

In this KLiP, we will cover:

6. Financial Interests

Holding a financial interest in an audit client might create a self-interest threat.

A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust.

When a beneficial owner has control over the intermediary or the ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

A direct financial interest or a material indirect financial interest in the audit client shall not be held by:

- a) The firm or a network firm;
- b) An audit team member, or any of that individual's immediate family;
- c) Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner's immediate family; or
- d) Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose involvement is minimal, or any of that individual's immediate family.

As an **exception to the above**, an immediate family member of partner or audit team member may hold a direct or material indirect financial interest in an audit client, provided that the family member:

- received the financial interest because of employment rights; and
- disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or when the family member obtains the right to exercise the option.

Also, 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.

The same conditions as stated above, shall apply to a financial interest in an audit client held in a trust for which the firm, network firm or individual acts as trustee

We will continue further with the same topic: Financial Interests in our next KLiP.

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