

## 1. Applying the Conceptual Framework

In this KLiP, we will cover 2 sub-topics:

- Communication of breaches to TCWG; and
- Documentation

### Communication of breaches to those charged with governance (TCWG)

Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between firm and TCWG of the client regarding relationships and other matters that might, in the firm's opinion reasonably bear on independence. Such communication enables TCWG to consider firm's judgements in identifying, evaluating and addressing threats and take appropriate action.

In the case that the firm determines that **action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform TCWG as soon as possible and take the necessary steps to end the audit engagement** in compliance with any applicable legal or regulatory requirements. Where **ending the engagement is not permitted** by laws or regulations, the firm shall **comply with any reporting or disclosure requirements**.

If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with TCWG:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue an audit report;
- (d) The conclusion that, in the firm's professional judgement, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

The firm shall communicate in writing to TCWG all the matters relating to actions that can be, or has been taken to satisfactorily address the consequences of the breach, a brief description of the firm's policies and procedures relevant to the breach and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

In the event that the TCWG do not concur that the action proposed satisfactorily addresses the consequences, the firm shall end the audit engagement.

## **Documentation**

In complying with the requirements relating to breach of an independence provision, the firm shall document:

- i. The breach;
- ii. The actions taken;
- iii. The key decisions made;
- iv. All the matters discussed with TCWG, a professional or regulatory body or oversight authority (if any);
- v. The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- vi. The rationale for why the action taken satisfactorily address the consequences of the breach so that the firm could issue an audit report.

With this we come to the end of the first topic - Applying the conceptual framework. We will discuss about the fees in our next KLiP.

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