

COE
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July 2022*, September 2022, November 2022,
March 2023, May 2023, July 2023; December 2023

Effective on 15 June 2019

Code of Ethics for Professional Accountants

* The *Code of Ethics for Professional Accountants* has been updated for COE, Chapter A, Revisions to the Code Relating to the Definition of Engagement Team and Group Audits, COE Chapter A, Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers;

~~(a) COE Chapter A, Revisions to the Non-Assurance Services Provisions of the Code;~~

~~(b) COE Chapter A, Revisions to the Fee-related Provisions of the Code; and~~

~~(c) Quality Management-related Conforming Amendments to the Code.~~

In summary,

~~— The above revisions and conforming amendments to Part 4A will become effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.~~

~~— The above revisions and conforming amendments to Part 4B will become effective for assurance engagements beginning on or after 15 December 2022.~~

~~— Conforming and consequential amendments to other Sections of the Code will become effective as of 15 December 2022.~~

Refer to Section “EFFECTIVE DATE” of the Code for details of respective effective dates, early adoption and transitional provision for the above revisions and conforming amendments to the Code.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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The *Code of Ethics for Professional Accountants* is based on the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) of the International Ethics Standards Board for Accountants (IESBA), published by the International Federation of Accountants (IFAC) in ~~April 2022~~February 2023 and is used with permission of IFAC.

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PREFACE

This Preface has been approved by the Council of the Hong Kong Institute of Certified Public Accountants (the “Institute”) for publication.

1. Pursuant to section 18A of the Professional Accountants Ordinance, Council may, in relation to the practice of accountancy, issue or specify any statement of professional ethics required to be observed, maintained or otherwise applied by members of the Institute.
2. Council has mandated the Ethics Committee (“EC”) to develop the HKICPA Code of Ethics for Professional Accountants (the “Code”). Within this remit, Council permits the EC to work in whatever way it considers most effective and efficient and this may include forming advisory panels or other forms of specialist advisory groups to give advice in preparing the Code.
3. The Institute, as a member of the International Federation of Accountants (“IFAC”), is committed to the IFAC’s broad objective of supporting the development of high-quality international standards and enhancing a coordinated worldwide accountancy profession with common standards. The IFAC Board has established the International Ethics Standards Board for Accountants (“IESBA”) to function as an independent standard-setting body under the auspices of IFAC and subject to the oversight of the Public Interest Oversight Board.
4. The IESBA develops and issues, under its own standard setting authority, the International Code of Ethics for Professional Accountants (including International Independence Standards) (the “International Code”). The International Code is for use by professional accountants around the world. The IESBA establishes the International Code for international application following due process. The IFAC establishes separate requirements for its member bodies with respect to the International Code.
5. As an obligation of its membership, the Institute is obliged to support the work of IFAC by (a) informing its members of every pronouncement developed by IESBA, and (b) implementing those pronouncements, when and to the extent possible under local circumstances.
6. The Institute has determined to adopt the International Code as the ethical requirements for its members.
7. Where the Council of the Institute deems it necessary, it has included, and may develop further, additional ethical requirements on matters of relevance not covered by the International Code.
8. This Code issued by the Institute consists of:
 - A is based on the International Code (issued in ~~April 2022~~February 2023)
 - [B – Not used]
 - C contains either local application or represents an amplification of provisions in the International Code (i.e. Chapter A of this Code)
 - D is a comparison of the Code with the International Code
 - E applies to specialized areas of practice
 - F contains guidelines on anti-money laundering and counter-terrorist financing for professional accountants

Chapter A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework that professional accountants shall apply. It provides examples of safeguards that may be appropriate to address threats to compliance

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Assurance team	<p>(a) All members of the engagement team for the assurance engagement;</p> <p>(b) All others within a, <u>or engaged by, the</u> firm who can directly influence the outcome of the assurance engagement, including:</p> <ul style="list-style-type: none"> (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; (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and (iii) Those who provide quality control for the assurance perform an engagement, including those who perform the quality review, or a review consistent with the objective of an engagement quality control review, <u>perform an engagement, including those who perform the quality review, or a review consistent with the objective of an engagement quality control review,</u> for the assurance engagement.
Attestation engagement	<p>An assurance engagement in which a party other than the professional accountant in public practice measures or evaluates the underlying subject matter against the criteria.</p> <p>A party other than the accountant also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the accountant in the assurance report. In an attestation engagement, the accountant's conclusion addresses whether the subject matter information is free from material misstatement.</p> <p>The accountant's conclusion may be phrased in terms of:</p> <ul style="list-style-type: none"> (i) The underlying subject matter and the applicable criteria; (ii) The subject matter information and the applicable criteria; or (iii) A statement made by the appropriate party.
Audit	<i>In Part 4A, the term "audit" applies equally to "review."</i>
Audit client	<p>An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.20.)</p> <p><i>In Part 4A, the term "audit client" applies equally to "review client."</i></p> <p><u>In the case of a group audit, see the definition of group audit client.</u></p>
Audit engagement	<p>A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with <i>Hong Kong Standards on Auditing</i>. This includes a Statutory Audit, which is an audit required by legislation or other regulation.</p>

In Part 4A, the term “audit engagement” applies equally to “review engagement.”

Audit report

In Part 4A, the term “audit report” applies equally to “review report.”

Audit team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within ~~a, or engaged by, the~~ 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 to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who ~~perform~~provide quality control for the ~~an~~ engagement, ~~including those who perform the engagement quality control review, or a review consistent with the objective of an engagement quality review, for the~~ engagement; and
- (c) ~~Any other individuals All these~~ within a network firm who can directly influence the outcome of the audit engagement.

In Part 4A, the term “audit team” applies equally to “review team.” In the case of a group audit, see the definition of group audit team.

Close family

A parent, child or sibling who is not an immediate family member.

Component

An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit.

Component audit client

A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is:

- (a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

Component auditor firm

A firm performing audit work related to a component for purposes of a group audit.

Conceptual framework	<i>This term is described in Section 120.</i>
Contingent fee	A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.
Cooling-off period	<i>This term is described in paragraph R540.5 for the purposes of paragraphs R540.11 to R540.2019.</i>
Criteria	In an assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.
Direct engagement	An assurance engagement in which the professional accountant in public practice measures or evaluates the underlying subject matter against the applicable criteria and the accountant presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the accountant’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
Direct financial interest	A financial interest: <ul style="list-style-type: none"> (a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or (b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit engagement	<i>This term is described in paragraph 800.2 for the purposes of Section 800.</i>
Eligible assurance engagement	<i>This term is described in paragraph 990.2 for the purposes of Section 990.</i>
Engagement partner	The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Engagement period (Audit and Review Engagements)	The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

Engagement period (Assurance Engagements Other than Audit and Review Engagements)	The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.
Engagement quality review	An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
Engagement quality reviewer	A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
Engagement team	<p>All partners and staff performing the engagement, and any <u>other individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm and internal auditors who provide direct assistance on the engagement.</u></p> <p><i><u>In Part 4A, the term “engagement team” also excludes refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9 within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of HKSA 610 (Revised 2013), Using the Work of Internal Auditors.</u></i></p> <p><i><u>HKSA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.</u></i></p> <p><i><u>HKSA 620 defines an auditor’s expert as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. HKSA 620 deals with the auditor’s responsibilities relating to the work of such experts.</u></i></p> <p><i><u>HKSA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.</u></i></p> <p><i><u>In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.</u></i></p>
Existing accountant	A professional accountant in public practice currently holding an audit appointment or carrying out accounting, tax, consulting or similar professional services for a client.
External expert	An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence.

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

Financial statements A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

The term does not refer to specific elements, accounts or items of a financial statement.

Financial statements on which the firm will express an opinion In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

Firm

- (a) A sole practitioner, partnership or corporation of professional accountants;
- (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.

Paragraphs 400.4 and 900.3 explain how the word "firm" is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.

Fundamental principles *This term is described in paragraph 110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:*

Integrity *R111.1*

Objectivity *R112.1*

Professional competence and due care *R113.1*

Confidentiality *R114.1*

Professional behavior *R115.1*

Group A reporting entity for which group financial statements are prepared.

Group audit The audit of group financial statements.

<u>Group audit client</u>	<p>The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a listed entity, group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a listed entity, group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.</p> <p><u>See also paragraph R400.20.</u></p>
<u>Group auditor firm</u>	The firm that expresses the opinion on the group financial statements.
<u>Group audit team</u>	<p>(a) <u>All members of the engagement team for the group audit, including individuals within, or engaged by, component auditor firms who perform audit procedures related to components for purposes of the group audit;</u></p> <p>(b) <u>All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:</u></p> <p>(i) <u>Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);</u></p> <p>(ii) <u>Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and</u></p> <p>(iii) <u>Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;</u></p> <p>(c) <u>Any other individuals within a network firm of the group auditor firm's network who can directly influence the outcome of the group audit; and</u></p> <p>(d) <u>Any other individuals within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit.</u></p>
<u>Group engagement partner</u>	The engagement partner who is responsible for the group audit.
<u>Group financial statements</u>	<u>Financial statements that include the financial information of more than one entity or business unit through a consolidation process.</u>

Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
Immediate family	A spouse (or equivalent) or dependent.
Independence	<p>Independence comprises:</p> <ul style="list-style-type: none"> (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism. (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 that a firm's, or an audit or assurance team member's, integrity, objectivity or professional skepticism has been compromised. <p><i>As set out in paragraphs 400.5 and 900.4, references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A and 4B, as applicable.</i></p>
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 or ability to influence investment decisions.
Inducement	<p>An object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior.</p> <p><i>Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business), or between professional accountants and existing or prospective clients (for professional accountants in public practice), to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</i></p> <ul style="list-style-type: none"> • <i>Gifts.</i> • <i>Hospitality.</i> • <i>Entertainment.</i> • <i>Political or charitable donations.</i> • <i>Appeals to friendship and loyalty.</i> • <i>Employment or other commercial opportunities.</i> • <i>Preferential treatment, rights or privileges.</i>

Key audit partner	The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, <u>audit engagement partners for certain components in a group audit such as responsible for significant subsidiaries or divisions.</u>
Listed entity	An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
May	<i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</i>
Might	<i>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.</i>
Network	A larger structure: (a) That is aimed at co-operation; and That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.
Network firm	A firm or entity that belongs to a network. <i>For further information, see paragraphs 400.50 A1 to 400.54 A1.</i>
Non-compliance with laws and regulations (Professional Accountants in Business)	<i>Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i> (a) <i>The professional accountant's employing organization;</i> (b) <i>Those charged with governance of the employing organization;</i> (c) <i>Management of the employing organization; or</i> (d) <i>Other individuals working for or under the direction of the employing organization.</i> <i>This term is described in paragraph 260.5 A1.</i>

Non-compliance with laws and regulations (Professional Accountants in Public Practice)	<p><i>Non-compliance with laws and regulations (“non-compliance”) comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:</i></p> <ul style="list-style-type: none"> (a) <i>A client;</i> (b) <i>Those charged with governance of a client;</i> (c) <i>Management of a client; or</i> (d) <i>Other individuals working for or under the direction of a client.</i> <p><i>This term is described in paragraph 360.5 A1.</i></p>
Office	A distinct sub-group, whether organized on geographical or practice lines.
Predecessor accountant	A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.
Professional accountant	<p>An individual who is a member of an IFAC member body.</p> <p><i>In Part 1, the term “professional accountant” refers to individual professional accountants in business and to professional accountants in public practice and their firms.</i></p> <p><i>In Part 2, the term “professional accountant” refers to professional accountants in business.</i></p> <p><i>In Parts 3, 4A and 4B, the term “professional accountant” refers to professional accountants in public practice and their firms.</i></p>
Professional accountant in business	A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.
Professional accountant in public practice	<p>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</p> <p><i>The term “professional accountant in public practice” is also used to refer to a firm of professional accountants in public practice.</i></p>
Professional activity	An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, tax, management consulting, and financial management.

Professional judgment *Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.*

This term is described in paragraph 120.5 A4.

Professional services Professional activities performed for clients.

Proposed accountant A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).

Public interest entity

- (a) A listed entity; or
- (b) An entity:
 - (i) Defined by regulation or legislation as a public interest entity; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities^{1a}. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.

Reasonable and informed third party *The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.*

Reasonable and informed third party test

These terms are described in paragraph 120.5 A6.

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

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;

^{1a} Currently under the legislation of Hong Kong, there is no definition of public interest entity or requirement for the audit of an entity to be conducted with the same independence requirements applicable to the audit of listed entities. Hence, there is no entity falling within this part of the definition under the legislation of Hong Kong.

- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.

Responsible party In an assurance engagement, the party responsible for the underlying subject matter.

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

Review engagement An assurance engagement, conducted in accordance with *Hong Kong Standards on Review Engagements* or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant’s attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review team

- (a) All members of the engagement team for the review engagement; and
- (b) All others within ~~a~~, or engaged by, the 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 or equivalent);
 - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
 - (iii) Those who ~~provide~~ perform an engagement quality review, or a review consistent with control for the objective of an engagement, including those who perform the engagement quality control review, for the engagement; and
- (c) ~~All these~~ Any other individuals within a network firm who can directly influence the outcome of the review engagement.

Safeguards	<p><i>Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i></p> <p><i>This term is described in paragraph 120.10 A2.</i></p>										
Senior professional accountant in business	<p><i>Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.</i></p> <p><i>This term is described in paragraph 260.11 A1.</i></p>										
Special purpose financial statements	Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.										
Substantial harm	<i>This term is described in paragraphs 260.5 A3 and 360.5 A3.</i>										
Subject matter information	The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.										
Those charged with governance	The person(s) or organization(s) (for example, a corporate trustee) 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. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.										
Threats	<p><i>This term is described in paragraph 120.6 A3 and includes the following categories:</i></p> <table> <tr> <td><i>Self interest</i></td><td><i>120.6 A3(a)</i></td></tr> <tr> <td><i>Self-review</i></td><td><i>120.6 A3(b)</i></td></tr> <tr> <td><i>Advocacy</i></td><td><i>120.6 A3(c)</i></td></tr> <tr> <td><i>Familiarity</i></td><td><i>120.6 A3(d)</i></td></tr> <tr> <td><i>Intimidation</i></td><td><i>120.6 A3(e)</i></td></tr> </table>	<i>Self interest</i>	<i>120.6 A3(a)</i>	<i>Self-review</i>	<i>120.6 A3(b)</i>	<i>Advocacy</i>	<i>120.6 A3(c)</i>	<i>Familiarity</i>	<i>120.6 A3(d)</i>	<i>Intimidation</i>	<i>120.6 A3(e)</i>
<i>Self interest</i>	<i>120.6 A3(a)</i>										
<i>Self-review</i>	<i>120.6 A3(b)</i>										
<i>Advocacy</i>	<i>120.6 A3(c)</i>										
<i>Familiarity</i>	<i>120.6 A3(d)</i>										
<i>Intimidation</i>	<i>120.6 A3(e)</i>										
Time-on period	<i>This term is described in paragraph R540.5.</i>										
Underlying subject matter	The phenomenon that is measured or evaluated by applying criteria.										

LISTS OF ABBREVIATIONS AND STANDARDS REFERRED TO IN THE CODE

LIST OF ABBREVIATIONS

Abbreviation	Explanation
Assurance Framework	Hong Kong Framework for Assurance Engagements
CoCo	Chartered Professional Accountants of Canada Criteria of Control
COSO	Committee of Sponsoring Organizations of the Treadway Commission
HKSAs	Hong Kong Standards on Auditing
HKSAEs	Hong Kong Standards on Assurance Engagements
HKSQMs	Hong Kong Standards on Quality Management
HKSREs	Hong Kong Standards on Review Engagements
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
POBO	Prevention of Bribery Ordinance (Cap. 201)

LIST OF STANDARDS REFERRED TO IN THE CODE

Standard	Full Title
<u>HKSA 220 (Revised)</u>	<u>Quality Management for an Audit of Financial Statements</u>
HKSA 320	Materiality In Planning and Performing an Audit
<u>HKSA 600 (Revised)</u>	<u>Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)</u>
HKSA 610 (Revised 2013)	Using the Work of Internal Auditors
<u>HKSA 620</u>	<u>Using the Work of an Auditor's Expert</u>
HKSAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
HKSQM 1	Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
HKSQM 2	Engagement Quality Reviews
HKSRE 2400 (Revised)	Engagements to Review Historical Financial Statements

EFFECTIVE DATE OF CHAPTER A, REQUIREMENTS AND APPLICATION MATERIAL FOR PROFESSIONAL ACCOUNTANTS

Except for the revisions relating to the definition of engagement team and group audits, the Code is effective.

The revisions relating to the definition of engagement team and group audits, as published by the HKICPA in May 2023, will be effective as follows:

- The changes to Section 400 relating to the revision to the definition of engagement team and the new provisions in Section 405 relating to group audits will be effective for audits and reviews of the financial statements and audits of group financial statements for periods beginning on or after 15 December 2023.
- The following conforming and consequential amendments will be effective as of 15 December 2023:
 - The conforming amendments to Section 360 to align with HKSA 600 (Revised) terminology.
 - The conforming amendments to the revised non-assurance services provisions in Section 400.
 - The conforming amendments to Sections 300, 310, 320, 400, 510, 605 and 900 resulting from the revisions to the definition of engagement team.
 - The quality management-related consequential amendments to Sections 540, 800, 940, and 990.
- The changes to the Glossary will be effective:
 - For audits and reviews of financial statements and audits of group financial statements for financial statement periods beginning on or after 15 December 2023.
 - For assurance engagements other than audit and review engagements with respect to underlying subject matter covering periods beginning on or after 15 December 2023; otherwise, as of 15 December 2023.

Early adoption is permitted.

Transitional Provision Relating to the Provisions Addressing Group Audits

For non-assurance services engagements, a component auditor firm outside the group auditor firm's network has entered into with a component audit client before 15 December 2023 and for which work has already commenced, the component auditor firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

~~Except for the following revisions, the Code is effective.~~

➤ ~~Quality Management-related Conforming Amendments to the Code~~

- ~~Conforming amendments will be effective as of 15 December 2022.~~

➤ ~~Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers~~

- ~~For Part 4A: effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.~~
- ~~For Part 4B: effective for assurance engagements beginning on or after 15 December 2022.~~
- ~~For other engagements within the scope of Part 3: effective for engagements beginning on or after 15 December 2022.~~

~~Early adoption is permitted.~~

➤ ~~Revisions to the Non-Assurance Services Provisions of the Code~~

- ~~Revised Section 600 and the conforming amendments to Part 4A: effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.~~
- ~~The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagements with respect to underlying subject matters covering periods of time: effective for periods beginning on or after 15 December 2022; otherwise, these amendments will be effective as of 15 December 2022.~~

~~Early adoption is permitted.~~

~~Transitional Provision~~

~~For non-assurance services engagements, a firm or network firm has entered into with an audit client, or for non-assurance services engagements a firm has entered into with an assurance client, before 15 December 2022 and for which work has already commenced, the firm or network firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.~~

➤ ~~Revisions to the Fee-related Provisions of the Code~~

- ~~For the revised Section 410 and consequential amendments to Part 4A: effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
- ~~For the revised Section 905: in relation to assurance engagements with respect to underlying subject matters covering periods of time, effective for periods beginning on or after 15 December 2022; otherwise, effective as of 15 December 2022.~~
- ~~For conforming and consequential amendments to other Sections of the Code: effective as of 15 December 2022.~~

~~Early adoption is permitted.~~

Consideration of New Information or Changes in Facts and Circumstances

300.7 A6 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the professional accountant's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the professional accountant re-evaluate and address the threats accordingly. (Ref: Paras. R120.9 and R120.10).

300.7 A7 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a listed entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the professional accountant's personal or immediate family relationships.

Addressing Threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.

- 310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when a professional accountant is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the accountant initially might not be involved in a dispute.

Network Firms

- R310.7** If the firm is a member of a network, a professional accountant shall consider conflicts of interest that the accountant has reason to believe might exist or arise due to interests and relationships of a network firm.

- 310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the professional services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.

Threats Created by Conflicts of Interest

- 310.8 A1 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.

- 310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. These measures include:

- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
- Policies and procedures to limit access to client files.
- Confidentiality agreements signed by personnel and partners of the firm.
- Separation of confidential information physically and electronically.
- Specific and dedicated training and communication.

- 310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:

- Having separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

When Explicit Consent is Refused

R310.10 If a professional accountant has determined that explicit consent is necessary in accordance with paragraph R310.9 and the client has refused to provide consent, the accountant shall either:

- (a) End or decline to perform professional services that would result in the conflict of interest; or
- (b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Confidentiality*General*

R310.11 A professional accountant shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

310.11 A1 Subsection 114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

When Disclosure to Obtain Consent would Breach Confidentiality

R310.12 When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (a) The firm does not act in an advocacy role for one client in an adversarial position against another client in the same matter;
- (b) Specific measures are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and
- (c) The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

310.12 A1 A breach of confidentiality might arise, for example, when seeking consent to perform:

- A transaction-related service for a client in a hostile takeover of another client of the firm.
- A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for another client who might be involved in the fraud.

Documentation

R310.13 In the circumstances set out in paragraph R310.12, the professional accountant shall document:

- (a) The nature of the circumstances, including the role that the accountant is to undertake;

- (b) The specific measures in place to prevent disclosure of information between the engagement teams serving the two clients; and
- (c) Why it is appropriate to accept or continue the engagement.

SECTION 320

PROFESSIONAL APPOINTMENTS

Introduction

- 320.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 320.2 Acceptance of a new client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

Client and Engagement Acceptance

General

- 320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behavior.
- 320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
 - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the ~~engagement~~ team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
 - Knowledge of relevant industries or subject matter.
 - Experience with relevant regulatory or reporting requirements.

- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

R360.14 The professional accountant shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the professional accountant might suggest appropriate sources of information or recommend that they obtain legal advice.

R360.15 The professional accountant shall comply with applicable:

- (a) Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
- (b) Requirements under auditing standards, including those relating to:
- Identifying and responding to non-compliance, including fraud.
 - Communicating with those charged with governance.
 - Considering the implications of the non-compliance or suspected non-compliance for the auditor's report.

360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

Communication with Respect to Groups

R360.16 Where a professional accountant becomes aware of non-compliance or suspected non-compliance ~~in relation to a component of a group~~ in either of the following two situations in the context of a group, the accountant shall communicate the matter to the group engagement partner unless prohibited from doing so by law or regulation:

- (a) The accountant ~~is, for purposes of an~~ performs audit of the group financial statements, ~~requested by the group engagement team to perform work on financial information related to the a component for purposes of the group audit; or~~
- (b) The accountant is engaged to perform an audit of the ~~component's~~ financial statements of a legal entity or business unit that is part of a group for purposes other than the group audit, for example, a statutory audit.

The communication to the group engagement partner shall be in addition to responding to the matter in accordance with the provisions of this section.

360.16 A1 The purpose of the communication is to enable the group engagement partner to be informed about the matter and to determine, in the context of the group audit, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R360.16 applies regardless of whether the group engagement partner's firm or network is the same as or different from the professional accountant's firm or network.

R360.17 Where the group engagement partner becomes aware of non-compliance or suspected non-compliance in the course of an ~~audit of a~~ group ~~audit~~ financial statements, the group engagement partner shall consider whether the matter might be relevant to ~~one or more components~~:

- (a) ~~Whose financial information is~~ One or more components subject to audit work for purposes of the group audit of the group financial statements; or
- (b) One or more legal entities or business units that are part of the group and ~~Whose financial statements are subject to audit for purposes other than the group audit, for example, a statutory audit.~~

This consideration shall be in addition to responding to the matter in the context of the group audit in accordance with the provisions of this section.

R360.18 If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R360.17(a) and legal entities or business units specified in paragraph R360.17(b), the group engagement partner shall take steps to have the matter communicated to those performing audit work at the components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement partner shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant ~~component(s)~~ legal entities or business units specified in paragraph R360.17(b) ~~is-are~~ subject to audit and, if so, to ascertain to the extent practicable the identity of the auditors.

360.18 A1 The purpose of the communication is to enable those responsible for audit work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing audit work at the components, legal entities or business units.

Determining Whether Further Action Is Needed

R360.19 The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.
- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

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INDEPENDENCE STANDARDS (PARTS 4A AND 4B)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

- 400.1 It is in the public interest and required by the Code that professional accountants in public practice be independent when performing audit or review engagements.
- 400.2 This Part applies to both audit and review engagements unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.
- 400.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.
- 400.4 HKSQM 1 requires a firm to design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm. As part of this system of quality management, HKSQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under HKSQM 1, relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm’s engagements are subject. HKSAAs and HKSREs establish responsibilities for engagement partners and engagement teams at the level of the engagement for audits and reviews, respectively. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) ~~or a group of individuals~~ in accordance with HKSQM 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.
- 400.5 Independence is linked to the principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.

- (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 that a firm's, or an audit team member's, integrity, objectivity or professional skepticism has been compromised.

In this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

400.6 When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 120 applies to independence as it does to the fundamental principles set out in Section 110. Section 405 sets out specific requirements and application material applicable in a group audit.

400.7 This Part describes:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and
- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

Engagement Team and Audit Team

400.8 This Part applies to all audit team members, including engagement team members.

400.9 An engagement team for an audit engagement includes all partners and staff in the firm who perform audit work on the engagement, and any other individuals who perform audit procedures who are from:

- (a) A network firm; or
- (b) A firm that is not a network firm, or another service provider.

For example, an individual from a component auditor firm who performs audit procedures on the financial information of a component for purposes of a group audit is a member of the engagement team for the group audit.

400.10 In HKSQM 1, a service provider includes an individual or organization external to the firm that provides a resource that is used in the performance of engagements. Service providers exclude the firm, a network firm or other structures or organizations in the network.

400.11 An audit engagement might involve experts within, or engaged by, the firm, a network firm, or a component auditor firm outside a group auditor firm's network, who assist in the engagement. Depending on the role of the individuals, they might be engagement team or audit team members. For example:

- Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members. These include, for example, individuals with expertise in accounting for income taxes or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.

- Individuals within, or engaged by, the firm who have direct influence over the outcome of the audit engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are audit team members but not engagement team members.

However, individuals who are external experts are neither engagement team nor audit team members.

400.12 If the audit engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are audit team members but not engagement team members.

Public Interest Entities

400.138 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.

Reports that Include a Restriction on Use and Distribution

400.149 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

Assurance Engagements other than Audit and Review Engagements

400.150 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

Requirements and Application Material

General

~~R400.161~~ A firm performing an audit engagement shall be independent.

~~R400.172~~ A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Prohibition on Assuming Management Responsibilities

~~R400.183~~ A firm or a network firm shall not assume a management responsibility for an audit client.

400.183 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.183 A2 When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

400.183 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

400.183 A4 Subject to compliance with paragraph R400.194, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

R400.194 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
 - (i) The objectives, nature and results of the activities; and
 - (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

~~[Paragraphs 400.15 to 400.19 are intentionally left blank]~~

Related Entities

R400.20 As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

~~[Paragraphs 400.21 to 400.29 are intentionally left blank]~~

Period During which Independence is Required

R400.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the financial statements.

400.30 A1 The engagement period starts when the ~~audit engagement~~ team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

R400.31 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
- (b) ~~Previous S~~services provided to the audit client by the firm or a network firm in prior financial statement periods.

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the financial statements, but before the ~~audit engagement~~ team begins to perform the audit, and the service would not be permitted during the engagement period.

400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion.

400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the audit work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

- 400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit engagement period or prior to the period covered by the financial statements on which the firm will express an opinion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited by another firm.

Audit Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the financial statements on which the firm will express an opinion unless:

- (a) The provision of such service ceases before the commencement of the audit engagement period;
- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment as auditor of that entity include:

- The results of the service had been subject to auditing procedures in the course of the audit of the prior year's financial statements by a predecessor firm.
- The firm engages a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, to perform a review of the first audit engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,
 to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

Communication with those Charged with Governance

400.40 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

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

[Paragraphs 400.41 to 400.49 are intentionally left blank]

Network Firms

400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

R400.51 A network firm shall be independent of the audit clients of the other firms within the network as required by this Part.

400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

R400.52 When associated with a larger structure of other firms and entities, a firm shall:

- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgment consistently throughout such a larger structure.

R400.53 When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 400.53 A3);
- (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 400.53 A6, 400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 400.53 A8, 400.53 A9).

- 400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.
- 400.53 A2 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 jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R400.53(a)).
- 400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R400.53(b)).
- 400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R400.53(c)).
- 400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R400.53(d)).
- 400.53 A6 A common brand name includes common initials or a common name. A firm is 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 audit report. (Ref: Para. R400.53(e)).
- 400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R400.53(e)).
- 400.53 A8 Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records.
 - Partners and other personnel.
 - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
 - Audit methodology or audit manuals.
 - Training courses and facilities. (Ref: Para. R400.53(f)).
- 400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:
- The shared resources might be limited to common audit methodology or audit manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.

- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R400.53(f)).

R400.54 If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

[Paragraphs 400.55 to 400.59 are intentionally left blank]

General Documentation of Independence for Audit and Review Engagements

R400.60 A firm shall document conclusions regarding compliance with this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

400.60 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

[Paragraphs 400.61 to 400.69 are intentionally left blank]

Mergers and Acquisitions

When a Client Merger Creates a Threat

400.70 A1 An entity might become a related entity of an audit client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue an audit engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

R400.71 In the circumstances set out in paragraph 400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the audit engagement after the effective date of the merger or acquisition; and

- (b) Subject to paragraph R400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

R400.72 As an exception to paragraph R400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

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

R400.73 If, following the discussion set out in paragraph R400.72(b), those charged with governance request the firm to continue as the auditor, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 600 and its subsections, will not be a member of the engagement team for the audit or the individual responsible for the engagement quality review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

400.73 A1 Examples of such transitional measures include:

- Having a professional accountant review the audit or non-assurance work as appropriate.
- Having a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

R400.74 The firm might have completed a significant amount of work on the audit prior to the effective date of the merger or acquisition and might be able to complete the remaining audit procedures within a short period of time. In such circumstances, if those charged with governance request the firm to complete the audit while continuing with an interest or relationship identified in paragraph 400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R400.73(b) to (c); and
- (c) Ceases to be the auditor no later than the date that the audit report is issued.

If Objectivity Remains Compromised

R400.75 Even if all the requirements of paragraphs R400.71 to R400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to be the auditor.

Documentation

R400.76 The firm shall document:

- (a) Any interests or relationships identified in paragraph 400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

[Paragraphs 400.77 to 400.79 are intentionally left blank.]

Breach of an Independence Provision for Audit and Review Engagements

When a Firm Identifies a Breach

R400.80 If a firm concludes that a breach of a requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
 - (i) Comply with those requirements; and
 - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;

- (c) Promptly communicate the breach in accordance with its policies and procedures to:
- (i) The engagement partner;
 - (ii) The individual with operational responsibility for the compliance with independence requirements;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those subject to the independence requirements in Part 4A who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and
- (e) Depending on the significance of the breach, determine:
- (i) Whether to end the audit engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

400.80 A1 A breach of a provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the audit engagement because of the breach.

400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue an audit report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current audit engagement.
- Whether an audit team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is an audit team member or another individual for whom there are independence requirements.
- If the breach relates to an audit team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the audit team.
- Using different individuals to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary.
- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary.
- If the breach relates to a non-assurance service that affects the accounting records or an amount recorded in the financial statements, 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 the other firm to take responsibility for the service.

R400.81 If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the audit engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

R400.82 If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report;
- (d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

Communication of Breaches to Those Charged with Governance

400.83 A1 Paragraphs R300.9 and R300.10 set out requirements with respect to communicating with those charged with governance.

R400.84 With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and

- (b) A description of:
 - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
 - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

R400.85 If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the audit engagement in accordance with paragraph R400.81.

Breaches Before the Previous Audit Report Was Issued

R400.86 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with the provisions of Part 4A in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period.

R400.87 The firm shall also:

- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports; and
- (b) Discuss the matter with those charged with governance.

Documentation

R400.88 In complying with the requirements in paragraphs R400.80 to R400.87, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional or regulatory body or oversight authority.

R400.89 If the firm continues with the audit engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an audit report.

SECTION 405

GROUP AUDITS

Introduction

405.1 Section 400 requires a firm to be independent when performing an audit engagement, and to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group audit engagement.

Requirements and Application Material

General

405.2 A1 HKSAs apply to an audit of group financial statements. HKSA 600 (Revised) deals with special considerations that apply to an audit of group financial statements, including when component auditors are involved. HKSA 600 (Revised) requires the group engagement partner to take responsibility for confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit. The independence requirements referred to in HKSA 600 (Revised), or other relevant auditing standards applicable to group audits that are equivalent to HKSA 600 (Revised), are those specified in this section.

405.2 A2 A component auditor firm that participates in a group audit engagement might separately issue an audit opinion on the financial statements of the component audit client. Depending on the circumstances, the component auditor firm might need to comply with different independence requirements when performing audit work for a group audit and separately issuing an audit opinion on the financial statements of the component audit client for statutory, regulatory or other reasons.

Communication Between a Group Auditor Firm and a Component Auditor Firm

R405.3 HKSA 600 (Revised) requires the group engagement partner to take responsibility to make a component auditor aware of the relevant ethical requirements that are applicable given the nature and the circumstances of the group audit engagement. When making the component auditor firm aware of the relevant ethical requirements, the group auditor firm shall communicate at appropriate times the necessary information to enable the component auditor firm to meet its responsibilities under this section.

405.3 A1 Examples of matters the group auditor firm might communicate include:

- Whether the group audit client is a public interest entity and the relevant ethical requirements applicable to the group audit engagement.
- The related entities and other components within the group audit client that are relevant to the independence considerations applicable to the component auditor firm and the group audit team members within, or engaged by, that firm.
- The period during which the component auditor firm is required to be independent.
- Whether an audit partner who performs work at the component for purposes of the group audit is a key audit partner for the group audit.

R405.4 HKSA 600 (Revised) also requires the group engagement partner to request the component auditor to communicate whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement. For the purposes of this section, such a request shall include the communication of:

- (a) Any independence matters that require significant judgment; and
- (b) In relation to those matters, the component auditor firm's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

405.4 A1 If a matter comes to the attention of the group engagement partner that indicates that a threat to independence exists, HKSA 220 (Revised) requires the group engagement partner to evaluate the threat and take appropriate action.

Independence Considerations Applicable to Individuals

Members of the Group Audit Team Within, or Engaged by, a Group Auditor Firm and Its Network Firms

R405.5 Members of the group audit team within, or engaged by, the group auditor firm and its network firms shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the audit team.

Other Members of the Group Audit Team

R405.6 Members of the group audit team within, or engaged by, a component auditor firm outside the group auditor firm's network shall be independent of:

- (a) The component audit client;
- (b) The entity on whose group financial statements the group auditor firm expresses an opinion; and
- (c) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the component audit client.

in accordance with the requirements of this Part that are applicable to the audit team.

R405.7 In relation to related entities or components within the group audit client other than those covered in paragraph R405.6, a member of the group audit team within, or engaged by, a component auditor firm outside the group auditor firm's network shall notify the component auditor firm about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence in the context of the group audit.

405.7 A1 Examples of relationships or circumstances involving the individual or any of the individual's immediate family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group audit client if the group audit client is material to that entity (see Section 510).

- A loan or guarantee involving: (see Section 511)
 - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
 - A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- A business relationship that is significant or involves a material financial interest (see Section 520).
- An immediate family member who is: (see Section 521)
 - A director or officer of an entity; or
 - An employee in a position to exert significant influence over the preparation of an entity's accounting records or financial statements.
- The individual serving as, or having recently served as: (see Section 522 and Section 523)
 - A director or officer of an entity; or
 - An employee in a position to exert significant influence over the preparation of an entity's accounting records or financial statements.

R405.8 Upon receiving the notification as set out in paragraph R405.7, the component auditor firm shall evaluate and address any threats to independence created by the individual's relationship or circumstance.

Independence Considerations Applicable to a Group Auditor Firm

R405.9 A group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a firm.

Independence Considerations Applicable to Network Firms of a Group Auditor Firm

R405.10 A network firm of the group auditor firm shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to a network firm.

Independence Considerations Applicable to Component Auditor Firms outside a Group Auditor Firm's Network

All Group Audit Clients

R405.11 A component auditor firm outside the group auditor firm's network shall:

- (a)** Be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all audit clients;
- (b)** Apply the relevant requirements in paragraphs R510.4(a), R510.7 and R510.9 with respect to financial interests in the entity on whose group financial statements the group auditor firm expresses an opinion; and
- (c)** Apply the relevant requirements in Section 511 with respect to loans and guarantees involving the entity on whose group financial statements the group auditor firm expresses an opinion.

R405.12 When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance involving the group audit client, beyond those addressed in paragraph R405.11(b) and (c), is relevant to the evaluation of the component auditor firm's independence from the component audit client, the component auditor firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

R405.13 When a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance of a firm within the component auditor firm's network with the component audit client or the group audit client creates a threat to the component auditor firm's independence, the component auditor firm shall evaluate and address any such threat.

Period During which Independence is Required

405.14 A1 The references to the financial statements and the audit report in paragraphs R400.30 and 400.30 A1 mean the group financial statements and the audit report on the group financial statements, respectively, when applied in this section.

Group Audit Clients that are Not Public Interest Entities

R405.15 When the group audit client is not a public interest entity, a component auditor firm outside the group auditor firm's network shall be independent of the component audit client in accordance with the requirements set out in this Part that are applicable to audit clients that are not public interest entities for the purposes of the group audit.

405.15 A1 Where a component auditor firm outside the group auditor firm's network also performs an audit engagement for a component audit client that is a public interest entity for reasons other than the group audit, for example, a statutory audit, the independence requirements that are relevant to audit clients that are public interest entities apply to that engagement.

Group Audit Clients that are Public Interest Entities

Non-Assurance Services

R405.16 Subject to paragraph R405.17, when the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network shall comply with the provisions in Section 600 that are applicable to public interest entities with respect to the provision of non-assurance services to the component audit client.

405.16 A1 Where the group audit client is a public interest entity, a component auditor firm outside the group auditor firm's network is prohibited from, for example:

- Providing accounting and bookkeeping services to a component audit client that is not a public interest entity (see Subsection 601).
- Designing the information technology system, or an aspect of it, for a component audit client that is not a public interest entity where such information technology system generates information for the component audit client's accounting records or financial statements (see Subsection 606).
- Acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court (see Subsection 608).

405.16 A2 The financial information on which a component auditor firm outside the group auditor firm's network performs audit procedures is relevant to the evaluation of the self-review threat that might be created by the component auditor firm's provision of a non-assurance service, and therefore the application of Section 600. For example, if the component auditor firm's audit procedures are limited to a specific item such as inventory, the results of any non-assurance service that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory are relevant to the evaluation of the self-review threat.

R405.17 As an exception to paragraph R405.16, a component auditor firm outside the group auditor firm's network may provide a non-assurance service that is not prohibited under Section 600 to a component audit client without communicating information about the proposed non- assurance service to those charged with governance of the group audit client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R600.21 to R600.24.

Key Audit Partners

R405.18 The group engagement partner shall determine whether an audit partner who performs audit work at a component for purposes of the group audit is a key audit partner for the group audit. If so, the group engagement partner shall:

(a) Communicate that determination to that individual; and

(b) Indicate:

(i) In the case of all group audit clients, that the individual is subject to paragraph R411.4, and

(ii) In the case of group audit clients that are public interest entities, that the individual is also subject to paragraphs R524.6, R540.5(c) and R540.21.

405.18 A1 A key audit partner makes key decisions or judgments on significant matters with respect to the audit of the group financial statements on which the group auditor firm expresses an opinion in the group audit.

Changes in Components

All Group Audit Clients

R405.19 When an entity that is not a related entity becomes a component within the group audit client, the group auditor firm shall apply paragraphs R400.71 to R400.76.

Changes in Component Auditor Firms

All Group Audit Clients

405.20 A1 There might be circumstances in which the group auditor firm requests another firm to perform audit work as a component auditor firm during or after the period covered by the group financial statements, for example due to a client merger or acquisition. A threat to the component auditor firm's independence might be created by:

- (a) Financial or business relationships of the component auditor firm with the component audit client during or after the period covered by the group financial statements but before the component auditor firm agrees to perform the audit work; or
- (b) Previous services provided to the component audit client by the component auditor firm.

405.20 A2 Paragraphs 400.31 A1 to A3 set out application material that is applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client during or after the period covered by the group financial statements, but before the component auditor firm begins to perform the audit work for the purposes of the group audit, and the service would not be permitted during the engagement period.

405.20 A3 Paragraph 400.31 A4 sets out application material that is applicable for a component auditor firm's assessment of threats to independence if a non-assurance service was provided by the component auditor firm to the component audit client prior to the period covered by the group financial statements.

Group Audit Clients that are Public Interest Entities

405.21 A1 Paragraphs R400.32 and 400.32 A1 are applicable when a component auditor firm agrees to perform audit work for group audit purposes in relation to a group audit client that is a public interest entity if the component auditor firm has previously provided a non-assurance service to the component audit client.

405.21 A2 Paragraphs R600.25 and 600.25 A1 are applicable in relation to a non- assurance service provided, either currently or previously, by a component auditor firm to a component audit client when the group audit client subsequently becomes a public interest entity.

Breach of an Independence Provision at a Component Auditor Firm

405.22 A1 A breach of a provision of this section might occur despite a component auditor firm having a system of quality management designed to address independence requirements. Paragraphs R405.23 to R405.29 are relevant to a group auditor firm's determination as to whether it would be able to use a component auditor firm's work if a breach has occurred at the component auditor firm.

405.22 A2 In the case of a breach at a component auditor firm within the group auditor firm's network, paragraphs R400.80 to R400.89 also apply to the group auditor firm in relation to the group audit, as applicable.

When a Component Auditor Firm Identifies a Breach

R405.23 If a component auditor firm concludes that a breach of this section has occurred, the component auditor firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Evaluate the significance of the breach and its impact on the component auditor firm's objectivity and ability to perform audit work for the purposes of the group audit;

- (c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and
- (d) Promptly communicate in writing the breach to the group engagement partner, including the component auditor firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

405.23 A1 Paragraphs 400.80 A2 and A3 set out application material relevant to the component auditor firm's evaluation of the significance and impact of the breach on the component auditor firm's objectivity and ability to issue an opinion or conclusion on the audit work performed at the component for purposes of the group audit, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.

R405.24 Upon receipt of the component auditor firm's communication of the breach, the group engagement partner shall:

- (a) Review the component auditor firm's assessment of the significance of the breach and its impact on the component auditor firm's objectivity, and any action that can be or has been taken to address the consequences of the breach;
- (b) Evaluate the group auditor firm's ability to use the work of the component auditor firm for the purposes of the group audit; and
- (c) Determine the need for any further action.

R405.25 In applying paragraph R405.24, the group engagement partner shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component auditor firm's objectivity is compromised, and therefore, the group auditor firm is unable to use the work of the component auditor firm for the purposes of the group audit.

405.25 A1 If the group engagement partner determines that the consequences of the breach have been satisfactorily addressed by the component auditor firm and does not compromise the component auditor firm's objectivity, the group auditor firm may continue to use the work of the component auditor firm for the group audit. In certain circumstances, the group engagement partner might determine that additional actions are needed to satisfactorily address the breach in order to use the component auditor firm's work. Examples of such action include the group auditor firm performing specific procedures on the areas impacted by the breach or requesting the component auditor firm to perform appropriate remedial work on the affected areas.

405.25 A2 HKSA 600 (Revised) sets out that if there has been a breach by a component auditor and the breach has not been satisfactorily addressed, the group auditor cannot use the work of that component auditor. In those circumstances, the group engagement partner might find other means to obtain the necessary audit evidence on the component audit client's financial information. Examples of such means include the group auditor firm performing the necessary audit work on the component audit client's financial information or requesting another component auditor firm to perform such audit work.

Discussion with Those Charged with Governance of the Group Audit Client

405.26 A1 With respect to breaches by a component auditor firm within the group auditor firm's network, paragraph R400.84 applies.

R405.27 With respect to breaches by a component auditor firm outside the group auditor firm's network, the group auditor firm shall discuss with those charged with governance of the group audit client:

(a) The component auditor firm's assessment of the significance and impact of the breach on the component auditor firm's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and

(b) Whether:

(i) The action will satisfactorily address, or has addressed, the consequences of the breach; or

(ii) The group auditor firm will use other means to obtain the necessary audit evidence on the component audit client's financial information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

R405.28 The group auditor firm shall communicate in writing to those charged with governance of the group audit client all matters discussed in accordance with paragraph R405.27 and obtain the concurrence of those charged with governance that the action can be or has been taken to satisfactorily address the consequences of the breach.

R405.29 If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm shall not use the work performed by the component auditor firm for the purposes of the group audit.

- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, partner or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly a system of quality management designed ~~and~~ implemented and operated by the firm in accordance with quality management standards issued by the HKICPA) might also impact the evaluation of whether the threats to independence are at an acceptable level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Audit Fees

410.5 A1 Determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the audit client include:

- The firm's commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

510.4 A1 The office in which the engagement partner practices in connection with an audit engagement is not necessarily the office to which that partner is assigned. When the engagement partner is located in a different office from that of the other audit engagement team members, professional judgment is needed to determine the office in which the partner practices in connection with the engagement.

R510.5 As an exception to paragraph R510.4, an immediate family member identified in subparagraphs R510.4(c) or (d) may hold a direct or material indirect financial interest in an audit client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

Financial Interests in an Entity Controlling an Audit Client

R510.6 When an entity has a controlling interest in an audit client and the client is material to the entity, neither the firm, nor a network firm, nor an audit team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

R510.7 Paragraph R510.4 shall also apply to a financial interest in an audit client held in a trust for which the firm, network firm or individual acts as trustee, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the audit team member or any of that individual's immediate family, the firm or a network firm;
- (b) The interest in the audit client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the audit client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the audit client: the trustee, the audit team member or any of that individual's immediate family, the firm or a network firm.

Financial Interests in Common with the Audit Client

R510.8 (a) A firm, or a network firm, or an audit team member, or any of that individual's immediate family shall not hold a financial interest in an entity when an audit client also has a financial interest in that entity, unless:

- (i) The financial interests are immaterial to the firm, the network firm, the audit team member and that individual's immediate family member and the audit client, as applicable; or
- (ii) The audit client cannot exercise significant influence over the entity.

SECTION 520

BUSINESS RELATIONSHIPS

Introduction

- 520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 520.2 A close business relationship with an audit client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
 - Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
 - Distribution or marketing arrangements under which the firm or a network firm distributes or markets the client’s products or services, or the client distributes or markets the firm’s or a network firm’s products or services.

Firm, Network Firm, Audit Team Member or Immediate Family Business Relationships

- R520.4** A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit team member, as applicable.
- 520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the audit client or its management and the immediate family of an audit team member.

SECTION 525

TEMPORARY PERSONNEL ASSIGNMENTS

Introduction

- 525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 525.2 The loan of personnel to an audit client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

- 525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to an audit client include:
- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
 - Not including the loaned personnel as an audit team member might address a familiarity or advocacy threat.
 - Not giving the loaned personnel audit responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.
- 525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to an audit client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.
- R525.4** A firm or a network firm shall not loan personnel to an audit client unless the firm or network firm is satisfied that:
- (a) Such assistance is provided only for a short period of time;
 - (b) Such personnel will not assume management responsibilities and the audit client will be responsible for directing and supervising the activities of ~~such~~ the personnel;
 - (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
 - (d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the audit client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.3 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement over a long period of time would be rotating the individual off the audit team.

540.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R540.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) ~~Provide quality control for the audit~~ Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.21~~0~~ also apply.

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for performing the engagement quality review; or
- (c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.14.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5 (a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.6 A1 For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.14.

R540.7 As an exception to paragraph R540.5, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.7 A1 For example, a key audit partner may remain in that role 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. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.8 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when 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. As an exception to paragraph R540.5, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

- R540.9** When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.5, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

- R540.10** In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement prior to the individual becoming a key audit partner.
- 540.10 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

- R540.11** If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.
- R540.12** Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.
- R540.13** If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.
- 540.14 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by HKSQM 2 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner roles

- R540.154** If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.
- R540.165** Subject to paragraph R540.176 (a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.
- R540.176** If an individual has acted in a combination of engagement partner and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:
- (a) As an exception to paragraph R540.165, be five consecutive years where the individual has been the engagement partner for three or more years; or
 - (b) Be three consecutive years in the case of any other combination.
- R540.187** If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.154 to R540.176, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R540.198 In determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

Shorter Cooling-off Period Established by Law or Regulation

R540.1920 Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.154 and R540.176(a) provided that the applicable time-on period does not exceed seven years.^{1d}

(Paragraph R540.20 will no longer be effective for audits of financial statements for periods beginning on or after 15 December 2023.)

Restrictions on Activities During the Cooling-off Period

R540.210 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or provide-perform an engagement quality control-review, or a review consistent with the objective of an engagement quality review for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement.

540.210 A1 The provisions of paragraph R540.210 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

^{1d} Currently no other legislative body or regulator in Hong Kong has specified separate cooling-off period for professional accountants in public practice in respect of long association of personnel (including partner rotation) with an audit client. According to the Long Association Post Implementation Review Phase 1 – Final Report, the IESBA should take no action to extend or otherwise vary the jurisdictional provision and that the jurisdictional provision should be allowed to expire for audits of financial statements for periods beginning on or after 15 December 2023 in accordance with the close off document, Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client.

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

- 600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit clients and indicate the types of threats that might be created as a result.
- 600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.
- 600.5 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

- 600.6 A1 Paragraphs R100.6 to 100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to audit clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

- 600.7 A1 When a firm or a network firm provides a non-assurance service to an audit client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.194 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R600.8 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

*Identifying and Evaluating Threats**All Audit Clients*

600.9 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to an audit client is set out in paragraph 120.6 A3.

600.9 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.183 to R400.194).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.
 - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The fee relating to the provision of the non-assurance service.

R600.14 Before providing a non-assurance service to an audit client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- (a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; and
- (b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

Audit Clients that are Public Interest Entities

600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

600.15 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Self-review threats

R600.16 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. (Ref: Para. 600.13 A1 and R600.14).

Providing advice and recommendations

R600.17 As an exception to paragraph R600.16, a firm or a network firm may provide advice and recommendations to an audit client that is a public interest entity in relation to information or matters arising in the course of an audit provided that the firm:

- (a) Does not assume a management responsibility (Ref: Para. R400.183 and R400.194); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

600.17 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit include:

- Advising on accounting and financial reporting standards or policies and financial statement disclosure requirements.
- Advising on the appropriateness of financial and accounting control and the methods used in determining the stated amounts in the financial statements and related disclosures.
- Proposing adjusting journal entries arising from audit findings.
- Discussing findings on internal controls over financial reporting and processes and recommending improvements.

- (b) Those charged with governance of an audit client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Audit Client that Later Becomes a Public Interest Entity

R600.25 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit client compromises the firm's independence when the client becomes a public interest entity unless:

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

600.25 A1 Examples of actions that the firm might recommend to the audit client include engaging another firm to:

- Review or re-perform the affected audit work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R600.26 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.183, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client,

provided that all of the following conditions are met:

- (i) The firm or a network firm does not express an opinion on the financial statements of the related entity;
- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;

- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.194 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 A3 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine or mechanical nature to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Audit Clients that are Public Interest Entities

R601.6 A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity.

R601.7 As an exception to paragraph R601.6, a firm or a network firm may prepare statutory financial statements for a related entity of a public interest entity audit client included in subparagraph (c) or (d) of the definition of a related entity provided that:

- (a) The audit report on the group financial statements of the public interest entity has been issued;
- (b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;
- (c) The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client approved information; and
- (d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing administrative services.

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the audit client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
 - Reviewing the means used to identify, measure, classify and report financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:
 - Laws, regulations and other external requirements.
 - Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. As they might involve matters that are operational in nature, they do not necessarily relate to matters that will be subject to consideration in relation to the audit of the financial statements.

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.1~~83~~ precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and

- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Audit Clients

605.4 A1 Providing internal audit services to an audit client might create a self-review threat when there is a risk that the results of the services impact the audit of the financial statements on which the firm will express an opinion.

605.4 A2 When a firm uses the work of an internal audit function in an audit engagement, HKSA's require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This might create a self-review threat because it is possible that the ~~audit engagement~~ team will use the results of the internal audit service for purposes of the audit engagement without:

- (a) Appropriately evaluating those results; or
- (b) 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.

605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an audit client, and evaluating the level of such a threat include:

- The materiality of the related financial statements amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the audit engagement team will place on the work of the internal audit service.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R605.6 applies.

Audit Clients that are Not Public Interest Entities

605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R605.6 A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:

- The internal controls over financial reporting.
- Financial accounting systems that generate information for the client's accounting records or financial statements on which the firm will express an opinion.
- Amounts or disclosures that relate to the financial statements on which the firm will express an opinion.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit client.

Requirements and Application Material

Description of Service

606.2 A1 Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:

- (a) Aggregate source data;

- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.1~~83~~ precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) 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;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Potential Threats Arising from the Provision of IT Systems Services

All Audit Clients

- 606.4 A1 Providing IT systems services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the audit of the financial statements on which the firm will express an opinion.
- 606.4 A2 Providing the following IT systems services to an audit client does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility:
- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
 - (b) Designing or implementing IT systems that do not generate information forming part of the accounting records or financial statements; and
 - (c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant.
- 606.4 A3 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit client, and evaluating the level of such a threat include:
- The nature of the service.

608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed.

Audit Clients that are Public Interest Entities

R608.11 A firm or a network firm shall not act in an advocacy role for an audit client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a recruiting service to an audit client.

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R609.3 Paragraph R400.1~~83~~ precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to an audit client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and

R800.5 When the firm performs an eligible audit engagement, any modifications to Part 4A shall be limited to those set out in paragraphs R800.7 to R800.14. The firm shall not apply these modifications when an audit of financial statements is required by law or regulation.

R800.6 If the firm also issues an audit report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4A to that audit engagement.

Public Interest Entities

R800.7 When the firm performs an eligible audit engagement, the firm does not need to apply the independence requirements set out in Part 4A that apply only to public interest entity audit engagements.

Related Entities

R800.8 When the firm performs an eligible audit engagement, references to “audit client” in Part 4A do not need to include its related entities. However, when the audit 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 audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Networks and Network Firms

R800.9 When the firm performs an eligible audit engagement, the specific requirements regarding network firms set out in Part 4A do not need to be applied. However, when the firm knows or has reason to believe that threats to independence are created by any interests and relationships of a network firm, the firm shall evaluate and address any such threat.

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

R800.10 When the firm performs an eligible audit engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who perform an engagement provide quality control review, or a review consistent with the objective of anfor the engagement, including those who perform the engagement quality control review, for the engagement; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

900.30 A1 The engagement period starts when the ~~assurance-engagement~~ team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
- (b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the ~~assurance-engagement~~ team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance or non-assurance work as appropriate.

R900.33 If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

- (a) The firm is satisfied that:
 - (i) The non-assurance service will be completed within a short period of time; or
 - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with the party engaging the firm or those charged with governance of the assurance client.

- 905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 (particularly the existence of a quality management system designed and implemented by a firm in accordance with quality management standards issued by the HKICPA) might also impact the evaluation of whether the threats to independence are at an acceptable level.
- 905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Fees for Assurance Engagements

- 905.4 A1 Determining the fees to be charged to an assurance client, whether for assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.
- 905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an assurance engagement when paid by the assurance client include:
- The firm's commercial rationale for the fee for the assurance engagement.
 - Whether undue pressure has been, or is being, applied by the client to reduce the fee for the assurance engagement.
- 905.4 A3 Examples of actions that might be safeguards to address such threats include:
- Having an appropriate reviewer who does not take part in the assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
 - Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

Contingent Fees

- 905.5 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.
- R905.6** A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.
- R905.7** A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.
- 905.7 A1 Paragraphs R905.6 and R905.7 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, it might still impact the level of the self-interest threat.

- Whether the nature or complexity of the underlying subject matter or subject matter information has changed.
- Whether there have been any recent changes in the individual or individuals at the assurance client who are responsible for the underlying subject matter or, in an attestation engagement, the subject matter information or, if relevant, senior management.

940.3 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an assurance team member and an individual at the assurance client who is in a position to exert significant influence over the underlying subject matter or, in an attestation engagement, the subject matter information, would be reduced by the departure of that individual from the client.

940.3 A5 An example of an action that might eliminate the familiarity and self-interest threats in relation to a specific engagement would be rotating the individual off the assurance team.

940.3 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an assurance team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

R940.4 If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the ~~Provide quality control for the assurance engagement;~~ or
- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

R990.5 When the firm performs an eligible assurance engagement, any modifications to Part 4B shall be limited to those modifications set out in paragraphs R990.7 and R990.8.

R990.6 If the firm also issues an assurance report that does not include a restriction on use and distribution for the same client, the firm shall apply Part 4B to that assurance engagement.

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

R990.7 When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who ~~provide~~ perform an engagement quality control for the engagement, including those who perform review, or a review consistent with the objective of an the engagement quality control review, for the engagement; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

990.7 A1 Others within the firm who can directly influence the outcome of the assurance engagement include those who recommend the compensation, or who provide direct supervisory, management or other oversight, of the assurance engagement partner in connection with the performance of the assurance engagement.

R990.8 When the firm performs an eligible assurance engagement, the firm shall not hold a material direct or a material indirect financial interest in the assurance client.