

In this KLIP, we will start with:

1. Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements

ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and others, are subject to independence requirements and maintain independence where required by relevant ethics standards.

Independence is linked to the principles of objectivity and integrity. It comprises:

- a. ***Independence of mind*** - the state of mind that expresses conclusion without being influenced that compromises professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- b. ***Independence in appearance*** - the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an assurance team member's integrity, objectivity or professional skepticism has been compromised.

When performing the engagements, the Code requires firms to comply with the fundamental principles, and be independent. The Code, sets out specific requirements and application material on how to apply the conceptual framework to maintain independence by describing, the

- ✧ Facts and circumstances that create or might create threats to independence;
- ✧ Potential actions, including safeguards that might address such threats; and
- ✧ Situations where the threats cannot be eliminated nor safeguards be applied to reduce them to an acceptable level.

Description of Assurance Engagements

Assurance engagement refers to those services other than audit or review engagements.

In any assurance engagement, the firm aims to obtain sufficient appropriate audit evidence in order to express a conclusion, purposely to enhance the degree of confidence of the intended users on about the subject matter information. An assurance engagement might either be an attestation engagement or a direct engagement.

If a firm performs both an assurance engagement and an audit or review engagement for the same client, the audit or review team member, the firm or a network firm shall continue to apply the requirements in **Part 4A**, of the Code.

For the purposes of this Part, the assurance client in an assurance engagement is the responsible party. However, in an attestation engagement, the party taking responsibility for the subject matter information might be the same as the responsible party or other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist.

In some assurance engagements, whether an attestation engagement or direct engagement, there might be multiple responsible parties, or, in an attestation engagement, multiple parties could be taking responsibility for the subject matter information.

To determine the responsible party who will take responsibility for the subject matter information, the firm should consider certain matters. Matters include interest or relationship between the firm, or an assurance team member, and a particular responsible party taking responsibility of the subject matter information. The firm should determine whether the matters would create threat to independence, that is, not trivial and inconsequential in the context of the subject matter information. To determine this the firm should take into account the following factors:

- a. The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.
- b. The degree of public interest associated with the assurance engagement.

However, if the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that party.

Firm & Network firms

A firm performing an assurance engagement shall be independent.

However, when a firm knows or has reasons to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address such threats.

Related Entities

When the assurance team knows or has a reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant in the evaluation of the firm's independence, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

With this we come to the end of the KLiP. We will continue with the same topic in our next KLiP.

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