

We will continue with the first topic:

Applying the Conceptual Framework

In this KLiP, we will discuss:

Breach of an independence provision for audit and review engagements

What are the steps to be taken when a firm identifies a breach?

If a firm concludes that a breach of independence has occurred, they shall:

- (a) Suspend, eliminate or end the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether it is required to comply with any legal or regulatory requirements, and to report any breach to a professional or regulatory body or oversight authority, as expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
 - (i) The engagement partner;
 - (ii) Those with responsibility for the policies and procedures relating to independence;
 - (iii) Other relevant personnel in the firm and, where appropriate, the network; and
 - (iv) Those who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report; and
- (e) Depending on the significance of the breach, determine:
 - (i) Whether to end the audit engagement; or
 - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgement and consider whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue an audit report.

Despite having policies and procedures to provide reasonable assurance that independence is maintained, if a breach exists, it might be necessary to end the audit engagement.

The significance and impact of a breach on the firm's objectivity and ability to issue an audit report will depend on various factors such as the nature and duration of the breach, the number of previous breaches with respect to the current audit engagement, whether the audit team member had knowledge of interest or relationship that created the breach or if the breach relates to an audit team member, the role of that individual and so on.

Depending upon the **significance of the breach**, the actions that the firm might consider to address them **satisfactorily** include, for example:

1. Removing the relevant individual from the audit team.
2. Using different team members to conduct an additional review of the affected audit work or to re-perform that work to the extent necessary.
3. Recommending to engage another firm to review or re-perform the affected records, amounts or even audit work to the extent necessary for both non-assurance and audit clients'. By evaluating the results for the non-assurance services, it enables the other firm to take responsibility for the services provided.

We will discuss the firm's communication with TCWG, relating to breach of independence, in our next KLIP.

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