**SELF-REVIEW THREAT**

The concept of self-review threat is discussed with a case study in this KLiP.

**Facts of the case:**

Mr. Kenny is a sole proprietor of a public accounting firm, Canny & Co and is also one of the few directors of another network firm, Consultancy and Corporate Advisory firm (CCA). CCA provides consultancy and valuation services to a few of Kenny's audit clients. CCA has recently started to provide accountancy services to Kenny's clients.

The policy of CCA is that the accounting records of the clients be prepared by the CCA staff and sent directly to clients for review and approval. Also,

- CCA accounting staff takes instruction directly from the clients.
- The client signs-off a Letter Of Representation (LOR) when the accounts are compiled and completed. This requires the client's CFO to certify that the accounts are reviewed for all the transactions in the unaudited accounts and confirm that they are in accordance with the instructions given and make available of all documents for the accounting assignment.
- Kenny forwards the accounts for audit only after the accounts have been approved by client and as represented in the LOR. i.e., the accounting and audit work will not be carried out at the same time.

**Analysis:**

From the situation, it is unclear whether the staffs involved to prepare the accounts were employees of Canny & Co, or, CCA at the time the work was performed, as:

- there are no separate engagement letters issued for the audit and other services provided by CCA.
- it is unclear whether clients are aware that Canny & Co and CCA are 2 separate entities or deem it as a single entity.
- it is unclear who is responsible for the final approval of the CCA's work prior to issue of deliverables to the clients.

From the above, a self-review threat can be sensed.

**Comments/ Recommendations:**

A self-review threat means that less scrutiny may be used in performing procedures due to over-reliance on the work performed by the team i.e., Kenny may be less likely to highlight errors if he becomes aware that another member of the network firm has prepared and calculated the figures. This potentially impacts on the level of professional scepticism applied during the audit and the quality of work carried out.

For a listed client, the *Code* states that a firm is not permitted to provide accounting and book-keeping services. The *Code* does, however, make an exception for divisions of a company if the services are of a routine and mechanical in nature, a separate team is used and the service which the firm provides relates to matters which are immaterial to the division and the company.

In addressing this self-review threats, Kenny needs to create safeguards in the work environment that may eliminate or reduce such threats to an acceptable level. One of the primary safeguards is, Kenny to ensure that the client is issued separate engagement letters and make it clear to the clients, prior to any engagements. In addition to this, Kenny needs to ensure that:

- the accounting and audit functions are undertaken by independent staffs;
- a director or manager of CCA to take charge of the accounting function from commencement of accounting/book-keeping work up to client sign-off; and
- the process needs to be initialled and documented appropriately by CCA staffs, prior to releasing the financial statements for audit.

With this we come to the end of the KLiP.

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