

In this KLiP, we will cover the 3rd & 4th topic:

3. Compensation and Evaluation Policies

4. Gifts and Hospitality

3. Compensation and Evaluation Policies

A firm's evaluation or compensation policies might create a self-interest threat.

When an audit team member for a particular audit client is evaluated on or compensated for selling non-assurance services to that client, a self-interest threat is created. The level of threat will depend on:

- What proportion of compensation or evaluation of the staff member is based on the sale of such services;
- The role of the individual on the audit team; and
- Whether the sale of such non-assurance services influences promotion decisions.

By revising the compensation plan or evaluation process for that individual or even removing that individual from the audit team, it might eliminate such threats.

One of the actions that might be a safeguard to address the threat is, have an appropriate reviewer to review the work of the audit team member.

A firm shall not evaluate or compensate a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client. This requirement does not rule out the normal profit-sharing arrangements between partners of a firm.

4. Gifts and Hospitality

Accepting gifts and hospitality from an audit client might create a self-interest, familiarity or intimidation threat. The Code sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

A firm, network firm, or an audit team member shall not accept gifts and hospitality, from an audit client, unless the value is trivial and inconsequential. However, if the value is trivial and inconsequential but the intent is to improperly influence behaviour, the Code does not allow a firm, network firm, or an audit team member to accept gifts and hospitality.

With this we come to the end of the KLiP.

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