35 Safeguards created by the profession, legislation or regulation include the following:

a) educational, training, and experience requirements for both entry into the profession and the provision of public accounting services;

b) continuing professional development requirements;

c) professional standards and monitoring and disciplinary processes;

d) external practice reviews;

e) legislation governing the independence requirements of the firm, members, and other professional colleagues; and

f) participation by members of the public in the governance of the profession.

2.36 Safeguards within the assurance client may include the following:

a) the client has competent employees to make managerial decisions;

b) policies and procedures that emphasize the client's commitment to fair financial reporting;

c) internal procedures that ensure objective choices in commissioning non-assurance engagements; and

d) an audit committee consisting those charged with governance that provides appropriate oversight and communications regarding a firm's service.

2.37 Safeguards within the firm's own systems and procedures may include firm-wide safeguards such as the following:

a) firm leadership that stresses the importance of independence and the expectation that members and members of engagement teams will act in the public interest;

b) policies and procedures to implement and monitor quality control of engagements;

c) documented independence policies regarding the identification of threats to independence, the evaluation of the significance of these threats, and the identification and application of safeguards to eliminate or reduce the threats, other than those that are clearly insignificant, to an acceptable level;

d) internal policies and procedures to monitor compliance with firm policies and procedures as they relate to independence;

e) policies and procedures that will enable the identification of interests or relationships between the member, engagement team, or firm and clients;

f) policies and procedures to monitor and, if necessary, manage the reliance on revenue received from a single client;

g) using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to a client;

h) policies and procedures to prohibit individuals who are not members of the engagement team from influencing the outcome of the engagement;

i) timely communication of a member's or firm's policies and procedures, and any changes thereto, to all members of the engagement team, including appropriate training and education;

j) designating a member of senior management to be responsible for overseeing the adequate functioning of the safeguarding system;

k) means of advising members of the firm and members of the engagement team of those clients and related entities from which they must be independent;

l) a disciplinary mechanism within the firm to promote compliance with policies and procedures; and

m) policies and procedures to empower members of the engagement team to communicate to senior levels within the firm any issues of independence and objectivity that concern them; this includes informing the engagement team of the procedures open to them.

2.38 Safeguards within the firm's own systems and procedures may include engagement-specific safeguards such as the following:

a) having a professional colleague review the work or otherwise advise as necessary; this could include someone from outside the firm or someone from within the firm who was not otherwise associated with the engagement team;

b) consulting a third party, such as a committee of independent directors, a professional regulatory body, including a member advisor of an affiliate or another professional colleague;

c) rotating senior individuals from an engagement team;

d) discussing independence issues with members of the audit committee or, in the absence of an audit committee, those charged with governance;

e) disclosing the nature of services provided and extent of fees charged to the audit committee, or in the absence of an audit committee, those charged with governance;

f) having policies and procedures to ensure members of the engagement team do not make, or assume responsibility for, management decisions for the assurance client;

g) involving another firm to perform or re-perform part of the engagement;

h) involving another firm to re-perform the non-assurance service to the extent necessary that will enable it to take responsibility for that service; and

i) removing an individual from the engagement team, when that individual's financial interests or relationships create a threat to independence.

2.39 Audit committees assume an important corporate governance role when they operate independently of client management and are able to assist the Board of Directors in satisfying

them that a member or firm is independent in carrying out its audit role. There should be regular communications between the member or firm and the audit committee, or if there is no audit committee, those charged with governance, regarding relationships and other matters that might, in the member's or firm's opinion, reasonably be thought to bear on independence.

2.40 Requirements are set out for communication to those charged with governance in the *CICA Handbook — Assurance.* Members and firms are required to establish policies and procedures relating to regular independence communications with audit committees, or if there is no audit committee, those charged with governance. For audit engagements, the member or firm must communicate orally and in writing at least annually regarding all relationships and other matters between the member, firm or network firm, and the audit client that, in the professional judgement of the member of the engagement team involved, may reasonably be thought to affect independence. Matters to be communicated will vary with the circumstances of the engagement; however, the communication should generally address the relevant independence matters set out in this Standard.

2.41 When the safeguards available, such as those described in the preceding paragraphs, are insufficient to eliminate the threats to independence or to reduce them to an acceptable level, or when a member or firm chooses not to eliminate the activities or interests creating the threat, the only course of action available will be the refusal to perform, or withdrawal from, the assurance engagement.

Guidance for Sole Proprietors and Small Firms

2.42 Small firms and sole proprietors have clients that are mainly owner-managed or small-sized enterprises. Many of the safeguards normally available within the firm or the client would not be available.

2.43 Often these practitioners are relied on by owner-managed and small-sized enterprise clients to provide them with a broad range of accounting and business services. In these circumstances, independence will not be impaired provided safeguards are applied as required to eliminate or reduce any threat to an acceptable level and the services provided are not specifically prohibited by this Standard. For example, an appropriate safeguard might include explaining to the client the intention behind providing certain services and then obtaining the client's approval for the end result.

2.44 Small and medium-sized enterprise clients will often enjoy a long-standing personal relationship with a sole proprietor or small firm. In that situation, independence will not be impaired provided safeguards are applied to reduce any familiarity threat that may result from that relationship to an acceptable level. In most circumstances, the mandatory external practice review and, where appropriate, consultation with a third party such as a member advisor of an Affiliate or a professional colleague from outside the firm will reduce any potential threats to independence to an acceptable level.

2.45 Practitioners will find additional guidance throughout Section 4, Application of Framework in Specific Situations. In addition to the safeguards identified in paragraphs 2.43 and 2.44, such as paragraphs 4.37, 4.43, and 4.50 discuss issues and provide safeguards in circumstances that are common to small firms or sole proprietors. Also, the Guidance Bulletin, *Independence for Sole Proprietors and Small Firms,* is accessible through the Public Practice Manual CD or the PPM Online.

Networks and Network Firms

2.46 An entity that belongs to a network might be a firm, which is defined as a sole practitioner, partnership or corporation of professional accountants, and an entity that controls or is controlled by such parties. Or the entity might be another type of entity, such as a consulting

practice. The independence requirements in this section that apply to a network firm apply to any entity that meets the definition of a network firm irrespective of whether the entity itself meets the definition of a firm.

2.47 To enhance their ability to provide professional services, firms frequently form larger structures with other firms and entities. Whether these larger structures create a network depends on the particular facts and circumstances and does not depend on whether the firms and entities are legally separate and distinct. For example, a larger structure may be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network. Alternatively, a larger structure might be such that it is aimed at co-operation, and the firms share a common brand name, a common system of quality control, or significant professional resources. A larger structure of this type is deemed to be a network.

2.48 The judgement as to whether the larger structure is a network shall be made in light of whether a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that the entities are associated in such a way that a network exists. The judgement shall be applied consistently throughout the network.

2.49 Where the larger structure is aimed at co-operation, and it is clearly aimed at profit or cost sharing among the entities within the structure, it is deemed to be a network. However, the sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of audit methodologies, manuals, or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity to jointly provide a service or develop a product does not in itself create a network.

2.50 Where the larger structure is aimed at cooperation and the entities within the structure share common ownership, control or management, it is deemed to be a network. This could be achieved by contract or other means.

2.51 Where the larger structure is aimed at cooperation and the entities within the structure share common quality control policies and procedures, it is deemed to be a network. For this purpose, common quality control policies and procedures are those designed, implemented, and monitored across the larger structure.

2.52 Where the larger structure is aimed at cooperation and the entities within the structure share a common business strategy, it is deemed to be a network. Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. However, an entity is not deemed to be a network firm merely because it cooperates with another entity solely to respond to a request for a proposal for the provision of a professional service.

2.53 Where the larger structure is aimed at cooperation and the entities within the structure share the use of a common brand name, it is deemed to be a network. A common brand name includes common initials or a common name. A firm is deemed to be using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a partner of the firm signs an assurance report.

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

2.55 If a firm sells a component of its practice, the sales agreement sometimes provides that, for a limited period of time, the component may continue to use the name of the firm, or an element of the name, even though it is no longer connected to the firm. In such circumstances,

while the two entities may be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation and are, therefore, not network firms. Those entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

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

a) common systems that enable firms to exchange information such as client data, billing and time records;

b) partners and personnel;

c) technical departments to consult on technical or industry-specific issues, transactions or events for assurance engagements;

d) audit methodology or audit manuals; and

e) training courses and facilities.

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

3. ENGAGEMENT PERIOD

3.1 The member, the engagement team, and the firm must be independent of the assurance client during the period of the engagement. The engagement period starts when the engagement team begins to perform services and ends when the report is issued, except when the engagement is of a recurring nature. If the engagement is expected to recur, the period of the engagement ends with the notification by either party that the professional relationship has terminated or on the issuance of the final report, whichever is later. In the case of an audit engagement for a reporting issuer, the engagement period ends when the audit client, member, or the firm notifies the relevant Securities Commission that the audit client is no longer an audit client of the member or the firm.

3.2 In the case of an audit or review engagement, the period of the audit or review engagement includes the period covered by the financial statements reported on by the member or the firm. When an entity becomes a client during or after the period covered by the financial statements that the member or firm will report on, the member or firm shall determine whether any threats to independence are created by:

a) financial or business relationships with the client during or after the period covered by the financial statements, but before accepting the engagement; or

b) previous services provided to the client.

Similarly, in the case of an assurance engagement that is not an audit or review engagement, the member or firm shall determine whether any financial or business relationships or previous services create threats to independence.

3.3 If non-assurance services were provided to an audit or review client during or after the period covered by the financial statements but before the commencement of professional services in connection with the audit or review, and the service would not be permitted during the period of the engagement, the firm shall evaluate any threat to independence created by the service. If any threat is not at an acceptable level, the engagement shall only be accepted if safeguards are applied to eliminate any threats or reduce them to an acceptable level. Examples of such safeguards include:

a) not including personnel who provided the non-assurance service as members of the engagement team;

b) having a professional colleague review the audit or review work and non-assurance work as appropriate; or

c) 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.

Reporting Issuers

3.4 Non-assurance services provided to an audit client that is not a reporting issuer will not impair the member's or firm's independence when the client becomes a reporting issuer provided:

a) the previous non-assurance services were permissible under this Standard for audit clients that were not reporting issuers;

b) the services will be terminated within a reasonable period of time of the client becoming a reporting issuer, if the services are not permissible under this Standard for reporting issuer audit clients; or

c) the member or the firm has implemented appropriate safeguards to eliminate, or reduce to an acceptable level, any threats to independence arising from the previous services.

3.5 For the purposes of complying with the specified prohibitions related to reporting issuers in this Standard, an entity becomes a reporting issuer by virtue of having market capitalization or total assets in excess of $10,000,000. In the case of a period in which an entity makes a public offering, market capitalization is measured at the closing price on the day of the public offering, and "total assets" refers to the total assets presented on the most recent financial statements, prepared in accordance with Canadian generally accepted accounting principles, that are included in the offering document.

3.6 When an entity becomes a reporting issuer by virtue of a public offering, the auditor of the entity is required, from that period forward until the entity ceases to be a reporting issuer, to comply with the specified prohibitions for reporting issuers in this Standard.

4. APPLICATION OF FRAMEWORK IN SPECIFIC SITUATIONS – AUDIT OR REVIEW ENGAGEMENTS

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In accordance with CGA-BC *Code of Ethical Principles and Rules of Conduct*, a member is required to comply with the specified prohibitions denoted by italics in this Standard.

Introduction — Audit and Review Engagements

4.1 The following examples describe the specific circumstances and relationships that may create threats to independence. The examples describe the potential threats 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 member of the engagement 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 2.33 through 2.41, can be applied to satisfactorily address threats to independence.

Financial Interests

4.2 Holding a financial interest in an audit or review client may create a self-interest threat. The existence and significance of any threat created depends on:

a) the role of the individual holding the financial interest;

b) whether the financial interest is direct or indirect; and

c) the materiality of the financial interest.

4.3 Financial interests may be held through an intermediary (e.g., a collective investment vehicle, estate or trust). The determination of whether such financial interests are direct or indirect will depend on whether the beneficial owner has control over the investment vehicle or the ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, that financial interest shall be considered a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, that financial interest shall be considered an indirect financial interest.

4.4 If a member of the engagement team, member of that individual's immediate family, or a firm has a direct financial interest, or a material indirect financial interest in the audit or review client, the self-interest threat would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have a direct financial interest or a material indirect financial interest in the client: a member of the engagement team, a member of that individual's immediate family, or the firm.

4.5 When a member of the engagement team has a close family member who the engagement team member knows has a direct financial interest or a material indirect financial interest in the audit or review client, a self-interest threat is created. In evaluating the significance of the threat, consideration shall be given to the nature of the relationship between the member of the engagement team and the close family member and the materiality of the financial interest to the close family member. Safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

a) the close family disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material;

b) having a professional colleague review the work of the member of the engagement team; or

c) removing the individual from the engagement team.

4.6 *If a member of the engagement team, member of that individual's family, or a firm has a direct or material indirect financial interest in an entity that has a controlling interest in the audit or review client, and the client is material to the entity, the self-interest would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, neither a member of the engagement team, a member of that individual's immediate family, nor the firm shall have a financial interest.*

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

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

4.9 The office in which the engagement partner practises in connection with the audit or review engagement is not necessarily the office to which that partner is assigned. Therefore, when the engagement partner is located in a different office from that of the other members of the engagement team, professional judgement shall be used to determine in which office the partner practises in connection with that engagement.

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

4.11 Despite 4.8 and 4.10, the holding of a financial interest in an audit or review client by an immediate family member of:

a) a partner located in the office in which the engagement partner practises in connection with the engagement; or

b) a partner or managerial personnel who provides non-audit or non-review services to the client;

is not deemed to compromise independence if the financial interest is received as a result of the immediate family member's employment rights (e.g., through pension or share option plans) and, when necessary, safeguards are applied to eliminate any threat to independence or reduce it to an acceptable level. However, when the immediate family member has or obtains the right to dispose of the financial interest or, in the case of a stock option, the right to exercise the option, the financial interest shall be disposed of or forfeited as soon as practicable.

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

or decline the engagement. Any individual with such a material interest shall, before becoming a member of the engagement team, either:

a) dispose of the interest; or

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

4.13 The firm shall determine whether a self-interest, familiarity, or intimidation threat is created if a member of the engagement team, or a member of that individual's immediate family, or the firm, has a financial interest in an entity when a director, officer, or controlling owner of the audit client is also known to have a financial interest in that entity. Whether these interests create a self-interest threat will depend on factors such as:

a) the role of the member on the engagement team;

b) whether ownership of the entity is closely or widely held;

c) whether the interest gives the investor the ability to control or significantly influence the entity; and

d) the materiality of the financial interest.

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

- removing the member with the financial interest from the engagement team; and
- having a professional colleague review the work of the member of the engagement team.

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

a) a partner in the office in which the engagement partner practises in connection with the engagement;

b) other partners and managerial personnel who provide non-assurance services to the client, except those whose involvement is minimal; or

c) their immediate family members

hold a direct financial interest or a material indirect financial interest in the client as trustee.

Holding such an interest is permitted when:

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

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

a) partners and professional personnel of the firm, other than those referred to above, or their immediate family members; and

b) individuals with a close personal relationship with a member of the engagement team.

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

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

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

- removing the member of the engagement team with the personal relationship;
- excluding the member of the engagement team from any significant decision-making concerning the engagement; and
- having a professional colleague review the work of the member of the engagement team.

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

a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material, or the firm shall withdraw from the engagement;

b) If the interest is received by a member of the engagement team, or a member of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material, or the member shall be removed from the engagement team; or

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

4.17 An inadvertent violation of this section as it relates to a financial interest in an audit or review client is not deemed to compromise independence if all of the following conditions are met:

a) the firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance, or other acquisition of a financial interest in the client;

b) The actions in paragraph 4.16 (a) to (c) are taken as applicable; and

c) the firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include:

i) having a professional colleague review the work of the member of the engagement team; or

ii) excluding the individual from any significant decision-making concerning the engagement.

In addition, a determination shall be made as to whether to discuss the matter with those charged with governance.

Loans and Guarantees

4.18 A loan, or a guarantee of a loan, to a member of the engagement team, or a member of that individual's immediate family, or the firm from an audit or review client that is a bank or a similar institution may create a threat to independence.

4.19 If the loan or guarantee is not made under normal lending procedures, terms, and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, neither a member of the engagement team, nor a member of that individual's immediate family, nor a firm shall accept such a loan or guarantee.

4.20 If a loan to a firm from an audit or review client that is a bank or similar institution is made under normal lending procedures, terms, and conditions and it is material to the audit or review client, or firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. An example of such a safeguard is having the work reviewed by a professional colleague from a network firm that is neither involved with the engagement nor received the loan.

4.21 A loan, or a guarantee of a loan, from an audit or review client that is a bank or a similar institution to a member of the engagement team or a member of that individual's immediate family, does not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms, and conditions. Examples of such loans include home mortgages, bank overdrafts, car loans, and credit card balances.

4.22 *If the firm, or a member of the engagement team, or a member of that individual's immediate family accepts a loan from, or has a borrowing guaranteed by, an audit or review client that is not a bank or similar institution, or an officer or director of the client, or a shareholder of the client that owns more than 10% of the equity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level unless the loan or guarantee is immaterial to both the firm or the member of the engagement team and the immediate family member, and the client.*

4.23 Similarly, if the firm, or a member of the engagement team, or a member of that individual's immediate family makes or guarantees a loan to an audit or review client, an officer or director of the client, or a shareholder of the client that owns more than 10% of the equity, the self-interest threat would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the engagement team and the immediate family member, and the client.

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

Business Relationships

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

a) having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client;

b) arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties; and

c) distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant:

- *the business relationship shall not be entered into, or shall be reduced to an insignificant level or terminated; or*
- *the firm shall decline or terminate the audit or review engagement.*

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

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

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

a) the business relationship is insignificant to the firm, the member of the engagement team and the immediate family member, and the client;

b) the financial interest held is immaterial to the investor or group of investors; and

c) the financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

4.27 The purchase of goods and services from an audit or review client by the firm, or a member of the engagement team, or a member of that individual's immediate family, does not generally create a threat to independence if the transaction is in the normal course of business and at arm's-length. However, such transactions may be of a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied

when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

a) eliminating or reducing the magnitude of the transaction; or

b) removing the individual from the engagement team.

Family and Personal Relationships

4.28 Family and personal relationships between a member of the engagement team and a director, officer or certain employees (depending on their role) of the audit or review client may create self-interest, familiarity, or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual's responsibilities on the engagement team, the role of the family member or other individual within the client, and the closeness of the relationship. Consequently, the particular circumstances will need to be evaluated in assessing the significance of these threats.

4.29 When an immediate family member of a member of the engagement team is:

a) a director or an officer of the audit or review client; or

b) an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion;

or was in such a position during any period covered by the engagement, or the financial statements, the threats to independence can only be reduced to an acceptable level by removing the individual from the engagement team. The closeness of the relationship is such that no other safeguards could reduce that threat to an acceptable level. If this safeguard is not applied, the firm shall withdraw from the engagement.

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

a) the position held by the immediate family member; and

b) the role of the individual on the engagement team.

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

- removing the individual from the engagement team; or
- structuring the responsibilities of the engagement team so that the individual does not deal with matters that are within the responsibility of the immediate family member.

4.31 Threats to independence are created when a close family member of a member of the engagement team is:

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

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

a) the nature of the relationship between the member of the engagement team and the close family member;

b) the position held by the close family member; and

c) the role of that individual on the engagement team.

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

- removing the individual from the engagement team; or
- structuring the responsibilities of the engagement team so that the individual does not deal with matters that are within the responsibility of the close family member.

4.32 Threats to independence are created when a member of the audit or review team has a close relationship with a person who is not an immediate or close family member but who is a director, officer, or employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion. Members of the engagement team are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures. The significance of the threats will depend on factors such as:

a) the nature of the relationship between the individual and the member of the engagement team;

b) the position the individual holds with the client; and

c) the role of that individual on the engagement team.

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

- removing the individual from the engagement team; or
- structuring the responsibilities of the engagement team so that the individual does not deal with matters that are within the responsibility of the individual with whom they have a close relationship.

4.33 Self-interest, familiarity, or intimidation threats may be created by a personal or family relationship between:

- a partner or personnel of the firm who is not a member of the engagement team; and
- a director, or an officer of the audit or review client, or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

Partners and personnel of the firm who are aware of any such relationships are responsible for consulting in accordance with firm policies and procedures. The existence and significance of any threat will depend on factors such as:

a) the nature of the relationship between the partner or personnel of the firm and the director, officer, or employee of the client;

b) the interaction of the partner or personnel of the firm with the engagement team;

c) the position of the partner or personnel within the firm; and

d) the position the individual holds with the client.

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

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

4.34 An inadvertent violation of this section as it relates to family and personal relationships is not deemed to compromise independence if:

a) the firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from changes in the employment status of the immediate or close family members, and other personal relationships that create threats to independence;

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

c) the firm considers and applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include:

i) having a professional colleague review the work of the member of the engagement team; or

ii) excluding the individual from any significant decision-making concerning the engagement.

Employment with Audit or Review Clients

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

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

a) the individual is not entitled to any benefits or payments from the firm, unless made in accordance with fixed pre-determined arrangements, and any amount owed to the individual is not material to the firm; and

b) the individual does not continue to participate or appear to participate in the firm's business or professional activities.

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

a) the position the individual has taken at the client;

b) any involvement the individual will have with the engagement team;

c) the length of time since the individual was a member of the engagement team or partner of the firm; and

d) the former position of the individual within the engagement team or firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

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

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

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

4.39 A self-interest threat is created when a member of the engagement team participates in the engagement while knowing that the member of the engagement team will, or may, join the audit or review client at some time in the future. Firm policies and procedures shall require members of the engagement team to notify the firm when entering employment negotiations with the client. On receiving such notification, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

a) removing the individual from the engagement team; or

b) a review of any significant judgements made by that individual while on the engagement team.

Audit and Review Clients of Public Interest Entities

4.40 Familiarity or intimidation threats are created if a key audit partner joins an audit or review client that is a public interest entity as:

a) a director or officer of the entity; or

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

No safeguards could reduce these threats to an acceptable level unless, subsequent to the partner ceasing to be a key audit partner, the public interest entity had issued, audited, or

reviewed financial statements covering a period of not less than twelve months and the partner was not a member of the engagement team with respect to the audit or review of those financial statements.

4.41 An intimidation threat is created if the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent) joins an audit or review client that is a public interest entity as:

a) an employee in a position to exert significant influence over the preparation of the entity's accounting records or its financial statements; or

b) a director or an officer of the entity.

No safeguards could reduce these threats to an acceptable level unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

4.42 Independence is not deemed to be compromised if, as a result of a business combination, a former key audit partner or the individual who was the firm's former Senior or Managing Partner is in a position as described in paragraphs 4.40 and 4.41, and:

a) the position was not taken in contemplation of the business combination;

b) any benefits or payments due to the former partner from the firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the partner is not material to the firm;

c) the partner does not continue to participate or appear to participate in the firm's business or professional activities; and

d) the position held by the former partner with the audit or review client is discussed with those charged with governance.

Temporary Personnel Assignments

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

a) providing non-assurance services that would not be permitted under this section; or

b) assuming management responsibilities.

In all circumstances, the audit or review client should acknowledge its responsibility for directing and supervising the activities of the loaned personnel.

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

- conducting an additional review of the work performed by the loaned personnel;
- not giving the loaned personnel audit or review responsibility for any function or activity they performed during the temporary personnel assignment; or
- not including the loaned personnel as a member of the engagement team.

Recent Service with an Audit or Review Client

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

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

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

a) the position the individual held with the client;

b) the length of time since the individual left the client; and

c) the role of that member on the engagement team.

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

Serving as an Officer or Director on the Board of an Audit or Review Client

4.47 If a partner or employee of the firm serves as a director or officer of an audit or review client, the self-review and self-interest threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Therefore, if such an individual were to accept such a position while continuing to serve as a partner or an employee of the firm, the firm shall decline or withdraw from the engagement.

4.48 If a partner or employee of the firm serves as Company Secretary for an audit or review client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level. Despite paragraph 4.47, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.

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

Long Association of Senior Personnel (Including Partner Rotation)

4.50 Familiarity and self-interest threats are created by using the same senior personnel on an audit or review engagement over a long period of time. The significance of the threats will depend on factors such as:

a) how long the individual has been a member of the engagement team;

b) the role of the individual on the engagement team;

c) the structure of the firm;

d) the nature of the engagement;

e) whether the client's management team has changed; and

f) whether the nature or complexity of the client's accounting and reporting issues has changed.

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

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

Audit or Review Clients that are Public Interest Entities

4.51 Using the same key audit or review partner on an audit engagement over a prolonged period may create a familiarity threat. This threat is particularly relevant in the context of the audit for reporting issuers and safeguards shall be applied in such situations to reduce the threats to an acceptable level. The following safeguards shall apply for the audit of reporting issuers:

a) in respect of an audit of a public interest entity, an individual shall not be a key audit partner for more than seven years. After such time, the individual shall not return to the audit team or be a key audit partner for the client for two years. During that period, the individual shall not participate in the audit of the entity, provide quality control for the engagement, consult with the audit team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement;

b) a member who is other than a key audit partner referred to in 4.51(a) who, during the engagement period provides more than ten hours of assurance services, or who is a subsidiary engagement partner, shall be rotated off after a period of no more than seven years; and

c) persons rotating off the audit of a reporting issuer pursuant to 4.51(a) shall not participate in the assurance engagement as a key audit partner until a further two years has elapsed. In the case of 4.51(b), the member shall not participate in the assurance engagement as an engagement partner until a period of two years has elapsed. In the case of an audit engagement that is a mutual fund, the engagement partner shall not thereafter perform the role of engagement partner of the reporting issuer or another mutual fund that is in the same mutual fund complex as the reporting issuer until a further two-year-period has elapsed; and

d) in the case of an audit engagement of a reporting issuer that is a mutual fund, the key audit partner shall not thereafter resume or assume either such role with the reporting issuer or another mutual fund that is in the same mutual fund complex as the reporting issuer until a further two-year-period has elapsed.

4.52 Despite paragraph 4.51, key audit partners whose continuity is especially important to audit quality may, in rare cases due to external and unforeseen circumstances outside the firm's control, be permitted an additional year on the audit team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a key audit partner may remain on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.

4.53 The long association of other partners with an audit or review client that is a public interest entity creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:

a) how long any such partner has been associated with the client;

b) the role, if any, of the individual on the engagement team; and

c) the nature, frequency, and extent of the individual's interactions with the client's management or those charged with governance.

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

- rotating the partner off the audit or review team or otherwise ending the partner's association with the client; or
- regular independent internal or external quality control reviews of the engagement.

4.54 When an audit or review client becomes a public interest entity, the length of time the individual has served the client as a key audit or review partner before the client becomes a public interest entity shall be considered in determining when the individual shall be rotated. If the individual has served the client as a key audit or review partner for five years or less at the time the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the client as a key audit or review partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity for two additional years before rotating off the engagement.

Provision of Non-assurance Services to an Audit or Review Client

4.55 Firms have traditionally provided to their audit or review clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the engagement team. The threats created are most often self-review, self-interest, and advocacy threats.

4.56 New developments in business, the evolution of financial markets, and changes in information technology make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit or review client. When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

4.57 Before the firm accepts an engagement to provide a non-assurance service to an audit or review client, a determination shall be made as to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the engagement team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards, the non-assurance service shall not be provided.

4.58 Providing certain non-assurance services to an audit or review client may create a threat to independence so significant that no safeguards could reduce the threat to an acceptable level. However, the inadvertent provision of such a service to a related entity, division, or in respect of a discrete financial statement item of such a client does not compromise independence if any threats have been reduced to an acceptable level by arrangements for that related entity, division, or discrete financial statement item to be audited or reviewed by another firm or when another firm re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.

4.59 A firm may provide non-assurance services that would otherwise be restricted under this section to the following entities of the audit or review client:

a) an entity, which is not an audit or review client, that has direct or indirect control over the client; or

b) an entity, which is not an audit or review client, that is under common control with the client

if it is reasonable to conclude that:

- the services do not create a self-review threat because the results of the services will not be subject to audit or review procedures; and
- any threats that are created by the provision of such services are eliminated or reduced to an acceptable level by the application of safeguards.

4.60 A non-assurance service provided to an audit or review client does not compromise the firm's independence when the client becomes a public interest entity if:

a) the previous non-assurance service complies with the provisions of this section that relate to audit or review clients that are not public interest entities;

b) services that are not permitted under this section for audit or review clients that are public interest entities are terminated before or as soon as practicable after the client becomes a public interest entity; and

c) the firm applies safeguards when necessary to eliminate or reduce to an acceptable level any threats to independence arising from the service.

Management Responsibilities

4.61 Management of an entity performs many activities in managing the entity in the best interests of the stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources.

4.62 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. Examples of activities that would generally be considered a management responsibility include:

a) setting policies and strategic direction;

b) directing and taking responsibility for the actions of the entity's employees;

c) authorizing transactions;

d) deciding which recommendations of the firm or other third parties to implement;

e) taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and

f) taking responsibility for designing, implementing, and maintaining internal control.

4.63 Activities that are routine and administrative, or involve matters that are insignificant, generally are not deemed to be a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit or review client of those dates is not deemed to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

4.64 If a firm were to assume a management responsibility for an audit or review client, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Therefore, the firm shall not assume a management responsibility for such a client.

4.65 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit or review client, the firm shall be satisfied that a member of management is responsible for making the significant judgements and decisions that are the proper responsibility of management, evaluates the results of the service, and accepts responsibility for the actions to be taken arising from the results of the service. This reduces the risk of the firm inadvertently making any significant judgements or decisions on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgements and decisions on an objective and transparent analysis and presentation of the issues.

Preparing Accounting Records and Financial Statements

4.66 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

a) originating or changing journal entries, or determining the account classifications of transactions; and

b) preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).

4.67 Providing an audit or review client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the

firm subsequently performs the audit or review engagement on the client's financial statements.

4.68 The audit or review process, however, necessitates dialogue between the firm and management of the client, which may involve:

a) the application of accounting standards or policies and financial statement disclosure requirements;

b) the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; and

c) proposing adjusting journal entries.

These activities are considered to be a normal part of the engagement process and do not, generally, create threats to independence.

4.69 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit or Review Clients that are Not Public Interest Entities

4.70 The firm may provide services related to the preparation of accounting records and financial statements to an audit or review client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. Examples of such services include:

a) providing payroll services based on client-originated data;

b) recording transactions for which the client has determined or approved the appropriate account classification;

c) posting transactions coded by the client to the general ledger;

d) posting client-approved entries to the trial balance; and

e) preparing financial statements based on information in the trial balance.

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

- arranging for such services to be performed by an individual who is not a member of the engagement team; or

- if such services are performed by a member of engagement team, using a partner or senior personnel with appropriate expertise who is not a member of the engagement team to review the work performed.

Audit or Review Clients that are Public Interest Entities

4.71 *Except in emergency situations, a firm shall not provide to an audit or review client that is a reporting issuer or a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.*

4.72 Despite paragraph 4.71, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, of a routine or mechanical nature for divisions or related entities of an audit or review client that is a reporting issuer client or a public interest entity if the personnel providing the services are not members of the engagement team and:

a) the divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or

b) the services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

Emergency Situations

4.73 Accounting and bookkeeping services, which would otherwise not be permitted under this section, may be provided to audit or review clients in emergency or other unusual situations when it is impractical for the client to make other arrangements. This may be the case when:

a) only the firm has the resources and necessary knowledge of the client's systems and procedures to assist the client in the timely preparation of its accounting records and financial statements; and

b) a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements).

In such situations, a firm may provide such services if:

- those who provide the services are not members of the engagement team; and
- the services are provided for only a short period of time and are not expected to recur.

In addition, the situation shall be discussed with those charged with governance.

Valuation Services

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

4.75 Performing valuation services for an audit or review client may create a self-review threat. The existence and significance of any threat will depend on factors such as:

a) whether the valuation will have a material effect on the financial statements;

b) the extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgement;

c) the availability of established methodologies and professional guidelines;

d) for valuations involving standard or established methodologies, the degree of subjectivity inherent in the item;

e) the reliability and extent of the underlying data;

f) the degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved; and

g) the extent and clarity of the disclosures in the financial statements.

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

- having a professional who was not involved in providing the valuation service review the audit, review, or valuation work performed; or
- making arrangements so that personnel providing such services do not participate in the engagement.

4.76 Certain valuations do not involve a significant degree of subjectivity. This is likely the case where the underlying assumptions are either established by law or regulation, or are widely accepted, and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

4.77 If a firm is requested to perform a valuation to assist an audit or review client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the provisions included in paragraph 4.90 apply.

Audit Clients that are Not Public Interest Entities

4.78 In the case of an audit or review client that is not a public interest entity, if the valuation service has a material effect on the financial statements on which the firm will express an opinion and the valuation involves a significant degree of subjectivity, no safeguards could reduce the self-review threat to an acceptable level. Therefore, the firm shall either not provide the valuation service or shall withdraw from the audit engagement.

Audit and Review Clients that are Public Interest Entities

4.79 A firm shall not provide valuation services to an audit or review client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.

Taxation Services

4.80 Taxation services comprise a broad range of services, including:

a) tax return preparation;

b) tax calculations for the purpose of preparing the accounting entries;

c) tax planning and other tax advisory services; and

d) assistance in the resolution of tax disputes.

While taxation services provided by a firm to an audit or review client are addressed separately under each of these broad headings, in practice these activities are often interrelated.

4.81 Performing certain tax services may create self-review and advocacy threats. The existence and significance of any threats will depend on factors such as:

a) the system by which the tax authorities assess and administer the tax in question and the role of the firm in that process;

b) the complexity of the relevant tax regime and the degree of judgement necessary in applying it;

c) the particular characteristics of the engagement; and

d) the level of tax expertise of the audit or review client's employees.

Tax Return Preparation

4.82 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and completing information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities. Such services also include advising on the tax return treatment of past transactions and responding on behalf of the audit or review client to the tax authorities' requests for additional information and analysis (including providing explanations of and technical support for the approach being taken). Tax return preparation services are generally based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority deems appropriate. Therefore, providing such services do not generally create a threat to independence if management takes responsibility for the returns including any significant judgements made.

Tax Calculations for the Purpose of Preparing the Accounting Entries

4.83 Preparing calculations of current and future tax liabilities (or assets) for an audit or review client for the purpose of the preparation of accounting entries that will be subsequently audited or reviewed by the firm creates a self-review threat. The significance of the threat will depend on:

a) the complexity of the relevant tax law and regulation and the degree of judgement necessary in applying them;

b) the level of tax expertise of the client's personnel; and

c) the materiality of the amounts to the financial statements.

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

- using professionals who are not members of the engagement team to perform the service;
- if the service is performed by a member of the engagement team, using a partner or senior personnel with appropriate expertise who is not a member of the engagement team to review the tax calculations; or
- obtaining advice on the service from an external tax professional.

Audit or Review Clients that are Public Interest Entities

4.84 *Except in emergency situations, in the case of an audit or review client that is a public interest entity, a firm shall not prepare tax calculations of current and future tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.*

4.85 The preparation of calculations of current and future tax liabilities (or assets) for an audit or review client for the purpose of the preparation of accounting entries, which would otherwise not be permitted under this section, may be provided to clients in emergency or other unusual situations when it is impractical for the client to make other arrangements. This may be the case when:

a) only the firm has the resources and necessary knowledge of the client's business to assist the client in the timely preparation of its calculations of current and future tax liabilities (or assets); and

b) a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements).

In such situations, a firm may provide such services if:

- those who provide the services are not members of the engagement team; and
- the services are provided for only a short period of time and are not expected to recur.

In addition, the situation shall be discussed with those charged with governance.

Tax Planning and Other Tax Advisory Services

4.86 Tax planning or other advisory services comprise a broad range of services such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

4.87 A self-review threat may be created where the advice will affect matters to be reflected in the financial statements. The existence and significance of any threat will depend on factors such as:

a) the degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;

b) the extent to which the outcome of the tax advice will have a material effect on the financial statements;

c) whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework;

d) the level of tax expertise of the client's employees;

e) the extent to which the advice is supported by tax law or regulations, other precedent or established practice; and

f) whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, by established practice, or has a basis in tax law that is likely to prevail does not generally create a threat to independence.

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

a) using professionals who are not members of the engagement team to perform the service;

b) having a tax professional, who was not involved in the providing the tax services, advise the engagement team on the service and review the financial statement treatment;

c) obtaining advice on the service from an external tax professional; or

d) obtaining pre-clearance or advice from the tax authorities.

4.89 Where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

a) the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

b) the outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion;

the self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level, in which case such tax advice shall not be provided. The only other course of action would be to withdraw from the engagement.

4.90 In providing tax services to an audit or review client, a firm may be requested to perform a valuation to assist the client with its tax reporting obligations or for tax planning purposes. Where the result of the valuation will have a direct effect on the financial statements, the provisions included in paragraphs 4.74 to 4.79 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation will not have a direct effect on the financial statements (i.e., the financial statements are only affected through accounting entries related to tax), this would not generally create threats to independence if such effect on the financial statements is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. If the valuation is not subject to such an external review and the effect is material to the financial statements, the existence and significance of any threat created will depend upon factors such as:

a) the extent to which the valuation methodology is supported by tax law or regulation, other precedent, or established practice, and the degree of subjectivity inherent in the valuation;

b) the reliability and extent of the underlying data.

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

- using professionals who are not members of the engagement team to perform the service;
- having a professional review the work or the result of the tax service; or
- obtaining pre-clearance or advice from the tax authorities.

Assistance in the Resolution of Tax Disputes

4.91 An advocacy or self-review threat may be created when the firm represents an audit or review client in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding, for example, before a tribunal or court. The existence and significance of any threat will depend on factors such as:

a) whether the firm has provided the advice which is the subject of the tax dispute;

b) the extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion;

c) the extent to which the matter is supported by tax law or regulation, other precedent, or established practice;

d) whether the proceedings are conducted in public; and

e) the role management plays in the resolution of the dispute.

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

- using professionals who are not members of the engagement team to perform the service;
- having a tax professional who was not involved in providing the tax services advise the engagement team on the services and review the financial statement treatment; or
- obtaining advice on the service from an external tax professional.

4.92 Where the taxation services involve acting as an advocate for an audit or review client before a public tribunal or court in the resolution of a tax matter, and the amounts involved are material to the financial statements on which the firm will express an opinion, the advocacy threat would be so significant that no safeguards could eliminate the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit or review client.

4.93 The firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed, or assisting the client in analyzing the tax issues) for an audit or review client in relation to the matter that is being heard before a public tribunal or court.

Internal Audit Services

4.94 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. Internal audit activities may include one or more of the following:

a) Monitoring of internal control — reviewing controls, monitoring their operation, and recommending improvements thereto;

b) Examination of financial and operating information — reviewing the means used to identify, measure, classify, and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances, and procedures;

c) Review of the economy, efficiency, and effectiveness of operating activities including non-financial activities of an entity; and

d) Review of compliance with laws, regulations, and other external requirements, and with management policies and directives and other internal requirements.

4.95 Internal audit services involve assisting the audit or review client in the performance of its internal audit activities. For the purposes of this section, internal audit services do not include providing recommendations to management, which form a component of improvements for consideration to the internal audit process. In addition, interim audit processes completed by an audit firm are not a substitution for the client's own internal audit activities. The provision of internal audit services to an audit or review client creates a self-review threat to independence if the firm uses the internal audit work in the course of a subsequent external audit. Assisting a client in the performance of a significant part of the client's internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility.

4.96 If the firm's personnel assume a management responsibility when providing internal audit services to an audit or review client, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, a firm shall ensure that its personnel do not assume a management responsibility when providing internal audit services to a client.

4.97 Examples of internal audit services that involve assuming management responsibilities include:

a) setting internal audit policies or the strategic direction of internal audit activities;

b) directing and taking responsibility for the actions of the entity's internal audit employees;

c) deciding which recommendations resulting from internal audit activities to implement;

d) reporting the results of the internal audit activities to those charged with governance on behalf of management;

e) performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;

f) taking responsibility for designing, implementing, and maintaining internal control; and

g) performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm is responsible for determining the scope of the internal audit work and may have responsibility for one of more of the matters noted in (a)–(f).

4.98 To ensure that, in performing internal audit services, the firm does not assume a management responsibility, the firm shall only provide internal audit services to an audit or review client if all of the following conditions are met:

a) the client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to acknowledge responsibility for designing, implementing, and maintaining internal control;

b) the client's management or those charged with governance reviews, assesses, and approves the scope, risk, and frequency of the internal audit services;

c) the client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;

d) the client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and

e) the client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

4.99 When a firm uses the work of an internal audit function, International Standards on Auditing (and domestically the Canadian Auditing Standards) require the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit or review client, and the results of those services will be used in conducting the external audit, a self-review threat is created because of the possibility that the engagement team will use the results of the internal audit service without appropriately evaluating those results or exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The significance of the threat will depend on factors such as:

a) the materiality of the related financial statement amounts;

b) the risk of misstatement of the assertions related to those financial statement amounts; and

c) the degree of reliance that will be placed on the internal audit service.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is using professionals who are not members of the engagement team to perform the internal audit service.

Audit or Review Clients that are Public Interest Entities

4.100 In the case of an audit or review client that is a public interest entity, a firm shall not provide internal audit services that relate to the internal accounting controls, financial systems or financial statements.

4.101 A firm is not, however, precluded from providing to an audit or review client that is a public interest entity a non-recurring internal audit service to evaluate a specific matter that relates to the internal accounting controls, financial systems, or financial statements provided the conditions in paragraph 4.98 are met, the facts and circumstances related to the service are discussed with those charges with governance, the service would otherwise be permitted under the *CGA-BC Independence Standard* provisions, and safeguards are applied when necessary to reduce any threat to an acceptable level.

IT Systems Services

4.102 Services related to information technology (IT) systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal control over financial reporting, or generate information that affects the accounting records or financial statements, or the systems may be unrelated to the audit or review client's accounting records, the internal control over financial reporting, or financial statements. Providing systems services may create a self-review threat depending on the nature of the services and the IT systems.

4.103 The following IT systems services are not deemed to create a threat to independence as long as firm personnel do not assume a management responsibility:

a) design or implementation of IT systems that are unrelated to internal control over financial reporting;

b) design or implementation of IT systems that do not generate information forming a significant part of the accounting records or financial statements;

c) implementation of "off-the-shelf" accounting or financial information reporting software that was not developed by the firm if the customization required to meet the client's needs is not significant; and

d) evaluating and making recommendations with respect to a system designed, implemented, or operated by another service provider or the client.

Audit or Review Clients that are Not Public Interest Entities

4.104 Providing services to an audit or review client that is not a public interest entity involving the design or implementation of IT systems that:

a) form a significant part of the internal control over financial reporting; or

b) generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion;

creates a self-review threat.

The self-review threat is likely too significant to permit such services unless appropriate safeguards are put in place ensuring that:

- the client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- the client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- the client makes all management decisions with respect to the design and implementation process;
- the client evaluates the adequacy and results of the design and implementation of the system; and
- the client is responsible for operating the system (hardware or software) and the data it uses or generates.

4.105 Depending on the degree of reliance that will be placed on the particular IT systems as part of the audit or review, determination shall be made as to whether such non-assurance services shall be provided only by personnel who are not members of the engagement team and who have different reporting lines within the firm. The significance of any remaining threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having a professional colleague review the audit or review work or non-assurance work.

Audit or Review Clients that are Public Interest Entities

4.106 In the case of an audit or review client that is a public interest entity, a firm shall not provide services involving the design or implementation of IT systems that:

a) form a significant part of the internal control over financial reporting; or

b) generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

Litigation Support Services

4.107 Litigation support services may include activities such 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. These services may create a self-review or advocacy threat.

4.108 If the firm provides a litigation support service to an audit or review client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the valuation service provision included in paragraphs 4.74 to 4.79 shall be followed. In the case of other litigation support services, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

Legal Services

4.109 For the purpose of this section, legal services are defined as any services for which the person providing the services must either be admitted to practice law before the Courts of the jurisdiction in which such services are to be provided or have the required legal training to practice law. Such legal services may include a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers, and acquisition legal advice and support and assistance to clients' internal legal departments. Providing legal services to an entity that is an audit or review client may create both self-review and advocacy threats.

4.110 Legal services that support an audit or review client in executing a transaction (e.g., contract support, legal advice, legal due diligence, and restructuring) may create self-review threats. The existence and significance of any threat will depend on factors such as:

a) the nature of the service;

b) whether the service is provided by a member of the engagement team; and

c) the materiality of any matter in relation to client's financial statements.

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

- using professionals who are not members of the engagement team to perform the service; or
- having a professional who was not involved in providing the legal services provide advice to the engagement team on the service and review any financial statement treatment.

4.111 Acting in an advocacy role for an audit or review client in resolving a dispute or litigation when the amounts involved are material in relation to the financial statements on which the firm will express an opinion would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit or review client.

4.112 When a firm is asked to act in an advocacy role for an audit or review client in resolving a dispute or litigation when the amounts involved are not material to the financial statements on which the firm will express an opinion, the firm shall evaluate the significance of any

advocacy and self-review threats created and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

a) using professionals who are not members of the engagement team to perform the service; or

b) having a professional who was not involved in providing the legal services advise the engagement team on the service and review any financial statement treatment.

4.113 The appointment of a partner or an employee of the firm as General Counsel for legal affairs of an audit or review client would create self-review and advocacy threats that are so significant that no safeguards could reduce the threats to an acceptable level. The position of General Counsel is generally a senior management position with broad responsibility for the legal affairs of a company, and consequently, no member of the firm should accept such an appointment for an audit or review client.

Recruiting Services

4.114 Providing recruiting services to an audit or review client may create self-interest, familiarity, or intimidation threats. The existence and significance of any threat will depend on factors such as:

a) the nature of the requested assistance; and

b) the role of the person to be recruited.

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

In all cases, the firm shall not undertake management responsibilities, including acting as a negotiator on the client's behalf, and the hiring decision shall be left to the client.

The firm may generally provide such services as reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the post. In addition, the firm may interview candidates and advise on a candidate's competence for financial accounting, administrative, or control positions.

Audit or Review Clients that are Public Interest Entities

4.115 A firm shall not provide the following recruiting services for an audit or review client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion:

a) searching for or seeking out candidates for such positions; and

b) undertaking reference checks of prospective candidates for such positions.

Corporate Finance Services

4.116 Providing corporate finance services such as:

a) assisting an audit or review client in developing corporate strategies;

b) identifying possible targets for the audit or review client to acquire;

c) advising on disposal transactions;

d) assisting finance raising transactions; and

e) providing structuring advice

may create advocacy and self-review threats.

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

- using professionals who are not members of the engagement team to provide the services; or
- having a professional who was not involved in providing the corporate finance service advise the engagement team on the service and review the accounting treatment and any financial statement treatment.

4.117 Providing a corporate finance service, for example, advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will provide an opinion may create a self-review threat. The existence and significance of any threat will depend on factors such as:

a) the degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements;

b) the extent to which the outcome of the corporate finance advice will directly affect amounts recorded in the financial statements and the extent to which the amounts are material to the financial statements; and

c) whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

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

- using professionals who are not members or the engagement team to perform the service; or
- having an professional who was not involved in providing the corporate finance service to the client advise the engagement team on the service and review the financial statement treatment.

4.118 Where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:

a) the engagement team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and

b) the outcome or consequences or the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion;

the self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level, in which case the corporate finance advice shall not be provided.

4.119 Providing corporate finance services involving promoting, dealing in, or underwriting an audit or review client's shares would create an advocacy or self-review threat that is so

significant no safeguards could reduce the threat to an acceptable level. Therefore, a firm shall not provide such services to an audit or review client.

Fees

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

a) the operating structure of the firm;

b) whether the firm is well established or newly created; and

c) the significance of the client qualitatively and/or quantitatively to the firm.

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

- reducing the dependency on the client;
- external quality control reviews; or
- consulting a third party, such as the member advisor of an Affiliate or a professional colleague, on key audit or review judgements.

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

a) the significance of the client qualitatively and/or quantitatively to the partner or office; and

b) the extent to which the remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client.

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

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

Audit or Review Clients that are Public Interest Entities

4.122 In the case of an audit or review client that is a public interest entity when, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 2.10) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the self-interest threat created would be too significant unless the firm discloses to those charged with governance of the audit or review client the fact that the total of such fees represents more than 15% of the total fees received by the firm and discusses which of the safeguards below will be applied to reduce the threat to an acceptable level:

a) After the opinion on the second year's financial statements has been issued, and before the issuance of the audit opinion on the third year's financial statements, a professional

colleague, who is not a member of the firm expressing the opinion on the financial statements of the client, or a professional regulatory body, performs a review that is equivalent to the engagement quality control review (a post-issuance review); or

b) Prior to the issuance of the opinion on the second year's financial statements, a professional colleague, who is not a member of the firm expressing the opinion on the financial statements of the client, performs an engagement quality control review or a professional regulatory body performs a review that is equivalent to the engagement quality control review (a pre-issuance review).

When the total fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances, a pre-issuance review shall be performed.

Thereafter, when the fees continue to exceed 15%, each year the disclosure to and discussion with those charged with governance shall occur and one of the above safeguards shall be applied. If the fees significantly exceed 15%, the firm shall determine whether the significance of the threat is such that a post-issuance review would not reduce the threat to an acceptable level and, therefore, a pre-issuance review is required. In such circumstances, a pre-issuance review shall be performed.

Fees — Overdue

4.123 A self-interest threat may be created if fees due from an audit or review client remain unpaid for a long time, especially if a significant part is not paid before the issue of the report for the following year. Generally, the firm shall require payment of such fees before the report is issued. If the fee remains unpaid after the report has been issued, the existence and significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is having an additional professional colleague who did not take part in the engagement provide advice or review the work performed. The firm shall 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.

Compensation and Evaluation Policies

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

a) the proportion of the individual's compensation or performance evaluation that is based on the sale of such services;

b) the role of the individual on the engagement team; and

c) whether promotion decisions are influenced by the sale of such services.

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

- removing such members from the engagement team; or
- having a professional colleague review the work of the member of the engagement team.

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

Gifts and Hospitality

4.126 Accepting gifts or hospitality from an audit or review client may create self-interest and familiarity threats. If a firm or member of the engagement team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Consequently, a firm or member of the engagement team shall not accept such gifts or hospitality.

Actual or Threatened Litigation

4.127 When litigation takes place, or appears likely between the firm or a member of the engagement team and the audit or review client, self-interest and intimidation threats are created. The relationship between client management and the members of the engagement team must be characterized by complete candor and full disclosure regarding all aspects of a client's business operations. When the firm and the client's management are placed in adversarial positions by actual or threatened litigation, affecting management's willingness to make complete disclosures, self-interest and intimidation threats are created. The significance of the threats created will depend on such factors as:

a) the materiality of the litigation; and

b) whether the litigation relates to a prior engagement.

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

- if the litigation involves a member of the audit or review team, removing that individual from the engagement team; or
- having a professional colleague review the work performed.

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

5. RESTRICTED USE REPORTS

Introduction

5.1 The independence requirements apply to all audit and review engagements. However, in certain circumstances involving engagements where the report includes a restriction on the use and distribution, and provided the conditions described in 5.2 and 5.3 are met, the independence requirements may be modified as provided in paragraphs 5.5 to 5.15. These modifications are only applicable to engagements as described in this section, that is:

a) for engagements that are intended to provide a conclusion in positive or negative form that the financial statements are prepared in all material respects, in accordance with the applicable reporting framework, including, in the case of a fair presentation framework, that the financial statements are fairly presented, in all material respects, in accordance with the applicable reporting framework; and

b) where the opinion report includes a restriction on use and distribution.

The modifications are not permitted in the case of an audit or review of financial statements required by law or regulation.

5.2 The modifications to the requirements of the *CGA-BC Independence Standard* are permitted as long as the intended users of the report:

a) are knowledgeable as to the purpose and limitations of the report; and

b) explicitly agree the application of the modified independence requirements.

Knowledge as to the purpose and limitations of the report may be obtained by the intended users through their participation, either directly or indirectly, through their representative who has the authority to act for the intended users, in establishing the nature and scope of the engagement. Such participation enhances the ability of the firm to communicate with intended users about independence matters, including the circumstances that are relevant to the evaluation of the threats to independence and the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level, and to obtain their agreement to the modified independence requirements that are to be applied.

5.3 The firm shall communicate (for example, in an engagement letter) with the intended users regarding the independence requirements that are to be applied with respect to the provision of the audit or review engagement. Where the intended users are a class of users (for example, lenders in a syndicated loan arrangement) who are not specifically identifiable by name at the time the engagement terms are established, such users shall subsequently be made aware of the independence requirements agreed to by the representative (for example, by the representative making the firm's engagement letter available to all users).

5.4 If the firm also issues an opinion report that does not include a restriction on use and distribution for the same client, the provisions of this section do not change the requirement to apply the provisions in sections 1 through 4 of the *CGA-BC Independence Standard* to the engagement.

5.5 The modifications to the requirements of the *CGA-BC Independence Standard* that are permitted in the circumstances set out above are described in paragraphs 5.6 to 5.15. Compliance in all other respects with the provisions of the *CGA-BC Independence Standard* is required.

Public Interest Entities

5.6 When the conditions set out in paragraphs 5.1 to 5.4 are met, it is not necessary to apply the additional requirements in paragraphs 4.2 to 4.127 that apply to audit or review engagements for public interest entities.

Related Entities

5.7 When the conditions set out in paragraphs 5.1 to 5.4 are met, references to audit or review client do not include its related entities. However, when the engagement team knows or has reason to believe that a relationship or circumstance involving a related entity of the client is relevant to the evaluation of the firm's independence of the client, the engagement team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.

Networks and Network Firms

5.8 When the conditions set out in paragraphs 5.1 to 5.4 are met, reference to the firm does not include network firms. However, when the firm knows or has reason to believe that threats

are created by any interests and relationships of a network firm, they shall be included in the evaluation of threats to independence.

Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

5.9 When the conditions set out in paragraphs 5.1 to 5.4 are met, the relevant provisions set out in paragraphs 4.2 to 4.46 apply only to the members of the engagement team, their immediate family members and close family members.

5.10 In addition, a determination shall be made as to whether threats to independence are created by interests and relationships, as described in paragraphs 4.2 to 4.46, between the audit or review client and the following members of the engagement team:

a) those who provide consultation regarding technical or industry-specific issues, transactions or events; and

b) those who provide quality control for the engagement, including those who perform the engagement quality control review.

An evaluation shall be made of the significance of any threats that the engagement team has reason to believe are created by interests and relationships between the audit or review client and others within the firm who can directly influence the outcome of the engagement, including those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the engagement (including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent)).

5.11 An evaluation shall also be made of the significance of any threats that the engagement team has reason to believe are created by financial interests in the audit or review client held by individuals, as described in paragraphs 4.8 to 4.10 and paragraphs 4.13 to 4.15.

5.12 Where a threat to independence is not at an acceptable level, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level.

5.13 In applying the provisions set out in paragraphs 4.6 to 4.15 to interests of the firm, if the firm has a material financial interest, whether direct or indirect, in the audit or review client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, the firm shall not have such a financial interest.

Employment with an Audit or Review Client

5.14 An evaluation shall be made of the significance of any threats from any employment relationships as described in paragraphs 4.35 to 4.39. Where a threat exists that is not at an acceptable level, safeguards shall be applied to eliminate the threat or reduce it to an acceptable level. Examples of safeguards that might be appropriate include those set out in paragraph 4.37.

Provision of Non-Assurance Services

5.15 If the firm conducts an engagement to issue a restricted use and distribution report for an audit or review client and provides a non-assurance service to the client, the provisions of paragraphs 4.55 to 4.127 shall be complied with, subject to paragraphs 5.5 to 5.8.

6. EFFECTIVE DATE — AUDIT OR REVIEW ENGAGEMENTS

6.1 This Standard and the related *CGA-BC Code of Ethical Principles and Rules of Conduct* (CEPROC) are applicable to audit and review engagements, effective December 15, 2010. This date is regardless of the period ending date of the financial statements which are the subject of the report, and the commencement date of the engagement.

Transitional Provisions

6.1.1 Provision of non-assurance services

The revised *CGA-BC Independence Standard* will expand some of the restrictions on providing certain non-assurance to audit and review clients. CGA-BC requires that a firm shall not contract for such services after the effective date of December 15, 2010 and any ongoing services that were contracted for before the effective date shall be completed within six months after that date. Therefore, a firm shall not contract for any such services after December 15, 2010 and any ongoing services that were contracted for before this date shall be completed by June 15, 2011.

6.1.2 Audit partner rotation

The revised *CGA-BC Independence Standard* will extend the existing partner rotation requirements to all key audit partners and to all firms, irrespective of size. CGA-BC is of the view that where the revised independence requirements would require additional individuals to rotate, it is appropriate to provide an additional year before this requirement is effective for those individuals. For example, key audit partners who are neither the engagement partner nor the individual responsible for the engagement quality control review would be subject to the rotation requirements on December 15, 2011. Any individuals who had served in such a position for seven or more years on December 15, 2011 would be required to rotate off the engagement team and would not be permitted to be a member of the engagement team or a key audit partner for two years.

6.1.3 Public Interest Entities

The revised *CGA-BC Independence Standard* will extend the independence requirements that apply with respect to the audits of reporting issuers to all other public interest entities as defined (see definition section). CGA-BC is of the view that it is appropriate to provide an additional year after the effective date before these requirements are effective. Therefore, these provisions are effective on December 15, 2011.

7. APPLICATION OF FRAMEWORK IN SPECIFIC SITUATIONS – OTHER ASSURANCE

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In accordance with the CGA-BC *Code of Ethical Principles and Rules of Conduct*, a member is required to comply with the specified prohibitions denoted by italics in this Standard.

Introduction — Other Assurance Engagements

7.1 The following examples describe specific circumstances and relationships that may create threats to independence. The examples describe the potential threats and safeguards that may be appropriate to eliminate the threats or reduce them to an acceptable level in each circumstance. The examples presented are not all-inclusive. In practice, the member, firm, or engagement 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 2.34 through 2.41, can be applied to satisfactorily address threats to independence.

7.2 The examples illustrate how the framework applies to assurance engagements. The examples should be read in conjunction with the presumption that, which explains that, in the majority of other assurance engagements, there is one responsible party and that responsible party is the assurance client. However, in some assurance engagements there are two or more responsible parties. In such circumstances, 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 5.1 to 5.15.

Financial Interests

7.3 Holding a financial interest in an assurance client may create a self-interest threat. The existence and significance of any threat created depends on:

a) the role of the individual holding the financial interest;

b) whether the financial interest is direct or indirect; and

c) the materiality of the financial interest.

7.4 Financial interests may be held through an intermediary (e.g., a collective investment vehicle, estate or trust). The determination of whether such financial interests are direct or indirect will depend on whether the beneficial owner has control over the investment vehicle or ability to influence its investment decisions. When control over the investment vehicle or the ability to influence investment decisions exists, that financial interest must be considered a direct financial interest. Conversely, when the beneficial owner of the financial interest has no control over the investment vehicle or ability to influence its investment decisions, that financial interest is an indirect financial interest.

7.5 If a member of the engagement team, member of that individual's immediate family, or a firm has a direct financial interest, or a material indirect financial interest, in the assurance client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, none of the following shall have a direct financial interest or a material indirect financial interest in the client: a member of the engagement team, a member of that individual's immediate family, or the firm.

7.6 When a member of the engagement team has a close family member who the engagement team knows has a direct financial interest or a material indirect financial interest in the assurance client, a self-interest threat is created. In evaluating the significance of the threat, consideration shall be given to the nature of the relationship between the member of the engagement team and the close family member and the materiality of the financial interest to the close family member. Safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- the close family member disposing, as soon as practicable, of all of the financial interest or disposing of a sufficient portion of an indirect financial interest so that the remaining interest is no longer material;
- having a professional colleague review the work of the member of the engagement team; or
- removing that individual from the engagement team.

7.7 *If a member of the engagement team, a member of that individual's immediate family, or a firm has a direct or material indirect financial interest in an entity that has a controlling interest in an assurance client and the client is material to the entity, the self-interest threat created would be so significant that no safeguard could reduce the threat to an acceptable level. Therefore, neither a member of the engagement team, a member of that individual's immediate family, nor the firm shall have such a financial interest.*

7.8 The holding by a firm, or a member of the engagement team, or a member of that individual's immediate family of a direct financial interest or a material indirect financial interest in the assurance client as a trustee creates a self-interest threat. Holding such an interest is only permitted when:

a) neither the trustee, nor an immediate family member of the trustee, nor the firm are beneficiaries of the trust;

b) the interest in the assurance client held by the trust is not material to the trust;

c) the trust is not able to exercise significant influence over the assurance client; and

d) the trustee, an immediate family member of the trustee, or the firm cannot significantly influence any investment decision involving a financial interest in the assurance client.

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

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

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

a) the firm's organizational, operating, and reporting structure; and

b) the nature of the relationship between the individual and the member of the engagement team.

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

- removing the member of the engagement team with the personal relationship from the engagement team;
- excluding the member of the engagement team from any significant decision-making concerning the assurance engagement; or
- having a professional colleague review the work of member of the engagement team.

7.10 If a firm, a member of the engagement team, or an immediate family of the individual, receives a direct financial interest or a material indirect financial interest in an assurance client, for example, by way of an inheritance, gift or, as a result of a merger, and such interest would not be permitted to be held under this section, then:

a) if the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material, or the firm shall withdraw from the assurance engagement; or

b) if the interest is received by a member of the engagement team, or a member of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material, or the individual shall be removed from the engagement team.

7.11 An inadvertent violation of this section as it relates to a financial interest in an assurance client is not deemed to compromise independence if all of the following conditions are met:

a) the firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance, or other acquisition of a financial interest in the assurance client;

b) The actions taken in paragraph 7.10 (a) and (b) are taken as applicable; and

c) the firm applies other safeguards necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include:

i) having a professional colleague review the work of the member of the engagement team; or

ii) excluding the individual from any significant decision-making concerning the assurance engagement.

In addition, a determination shall be made as to whether to discuss the matter with those charged with governance.

Loans and Guarantees

7.12 A loan or guarantee of a loan to a member of the engagement team, or a member of that individual's immediate family, or the firm from an assurance client that is a bank or a similar institution, may create a threat to independence.

7.13 If the loan or guarantee is not made under normal lending procedures, terms, and conditions, a self-interest threat would be created that would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, neither a member of the engagement team, member of that individual's immediate family, nor a firm shall accept such a loan or guarantee.

7.14 If a loan to a firm from an assurance client that is a bank or similar institution is made under normal lending procedures, terms, and conditions, and it is material to the assurance client or firm receiving the loan, it may be possible to apply safeguards to reduce the self-interest threat to an acceptable level. An example of such safeguard is having the work reviewed by a professional colleague from a network firm that is neither involved with the assurance engagement nor received the loan.

7.15 A loan or guarantee of a loan from an assurance client that is a bank or a similar institution to a member of the engagement team or member of that individual's immediate family, does not create a threat to independence if the loan or guarantee is made under normal lending procedures, terms, and conditions. Examples of such loans or guarantees include home mortgages, bank overdrafts, car loans, and credit card balances.

7.16 If the firm or a member of an engagement team or member of that individual's immediate family accepts a loan from, or has a borrowing guaranteed by, to an assurance client that is not a bank or similar institution or an officer or director of the client or a shareholder of the assurance client that owns more than 10% of the equity, or guarantees such borrowings, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level unless the loan or guarantee is immaterial to both the firm or member of the engagement team and the immediate family, and the client.

7.17 Similarly, if a firm or member of an engagement team or a member of that individual's immediate family makes or guarantees a loan to an assurance client, an officer or director of the client or a shareholder of the assurance client that owns more than 10% of the equity, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level, unless the loan or guarantee is immaterial to both the firm or the member of the engagement team, and the immediate family and the client.

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

Business Relationships

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

a) having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client;

b) arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties;

c) distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.

7.20 Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant:

a) the business relationship shall not be entered into, or shall be reduced to an insignificant level; or

b) the firm shall decline or terminate the assurance engagement.

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

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

7.21 The purchase of goods and services from an assurance client by the firm, or a member of the engagement team, or a member of that individual's immediate family does not generally create a threat to independence if the transaction is in the normal course of business and at arm's-length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

a) eliminating or reducing the magnitude of the transaction; or

b) removing the individual from the engagement team.

Family and Personal Relationships

7.22 Family and personal relationships between a member of the engagement team and a director or officer or certain employees (depending on their role) of the assurance client may create self-interest, familiarity, or intimidation threats. The existence and significance of any threats will depend on a number of factors, including the individual's responsibilities on the engagement team, the role of the family member or other individual within the client, and the closeness of the relationship. Consequently, the particular circumstances will need to be evaluated in assessing the significance of these threats.

7.23 When an immediate family member of a member of the engagement team is:

a) a director or officer of the assurance client; or

b) an employee in a position to exert significant influence over the subject matter information of the assurance engagement;

or was in such a position during any period covered by the engagement or the subject matter information, the threats to independence can only be reduced to an acceptable level by removing the individual from the engagement team. The closeness of the relationship is such that no other safeguards could reduce the threat to an acceptable level. If this safeguard is not applied, the firm shall withdraw from the assurance engagement.

7.24 Threats to independence are created when an immediate family member of a member of the engagement team is an employee in a position to exert significant influence over the subject matter of the engagement. The significance of the threats will depend on factors such as:

a) the position held by the immediate family member; and

b) the role of the professional on the engagement team.

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

- removing the individual from the engagement team;
- structuring the responsibilities of the engagement team so that the individual does not deal with matters that are within the responsibility of the immediate family member.

7.25 Threats to independence are created when a close family member of a member of the engagement team is:

a) a director or officer of the assurance client; or

b) an employee in a position to exert significant influence over the subject matter information of the engagement. The significance of the threats will depend on factors such as:

i) the nature of the relationship between the member of the engagement team and the close family member;

ii) the position held by the close family member; and

iii) the role of the professional on the engagement team.

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

- removing the individual from the engagement team; or
- structuring the responsibilities of the engagement team so that the individual does not deal with matters that are within the responsibility of the close family member.

7.26 Threats to independence are created when a member of the engagement team has a close relationship with a person who is not an immediate or close family member, but who is a director or officer or an employee in a position to exert significant influence over the subject matter information of the assurance engagement. Members of the engagement team are responsible for identifying any such persons and for consulting in accordance with firm policies and procedures. The significance of the threats will depend on factors such as:

a) the nature of the relationship between the individual and the member of the engagement team;

b) the position the individual holds with the client; and

c) the role of the professional on the engagement team.

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

- removing the professional from the engagement team; or
- structuring the responsibilities of the engagement team so that the professional does not deal with matters that are within the responsibility of the individual with whom the professional has a close relationship.

7.27 Self-interest, familiarity, or intimidation threats may be created by a personal or family relationship between:

a) a partner or employee of the firm who is not a member of the assurance team; and

b) a director or officer of the assurance client or an employee in a position to exert significant influence over the subject matter information of the assurance engagement. The existence and significance of any threat will depend on factors such as:

i) the nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client;

ii) the interaction of the partner or employee of the firm with the engagement team;

iii) the position of the partner or employee within the firm; and

iv) the role of the individual within the client.

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

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

7.28 An inadvertent violation of this section as it relates to family and personal relationships is not deemed to compromise independence if:

a) the firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence;

b) the inadvertent violation relates to an immediate family member of a member of the engagement team becoming a director or officer of the assurance client or being in a position to exert significant influence over the subject matter information of the assurance engagement, and the relevant personnel is removed from the engagement team; and

c) the firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include:

i) having a professional colleague review the work of the member of the engagement team; or

ii) excluding the relevant personnel from any significant decision-making concerning the engagement.

Employment with Other Assurance Clients

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

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

a) the position the individual has taken at the client;

b) any involvement the individual will have with the engagement team;

c) the length of time since the individual was a member of the engagement team or partner of the firm; and

d) the former position of the individual within the engagement team or firm, for example, whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

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

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

- making arrangements such that the individual is not entitled to any benefits or payments from the firm unless made in accordance with fixed pre-determined arrangements;
- modifying arrangements such that any amount owed to the individual is not material to the firm;
- modifying the plan for the assurance engagement;
- assigning individuals to the engagement team who have sufficient experience in relation to the individual who has joined the client; or
- having a professional colleague review the work of the former member of the engagement team.

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

7.32 A self-interest threat is created when a member of the engagement team participates in the assurance engagement while knowing that the member of the engagement team will, or may, join the client at some time in the future. Firm policies and procedures shall require members of the engagement team to notify the firm when entering employment negotiations with the client. On receiving such notification, the significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- removing the individual from the engagement team; or
- a review of any significant judgements made by that individual while on the engagement team.

Recent Service with an Assurance Client

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

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

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

subject matter information of the assurance engagement. For example, such threats would be created if a decision made, or work performed, by the individual in the prior period, while employed by the client is to be evaluated in the current period as part of the current assurance engagement. The existence and significance of any threats will depend on factors such as:

a) the position the individual held with the client;

b) the length of time since the individual left the client; and

c) the role of that member on the engagement team.

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

Serving as a Director or Officer or Director of an Other Assurance client

7.36 *If a partner or employee of the firm serves as a director or officer of an assurance client, the self-review and self-interest threats created would be so significant that no safeguards could reduce those threats to an acceptable level. Therefore, if such an individual were to accept such a position while continuing to serve as a partner or an employee of the firm, the firm shall decline or withdraw from the assurance engagement.*

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

7.38 If a partner or employee of the firm serves as Company Secretary for an assurance client, self-review and advocacy threats are created that would generally be so significant that no safeguards could reduce the threats to an acceptable level. Despite paragraph 7.36, when this practice is specifically permitted under local law, professional rules or practice, and provided management makes all relevant decisions, the duties and activities shall be limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns. In those circumstances, the significance of any threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level.

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

Long Association of Senior Personnel (Including Partner Rotation)

7.40 Familiarity and self-interest threats are created by using the same senior personnel on an assurance engagement over a long period of time. The significance of the threats will depend on factors such as:

a) how long the individual has been a member of the engagement team;

b) the role of the individual on the engagement team;

c) the structure of the firm;

d) the nature of the assurance engagement;

e) whether the client's management team has changed; and

f) whether the nature or complexity of the subject matter information has changed.

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

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

Provision of Non-assurance Services to an Other Assurance Client

7.41 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the engagement team. The threats created are most often self-review, self-interest, and advocacy threats.

7.42 When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.

7.43 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, a determination shall be made as to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the engagement team has reason to believe is created by the providing other non-assurance services. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards, the non-assurance service shall not be provided.

Management Responsibilities

7.44 Management of an entity performs many activities in managing the entity in the best interests of the stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources.

7.45 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgement. Examples of activities that would generally be considered a management responsibility include:

a) setting policies and strategic direction;

b) directing and taking responsibility for the actions of the entity's employees;

c) authorizing transactions;

d) deciding which recommendations of the firm or other third parties to implement; and

e) taking responsibility for designing, implementing, and maintaining internal control.

7.46 Activities that are routine and administrative, or involve matters that are insignificant, generally are not deemed to be a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an assurance client of those dates is not deemed to be a

management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

7.47 Assuming a management responsibility for an assurance client may create threats to independence. If a firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level.

Accordingly, in providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service.

If the firm assumes a management responsibility as part of any other services provided to the assurance client, it shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement provided by the firm.

7.48 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 with a sufficient level of understanding of the service, and an ability to evaluate the results, has been designated to make all significant judgements and decisions connected with the services and to accept responsibility for the actions to be taken arising from the results of the service received. This reduces the risk of inadvertent significant judgements or decisions by the firm. This risk is further reduced when the firm gives the client the opportunity to make judgements and decisions based on an objective and transparent analysis and presentation of the issues.

Other Considerations

7.49 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 is not clearly insignificant can be reduced to an acceptable level by the application of safeguards.

7.50 A self-review threat may be created if the firm is involved in the preparation of subject matter information that 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 must evaluate the significance of any self-review threat created by the provision of such services. If the self-review threat created is not clearly insignificant, safeguards shall be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

7.51 When a firm performs a valuation that forms part of the subject matter information of an assurance engagement the firm shall consider any self-review threat. If the threat is not clearly insignificant, safeguards shall be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level.

Fees

7.52 When the total fees generated by an assurance client represent a large proportion of the total fees of the firm, 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 that threat will depend on factors such as:

a) the operating structure of the firm; and

b) whether the firm is well established or newly created.

The significance of the self-interest threat must be evaluated and, if that threat is not clearly insignificant, safeguards shall be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- taking steps to reduce dependency on the client;
- external quality control reviews; and
- consulting a third party, such as the member advisor of an Affiliate or a professional colleague, on key assurance judgements.

7.53 A self-interest threat may also be created when the fees generated by the assurance client represent a large proportion of the revenue from an individual partner's clients. The significance of the threat must be evaluated and, if the threat is not clearly insignificant, safeguards shall be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include having a professional colleague who was not a member of the engagement team review the work done or otherwise advise as necessary.

7.54 A self-interest threat may be created if fees due from an assurance client remain unpaid for a long time, especially if a significant part is not paid before the issue of the assurance report, if any, for the following period. Generally, the firm should require payment of such fees before any such report is issued. A safeguard that should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level is having a professional colleague who did not take part in the engagement 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.

Gifts and Hospitality

7.55 Accepting gifts or hospitality from an assurance client may create self-interest and familiarity threats. When a firm or member of the engagement team accepts gifts or hospitality, unless the value is clearly insignificant, no safeguards could reduce such threats to an acceptable level. Consequently, a firm or member of an engagement team shall not accept such gifts or hospitality.

Actual or Threatened Litigation

7.56 When litigation takes place, or appears likely to occur between the firm or member of the engagement team, a self-interest or intimidation threat may be created. The relationship between client management and members of the engagement 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. As a result, the member or firm may face a self-interest threat. The significance of the threat created will depend on such factors as:

a) the materiality of the litigation; and

b) whether the litigation relates to a prior assurance engagement.

The significance of the self-interest threat must be evaluated, and, if the threat is other than clearly insignificant, safeguards shall be considered and applied to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- if the litigation involves a member of the engagement team, removing that individual from the engagement team; or
- having a professional colleague in the firm who was not a member of the engagement team review the work done or otherwise advise as necessary.

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

8. EFFECTIVE DATE – OTHER ASSURANCE ENGAGEMENTS

8.1 This Standard and the related *Code of Ethical Principles and Rules of Conduct* (CEPROC) are applicable to other assurance engagements effective December 15, 2010. This date is regardless of the period ending date of the other assurance engagement report and the commencement of the engagement.

8.2 The provisions apply to any other assurance engagement and engagements to issue a report of the results of applying specified auditing procedures where the engagement is commenced after December 31, 2010.