

ELEMENTS OF A SYSTEM OF QUALITY CONTROL	6. Monitoring	Independence of Auditors
1. Leadership Responsibilities for Quality on Audits As per SA 220 "Quality Control for an Audit of FS", the engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. The actions of the engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on each audit engagement, emphasise: (a) The importance to audit quality of: (i) Performing work that complies with professional standards and regulatory and legal requirements; (ii) Complying with the firm's quality control policies and procedures as applicable; (iii) Issuing auditor's reports that are appropriate in the circumstances; and (iv) The engagement team's ability to raise concerns without fear of reprisals; and (b) The fact that quality is essential in performing audit engagements. 2. Ethical Requirements Relating to an Audit of FS The Code establishes the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of FS : (a) Integrity; (b) Objectivity; (c) Professional competence and due care; (d) Confidentiality; and (e) Professional behavior. 3 Acceptance and Continuance of Client Relationships and Audit Engagements SQC 1 requires the firm to obtain information before accepting an engagement. Information such as the following assists the engagement partner in determining whether the decisions regarding the acceptance and continuance of audit engagements are appropriate: — The integrity of the principal owners, key management and those charged with governance of the entity; — Whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources; — Whether the firm and the engagement team can comply with relevant ethical requirements; and — Significant matters that have arisen during the current or previous audit engagement, and their implications for continuing the relationship. 4 Human Resources policies and procedures address the following personnel issues: (a) Recruitment; (b) Performance evaluation; (c) Capabilities; (d) Competence; (e) Career development; (f) Promotion; (g) Compensation; and (h) Estimation of personnel needs. 5. Engagement Performance Matters addressed include the following: — How engagement teams are briefed on the engagement to obtain an understanding of the objectives of their work. — Processes for complying with applicable engagement standards. — Processes of engagement supervision, staff training and coaching. — Methods of reviewing the work performed, the significant judgments made and the form of report being issued. — Appropriate documentation of the work performed and of the timing and extent of the review. — Processes to keep all policies and procedures current.	Purpose: (a) Adherence to professional standards and regulatory and legal requirements; b) Whether the quality control system has been appropriately designed and effectively implemented; and (c) Whether the firm's quality control policies and procedures have been appropriately applied, so that reports that are issued by the firm or engagement partners are appropriate in the circumstances. Follow-up by appropriate firm personnel so that necessary modifications are promptly made to the quality control policies and procedures In order to establish whether the preconditions for an audit are present, the auditor shall: (a) Determine whether the financial reporting framework is acceptable; and (b) Obtain the agreement of management that it acknowledges and understands its responsibility: (i) For the preparation of the FS in accordance with the applicable financial reporting framework; (ii) For the internal control as management considers necessary; and (iii) To provide the auditor with: — Access to all information such as records, documentation and other matters; — Additional information that the auditor may request from management for the purpose of the audit; and — Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.	The Code of Ethics for Professional Accountants issued by International Federation of Accountants (IFAC) defines the term 'Independence' as follows: "Independence is: (a) Independence of mind - the state of mind that permits the provision of an opinion without being affected by influences allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and (b) Independence in appearance - the avoidance of facts and circumstances that are so significant that a third party would reasonably conclude an auditor's integrity, objectivity or professional skepticism had been compromised. Threats to Independence 1. Self-interest threats, which occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. Examples include (i) direct financial interest or materially significant indirect financial interest in a client, (ii) loan or guarantee to or from the concerned client, (iii) undue dependence on a client's fees and, hence, concerns about losing the engagement, (iv) close business relationship with an audit client, (v) potential employment with the client, and (vi) contingent fees for the audit engagement. 2. Self-review threats, which occur when during a review of any judgement or conclusion reached in a previous audit or non-audit engagement (Non audit services include any professional services provided to an entity by an auditor, other than audit or review of the FS. These include management services, internal audit, investment advisory service, design and implementation of information technology systems etc.), or when a member of the audit team was previously a director or senior employee of the client. Instances where such threats come into play are (i) when an auditor having recently been a director or senior officer of the company, and (ii) when auditors perform services that are themselves subject matters of audit. 3. Advocacy threats, which occur when the auditor promotes, or is perceived to promote, a client's opinion to a point where people may believe that objectivity is getting compromised, e.g. when an auditor deals with shares or securities of the audited company, or becomes the client's advocate in litigation and third party disputes. 4. Familiarity threats are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests. This can occur in many ways: (i) close relative of the audit team working in a senior position in the client company, (ii) former partner of the audit firm being a director or senior employee of the client, (iii) long association between specific auditors and their specific client counterparts, and (iv) acceptance of significant gifts or hospitality from the client company, its directors or employees. 5. Intimidation threats, which occur when auditors are deterred from acting objectively with an adequate degree of professional skepticism. Basically, these could happen because of threat of replacement over disagreements with the application of accounting principles, or pressure to disproportionately reduce work in response to reduced audit fees. Safeguards to Independence The following are the guiding principles in this regard: - 1. For the public to have confidence in the quality of audit, it is essential that auditors should always be and appears to be independent of the entities that they are auditing. 2. In the case of audit, the key fundamental principles are integrity, objectivity and professional skepticism, which necessarily require the auditor to be independent. 3. Before taking on any work, an auditor must conscientiously consider whether it involves threats to his independence. 4. When such threats exist, the auditor should either desist from the task or put in place safeguards that eliminate them. 5. If the auditor is unable to fully implement credible and adequate safeguards, then he must not accept the work.