

In this KLIP, we will cover 2 topics:

7. Loans and Guarantees

8. Business Relationships

7. Loans and Guarantees

A loan or a guarantee of a loan with an audit client might create a self-interest threat. **In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.**

A firm, a network firm, an audit team member, or any of that individual's immediate family shall **neither make or guarantee a loan to nor accept a loan from, or have a borrowing guaranteed by**, an audit client unless the loan or guarantee is immaterial to:

- a) The firm, the network firm or the individual making or receiving the loan or guarantee, as applicable; and
- b) The client.

Also, a firm, a network firm, an audit team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from an audit client that is bank or a similar institution unless the loan or guarantee is made under the normal lending procedures, terms and conditions.

Even if a firm or network firm receives a loan under a normal lending procedures, terms and conditions, it might create a self-interest threat, if the loan received is material to the audit client or firm receiving the loan.

8. Business Relationships

A close business relationship with an audit client or its management might create a self-interest or intimidation threat.

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.

A firm, a network firm, an audit team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- i) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- ii) The financial interest is immaterial to the investor or group of investors; and
- iii) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

With this we come to the end of the KLiP. We will discuss how to address the threat to independence arising due to family and personal relationships, in our next KLiP.

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