

We will continue with,

## 1. Applying the Conceptual Framework

In this KLiP, we will discuss:

### **Breach of an independence provision for assurance engagements**

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

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

- a. Suspend, end or eliminate the interest or relationship that created the breach;
- b. Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report; and
- c. Determine whether action can be taken that satisfactorily addresses the consequences of the breach.

In making this determination, the firm shall exercise professional judgment 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 assurance report.

In case, **the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall, inform the party that engaged the firm or those charged with governance, as soon as possible.** The firm shall also take the steps necessary, in compliance with any applicable legal or regulatory requirements to end the assurance engagement.

If the **firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance,** as appropriate. The firm shall discuss the breach and the proposed action **on a timely basis**, taking into account the circumstances of the engagement and the breach.

In the event that the party that engaged the firm does not, or those charged with governance do not concur that the action proposed can satisfactorily address the consequences of the breach, the firm shall take necessary steps to end the assurance engagement.

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

1. The breach;
2. The actions taken;
3. The key decisions made; and
4. All the matters discussed with the party that engaged the firm or those charged with governance.

If the firm continues with the assurance engagement, it shall document:

- a. The conclusion that, in the firm's professional judgment, objectivity has not been compromised;  
and
- b. The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue an assurance report.

With this we have come to the end of the 1<sup>st</sup> topic. We will discuss the **2<sup>nd</sup> topic: Fees**, in our next KLiP.

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