

We will continue with:

1. Applying the Conceptual Framework

In this KLiP, we will cover the following:

- **Network Firms**
- **General documentation of independence for audit and review engagements**

Network Firms

Network firms are firms that frequently form larger structures with other firms and entities, to enhance their ability to provide professional services. A network firm shall be independent of the audit clients of the other firms within the network.

Other firms refer to sole-practitioners, partnership or corporation of professional accountants, or an entity that controls or be controlled through ownership or management or other means.

An entity for example, consulting practice or professional law practice might be a network firm but not a firm.

When associated with a larger structure of other firms and entities, a firm shall:

- a. Exercise professional judgement to determine whether a network is created by such a larger structure;
- b. Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- c. Apply such judgement consistently throughout such a larger structure.

On the contrary, if a firm or a network firm sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

General documentation of independence for audit and review engagements:

A firm shall provide documentary evidence of the firm's judgements in forming conclusions regarding compliance with the Code and the substance of any relevant discussions that support those conclusions. In particular:

- When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- When a threat requires significant analysis and the firm concludes that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

We will continue further on first topic discussing on the threats to independence arising from mergers and acquisitions, in our next KLIP.

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