In this KLiP, we will cover:

1. <u>Applying the Conceptual Framework to the Independence for Audit and Review Engagements</u>

ISQC1 requires a firm to establish policies and procedures designed to provide reasonable assurance that the firm, its personnel and others are subject to independence requirements and maintain independence as per relevant ethics requirements.

Independence is linked to the principles of objectivity and integrity. It comprises:

(a) **Independence of mind** – the state of mind that expresses conclusion without being influenced that compromises professional judgement. Thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.

(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 scepticism has been compromised.

When performing audit engagements, the Code requires firms to comply with the fundamental principles and be independent. The Code, sets out specific requirements and application material to the firms and public interest entities, on how to apply the conceptual framework to maintain independence by describing, the

- Facts and circumstances, that create or might create threats to independence;
- Potential actions, including safeguards, that might address such threats; and
- Situations where the threats cannot be eliminated nor safeguards be applied to reduce them to an acceptable level.

<u>The period during which independence is required</u>

Independence shall be maintained during both:

- The engagement period;
- The period covered by the financial statements.

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:

- 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
- Previously providing services to the audit client, by the firm or a network firm.

Also, threats to independence are created if non-assurance service was provided to an audit client, during or after the period covered by the financial statement, but before the audit team begins to perform the audit, and the services not being permitted during the engagement period.

Examples of actions that might be safeguards to address such threats are:

- Using professionals who are not audit team members to perform the service.
- Having appropriate reviewer to review the audit and non-assurance work.
- Engaging another firm outside the network to evaluate the results of non-assurance service or re-perform them so the other firm takes responsibilities for the services.

With this we come to the end of the KLiP.

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