

In this KLiP, we will cover:

5. Actual or Threatened Litigation

When litigation with an audit client occurs, or appears likely, self-interest and intimidation threats are created. The Code sets out specific application material relevant to applying the conceptual framework in such circumstances to identify, evaluate and address threats to independence.

The relationship between client management and audit team members must be characterised as being completely honest and fully disclose regarding all aspects of a client's operations. **Adversarial positions might result from actual or threatened litigation between an audit client and the firm, a network firm or an audit team member.** Such conflicting position might affect management's willingness to make complete disclosure and create self-interest and intimidation threats.

When evaluating the level of such threats, factors such as the materiality of the litigation, and whether the litigation relates to a prior audit engagement, are relevant.

If the litigation involves an audit team member, the best action that might eliminate this threat is, removing that individual from the audit team.

Alternatively, an example of action that might be a safeguard, to address the threat is, have an appropriate reviewer to review the work performed.

With this we come to the end of the KLiP. We will cover the 6th topic: Financial interest, in our next KLiP.

-END-