

In this KLIP, we will discuss regarding:

Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagements)

When a firm intends to issue a report on an audit of special purpose financial statements which includes a restriction on use and distribution, the independence requirements set out in Part 4A shall be eligible for the modifications that are permitted by this section, but only if:

- a. The firm communicates with the intended users of the report regarding the modified independence requirements that are to be applied in providing the service; and
- b. The intended users of the report understand the purpose and limitations of the report and explicitly agree to the application of the modifications.

The intended users of the report might obtain an understanding of the purpose, either directly, or indirectly through a representative who has authority to act for the intended users, in establishing the nature and scope of the engagement.

In either case, this participation helps the firm to communicate with intended users about independence matters, including the circumstances that are relevant to applying the conceptual framework. It also allows the firm to obtain the agreement of the intended users to the modified independence requirements.

Public Interest Entities, Related Entities, Network and Network Firms

When the firm performs an eligible audit engagement, the firm does not need to apply the respective independence requirements set out in Part 4A. However, when the firm knows or has reason to believe that threats to independence are created, the firm shall evaluate and address any such threats. For example, threats created by related entities or interests and relationships of a network firm.

Things to bear in mind when a firm holds Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships.

When the firm performs an eligible audit engagement:

- a) The relevant provision needs to be applied only to the members of the engagement team, and their immediate and close family members;
- b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships between the audit client and the following team members;
 - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
 - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

With this we come to the end of the KLiP. We will start with the last part of the International Code of Ethics/ EP 100, Part 4B, in our next KLiP.

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