

Illustrative Independence Policies

(Name of Firm)

Application

1. These Independence Policies ("Policy" or "Policies") are applicable, without exception, to all partners and employees ("firm personnel") of: _____ ("the Firm").

THE CONCEPTUAL APPROACH

2. If a Policy addresses a specific situation or relationship, such policy should be followed. Where the Policies do not cover a particular circumstance, the conceptual approach requires that threats to independence be identified, evaluated and addressed.
3. Under this approach, when the Firm provides assurance services to an entity ("auditee"), all firm personnel have an obligation to make their best efforts to:
 - a) Identify circumstances or relationships that might create threats to independence,
 - b) Evaluate whether these threats are clearly insignificant, and
 - c) In cases where the threats are not clearly insignificant, consult with the Ethics and Independence Partner and the Assurance Engagement Partner to identify and apply appropriate safeguards to eliminate the threats or reduce them to an acceptable level.
4. If an inadvertent violation occurs, it would generally not compromise independence with respect to an auditee provided the Firm has appropriate quality control policies and procedures in place to promote independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied.

Identifying Threats to Independence

5. The generally recognised threats to independence⁹ are:
 - Self interest threat;
 - Self-review threat;
 - Advocacy threat;
 - Familiarity threat; and
 - Intimidation threat.

⁹ These threats have been explained in the Chapter, "Introduction" in this Guide.

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6. When threats to independence are identified, other than those determined to be clearly insignificant, safeguards should be identified and applied to eliminate the threats or reduce them to an acceptable level. The nature of the safeguards to be applied will vary depending upon the circumstances. Consideration should be given to what a reasonable and informed third party having knowledge of all relevant information, including safeguards applied, would reasonably conclude to be unacceptable.
7. When threats to independence are identified that are not clearly insignificant, and the Firm decides to accept or continue the assurance engagement in accordance with its engagement acceptance or continuance processes, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.
8. When the safeguards available are insufficient to eliminate the threats to independence or to reduce them to an acceptable level, or when a Firm chooses not to eliminate the activities or interests creating the threat, the only course of action available will be the refusal to perform, or withdrawal from, the assurance engagement.
9. Some examples of safeguards that might be applied are:
 - a) Involving an additional partner or professional staff member to carry out reviews of the work done or to otherwise advise as necessary. This individual could be someone in another Firm or someone within the Firm who was not otherwise associated with the assurance engagement.
 - b) Rotation of senior partners or professional staff.
 - c) Discussing independence issues with the auditee's audit committee or others those charged with governance.
 - d) Removing an individual assigned to the assurance engagement team when that individual's economic or financial interests or other relationships create a threat to independence.

Complying With the Independence Policies and Procedures

10. Partners, professional staff and all others persons employed by the Firm are responsible for understanding and complying with all applicable independence policies and procedures.
11. Partners, professional staff and all others persons employed by the Firm are required to:
 - a) Read all relevant independence policies.
 - b) Understand the extent to which they apply to them and their immediate family members.
 - c) Understand that the financial and employment relationships of immediate family members can threaten or impair independence with respect to an auditee.
 - d) Provide information to their immediate family members about the independence policies.
 - e) Understand that there are limitations or restrictions on our ability to provide services to auditees.
 - f) Comply with applicable independence policies and procedures at all the times.
12. To enable partners and employees to be in compliance with the policies, the Firm leadership shall establish a system that enables each of them to be aware at all times of the most recent list of auditees and, where such auditees are listed companies, of their holding and subsidiary companies, even if the Firm does not render any assurance services to such holding and subsidiary companies.

13. This will be particularly relevant if partners and employees desire to:
 - a) Make an investment in the auditee;
 - b) Make a borrowing from or give a loan to the auditee;
 - c) Obtain or modify an insurance policy with an insurance company auditee;
 - d) Accept employment with an auditee; and
 - e) Enter into a business relationship with an auditee.
14. Partners and employees of the Firm are required to consult others when they need assistance identifying possible threats to independence or resolving independence issues or concerns.

Confirming Compliance with Independence Policies

15. Partners and employees of the Firm must, upon request, confirm in writing their compliance with all applicable independence policies.

Understanding the Consequences of Non-Compliance

16. Partners and employees of the Firm who fail to comply with all applicable independence policies and procedures should be subject to the Firm's disciplinary process. The range of possible disciplinary actions may include memos to the individual's personnel file, reductions in compensation and termination. The severity of the disciplinary action will depend on the nature of the violation and other facts and circumstances unique to each case. Ignorance of the policies is not considered a legitimate defense for failure to comply.

Financial Interests

17. Partners and employees of the Firm and their immediate family members are prohibited from making investments in equity or debt instruments in the auditee if they are members of the assurance engagement team ("AET").
18. Should any such investment be made inadvertently (e.g., upon receiving an inheritance or gift), the partner/employee shall ensure that it is disposed of within a period of one month from the date of investment.
19. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from making a borrowing from an auditee, unless the auditee is a financial institution that lends in the normal course of business, and the borrowing was on its normal lending terms.
20. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from giving a loan to an auditee or to an officer, director, or major shareholder of an auditee.
21. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from being an executor, administrator, or trustee of a trust/estate, and have authority to make investment decisions for the trust/estate, that had an investment in an auditee.

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22. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from obtaining a new, or make significant changes to an existing, insurance product of any kind, from an insurance company auditee.

Employment Relationships

23. Partners and employees of the Firm, if they are members of the AET, should not serve as an officer or director on the board of an auditee.
24. Partners and employees of the Firm and their immediate family members, if they are members of the AET, are prohibited from being associated with an auditee in an accounting or financial reporting oversight role.
25. Partner and employees of the Firm, if they are members of the AET, are prohibited from being engaged in employment negotiations with or taking up employment with the auditee without first informing the Ethics and Independence Partner. In such situation, they should forthwith withdraw from the assurance engagement.

Business Relationships

26. Partner and employees of the Firm, if they are members of the AET, are prohibited from having a business relationship with or joint investment (e.g., partnership interests) in an auditee or with an officer, director, or major shareholder of that auditee.

Long Association

27. Using the same partners and professional staff on an assurance engagement for an auditee over a long period of time may create a familiarity threat.
28. The Firm shall establish a personnel rotation policy so that members of the AET, including the partner where possible, rotate off the engagement upon rendering assurance services for a determined period of time (e.g., seven years).
29. The Firm's personnel rotation policy shall state that a person who rotates off an engagement does not get reinstated on that engagement except after a specified "cooling off" period (e.g., two years).

Gifts and Hospitality

30. Partner and employees of the Firm, if they are members of the AET, should not accept gifts or hospitality from the auditee, unless the value is clearly insignificant.
31. If there are any questions regarding receipt of the gift or hospitality, the Ethics and Independence Partner should be consulted.

Scope of Services

32. The laws and regulations governing the auditee (eg., the Companies Act, 1956 or rules made thereunder) or a regulator may specifically prohibit the Firm from rendering certain services to an auditee (e.g., internal audit services). In such cases, the proscribed services cannot be provided at all.
33. Besides this, it is not possible to draw up an all-inclusive list of non-assurance services which, if provided to an auditee, might create threats to independence and of the different safeguards that might eliminate these threats or reduce them to an acceptable level.
34. Because the provision of a non-assurance service may create threats to independence, the engagement partner, in consultation with the Ethics and Independence Partner, should evaluate the significance of any such threat before the Firm agrees to provide the service.
35. Where a threat to independence is assessed, the Ethics and Independence Partner shall determine if providing the service after applying suitable safeguards would eliminate or reduce the threat to an acceptable level. If not, the Firm should decide whether it makes better business sense to provide the non-assurance service and withdraw from the assurance engagement or vice versa.
36. The following activities should not be performed:
 - a) Acting in a capacity equivalent to that of a member of management.
 - b) Reporting, in a management role, to those charged with governance.
 - c) Determining which recommendation of the Firm should be implemented.
 - d) Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of the auditee, or having the authority to do so.
37. The assurance engagement partner, in consultation with the Ethics and Independence Partner, should consider the self-review or self-interest threats that may be created by the following activities and the appropriate safeguards to reduce the threats to an acceptable level:
 - a) Having custody of an auditee's assets.
 - b) Supervising the auditee's employees in the performance of their normal recurring activities.
 - c) Preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).
38. The following safeguards may be particularly relevant in reducing, to an acceptable level, threats created by the provision of non-assurance Services to auditees:
 - a) Discussing independence issues related to the provision of non-assurance services and the nature and extent of the fees charged for such services with those charged with governance, such as the audit committee.
 - b) Consulting with the Ethics and Independence Partner on the potential impact of the non-assurance engagement on the independence of the AET and the Firm and acting on the recommendations.

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- c) Involving an additional partner or professional staff member to provide assurance on a discrete aspect of the assurance engagement.
- d) Obtaining the auditee's acknowledgement of responsibility for the results of the work performed by the Firm.
- e) Making arrangements so that partners and professional staff members providing non-assurance services do not participate in the assurance engagement.

Fees

- 39. Total fees generated by an auditee should not represent a large proportion of the Firm's total fees.
- 40. A self-interest threat may be created when the fees generated by an auditee represent a large proportion of the revenue of an individual partner.
- 41. If fees for services provided to an auditee remain unpaid over an extended period of time, it may appear that the Member Firm has a loan to the auditee. Because of the significance of the overdue fees, the Firm should consider if it is appropriate for the Firm to be re-appointed. Therefore, fees for a specific accounting period should be received before issuance of an assurance report for the following year. If this is not possible, then consideration should be given as to whether adequate safeguards can be applied.
- 42. The Firm should not enter into a contingent fee arrangement with an auditee to provide assurance services where the amount of the fee is contingent on the result of the assurance work or on items that are the subject matter of the assurance engagement.