



Category: <b>Corporate Finance Policy</b>	
Subject/Title: <b>Auditor Independence</b>	Reference Number: FIN-130
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Approved by: <b>Board</b>	Revision Number:

## 1. Purpose and Scope

- 1.1 The objectivity and integrity of the auditor is fundamental to the public confidence in the reliability of the auditor's report and hence the public accountability of the Authority.
- 1.2 The purposes of the policy for auditor independence are to establish principles and controls designed to provide reasonable assurance that the auditor maintains an adequate degree of independence to ensure objectivity and integrity.
- 1.3 The principles and controls concern auditor appointment, non-audit services, hiring of audit staff and responsibilities of the auditor.
- 1.4 Where non-audit services are provided by the auditor, the policy is intended to ensure that:
  - i) the non-audit services do not create a material threat to the independence of the auditor; and
  - ii) the non-audit services are subject to an effective approval process.
- 1.5 Audit services are those related to the formulation of an opinion on financial statements prepared by management and include advice on accounting policies. Non-audit services are those services other than audit services.
- 1.6 The term auditor shall be interpreted as meaning the external auditor and, in relation to the provision of non-audit services, any of its affiliates. The term affiliates shall be interpreted by reference to the substance of a relationship with the audit firm but will generally include any entity controlled by the audit firm or under common control, ownership or management.

### 2. Policy

#### Appointment of the Auditor

- 2.1 The auditor is appointed by the members at the annual general meeting, on the recommendation of the Audit Committee and subject to the prior approval of the Minister of Finance of British Columbia.
- 2.2 The Audit Committee reviews, evaluates and documents the independence of the auditor.
- 2.3 The Audit Committee reviews and advises the Board on the terms of the proposed service agreement or audit engagement letter between the auditor and the Authority.
- 2.4 The service agreement or audit engagement letter is approved by the Chair of the Board or the Chair of the Audit Committee.

#### Non-Audit Services

- 2.5 The auditor may be engaged to provide non-audit services where:
  - i) there are good reasons; and
  - ii) threats to the independence of the auditor as a result of the non-audit services, actual and/or perceived, are either clearly insignificant or are reduced to acceptable levels by the application of appropriate safeguards.
- 2.6 The reasons why the auditor is to be engaged to undertake the non-audit services and threats to auditor independence arising from non-audit services to be provided by the auditor are reviewed, evaluated and documented prior to approval.
- 2.7 Certain categories of non-audit services are considered to be potentially incompatible with the independence of the auditor and should normally be avoided. Where it is proposed to engage the auditor for these categories of non-audit service, careful evaluation is required. These categories are:
  - i) performance of management functions or making management decisions;
  - ii) financial statement preparation services and bookkeeping services;
  - iii) valuation services;
  - iv) actuarial services;
  - v) internal audit services where the services comprise a significant portion of the internal audit activities;
  - vi) designing or implementing a hardware or software system;
  - vii) legal services;
  - viii) recruiting services; and

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- ix) certain corporate finance activities that create an unacceptable advocacy or self-review threat including making investment decisions or having custody of assets such as securities.
- 2.8 The Audit Committee is responsible for the approval of non-audit services to be provided by the auditor.
- 2.9 Except for those services outlined in section 2.7, the Audit Committee may delegate the authority to approve the provision of non-audit services by the auditor to one or more designated members of the Audit Committee.
- 2.10 Where authority is delegated in accordance with section 2.9, the decision of any designated individual member or members to approve non-audit services is to be presented to the Audit Committee at its next scheduled meeting.
- 2.11 The Audit Committee submits to the Board an annual summary of any non-audit services undertaken by the auditor.

### Hiring of Audit Staff

- 2.12 Any individual that was employed by the audit firm and participated in the audit within the last twelve months will not be hired as Chief Executive Officer, Chief Financial Officer, Controller or Director of Assurance Services.

### Responsibilities of the Auditor

- 2.13 The auditor will maintain a quality control system that provides reasonable assurance that its independence is not impaired.
- 2.14 The auditor will report annually to the Audit Committee on all aspects concerning independence, including confirmation of its independence, compliance with this policy and the existence of any affiliates.
- 2.15 The auditor is required to adhere to a rotation policy that is widely accepted and provides a balance between effectiveness, efficiency and independence. This rotation must be at intervals of no more than seven years for the lead partner responsible for the Authority audit.
- 2.16 The auditor will not hire and involve any individuals who were previously employed as senior management of the Authority to participate in the audit of the Authority within twelve months of the cessation of their employment from the Authority.

### 3. Guidelines

3.1 Auditor independence is a risk continuum and it is generally recognised that absolute independence is not possible for an auditor because the auditor is required to have a relationship with the client. The significance of economic, financial and other relationships should be evaluated in the light of what a reasonable and informed third party would reasonably conclude as acceptable.

#### Threats to Auditor Independence

- 3.2 The auditor's independence can be influenced by a number of threats including those set out below:
- i) self-review threats that occur when an auditor provides assurance on his or her own work;
  - ii) self-interest threats that occur, for example, when a auditor could benefit from a financial interest in a client or when there is an undue dependence on an assurance client;
  - iii) advocacy threats that occur when an auditor promotes a client's position or opinion;
  - iv) familiarity threats which occur when an auditor becomes too sympathetic to a client's interests; and
  - v) intimidation threats which occur when an auditor is deterred from acting objectively by actual or perceived threats from a client.
- 3.3 Judgements about the relative threats to independence may be balanced against the effectiveness of safeguards that mitigate such threats.

#### Types of Safeguards

- 3.4 Safeguards that may be considered to mitigate threats to independence include:
- i) safeguards created by the accounting profession, legislation or regulation, such as external practice inspection;
  - ii) safeguards within the Authority, such as the Audit Committee; and
  - iii) safeguards within the auditor's own systems and procedures, such as quality control procedures or the removal of an individual from a particular engagement.

#### Non-Audit Services

3.5 Non-audit services undertaken by the auditor create actual and/or perceived self-review, self-interest or advocacy threats to the independence of the auditor. The degree of the threat depends on the nature, scale and scope of the non-audit services.

- 3.6 Good reasons for the auditor to be appointed to perform non-audit services include where:
- i) it is economic in terms of skill and effort for the auditor to provide such services as a result of his intimate and specialised knowledge of the business;
  - ii) the information required is a by-product of the audit process; or
  - iii) required by legislation or regulation.
- 3.7 Where non-audit services in the categories in 2.7 are proposed to be provided by the auditor further detailed guidance should be sought by reference to standards and guidelines issued by the Canadian Institute of Chartered Accountants.
- 3.8 Taxation services comprise a broad range of services, including compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes. Such assignments are generally not seen to create threats to auditor independence.