

ISQC1 - Quality controls for audit firms

Independence, Acceptance and
Continuance
July 2017

Agenda

Independence

Client acceptance assessment

Continuance assessment

Auditor independence requires compliance with... Fundamental principle of objectivity and integrity

The fundamental principle of objectivity imposes an obligation on audit firm's partners and staff not to compromise their professional judgment because of bias, conflict of interest or undue influence of others.

Being independent, and being seen to be independent, underpins objectivity in the case of assurance opinions on which third parties rely

- Independence of mind – free of influence that may affect professional judgment
- Independence in appearance – free of facts and circumstances that are so significant that a reasonable and informed third party would likely conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the **audit engagement** team's, integrity, objectivity or professional skepticism has been compromised.

Threats to independence may arise from ...

A broad range of relationships and circumstances

Relationships and circumstances may create such independence threats as:

1. Self-interest threat - the threat that a financial or other interest will inappropriately influence an individual's judgement or behavior
2. Self-review threat - the threat that the results of a previous judgement or service performed by a firm and its personnel will not be appropriately evaluated when forming a judgement as part of providing a current service.
3. Advocacy threat - the threat that a firm or its personnel will promote a client's position to the point that objectivity is compromised.
4. Familiarity threat - the threat that due to a long or close relationship with a client, a firm or its personnel will be too sympathetic to their interests or too accepting of their work.
5. Intimidation threat - the threat that a firm or its personnel will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the firm or individual.

The Independence policy guidance ...

The International Ethics Standards Board for Accountants ("IESBA"), a Standard-setting Board of the International Federation of Accountants ("IFAC"), has established a Code of Ethics for Professional Accountants (the "Code") which serves as a set of minimum standards for IFAC member bodies and firms to adopt

The Code uses the term "shall" to impose a requirement on a firm or professional accountant to comply with those provisions in which the term is used.

General standards of independence and objectivity

The IESBA Code establishes the general principles of professional ethics and provides a conceptual framework that professional accountants must apply to:

- Identify threats to compliance with the fundamental principles
- Evaluate the significance of the threats identified, and
- Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. Safeguards are necessary when it is determined that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

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Acceptance of client relationships and specific engagements

The firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

- Is competent to perform the engagement and has the capabilities, including time and resources, to do so;
- Can comply with relevant ethical requirements; and
- Has considered the integrity of the entity, and does not have information that would lead it to conclude that the entity lacks integrity.

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Acceptance of client relationships and specific engagements

The firm's acceptance policies and procedures shall require:

- The firm to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client and when considering acceptance of a new engagement with an existing client.
- If a potential conflict of interest is identified in accepting an engagement from a new or an existing client, the firm to determine whether it is appropriate to accept the engagement.
- If issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, the firm to document how the issues were resolved.

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Continuance assessment of client relationships and specific engagements

The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier. Such policies and procedures shall include consideration of:

- The professional and legal responsibilities that apply to the circumstances, including whether there is a requirement for the firm to report to the person or persons who made the appointment or, in some cases, to regulatory authorities; and
- The possibility of withdrawing from the engagement or from both the engagement and the client relationship.

[ISQC1]

Thank you....

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