

# APB ETHICAL STANDARD 1

## INTEGRITY, OBJECTIVITY AND INDEPENDENCE

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## **PREFACE**

APB Ethical Standards apply in the audit of financial statements. They should be read in the context of the Auditing Practices Board's Statement "The Auditing Practices Board – Scope and Authority of Pronouncements (Revised)" which sets out the application and authority of APB Ethical Standards.

The terms used in APB Ethical Standards are explained in the Glossary.

APB Ethical Standards apply to audits of financial statements in both the private and the public sectors. However, auditors in the public sector are subject to more complex ethical requirements than their private sector counterparts. This includes, for example, compliance with legislation such as the Prevention of Corruption Act 1916, concerning gifts and hospitality, and with Cabinet Office guidance.

## INTRODUCTION

- 1 The financial statements of an entity may have a number of different users. For example, they may be used by suppliers and customers, joint venture partners, bankers and other suppliers of finance, taxation and regulatory authorities, employees, trades unions and environmental groups. In the case of a listed company, the financial statements are an important source of information to the capital markets. But the primary purpose of the financial statements of an entity is to provide its owners – the shareholders (or those in an equivalent position) – with information on the state of affairs of the entity and its performance and to assist them in assessing the stewardship exercised by the directors (or those in an equivalent position) over the business that has been entrusted to them.
- 2 The financial statements of an entity are the responsibility of its board of directors and are prepared by them, or by others on their behalf, for the shareholders or, in some circumstances, for other third parties.
- 3 The primary objective of an audit of the financial statements is for the auditors to provide independent assurance to the shareholders that the directors have prepared the financial statements properly. The auditors issue a report that includes their opinion as to whether or not the financial statements give a true and fair view in accordance with the relevant financial reporting framework.<sup>1</sup> Thus the auditors assist the shareholders to exercise their proprietary powers as shareholders in the Annual General Meeting.
- 4 Public confidence in the operation of the capital markets and in the conduct of public interest entities depends, in part, upon the credibility of the opinions and reports issued by the auditors in connection with the audit of the financial statements. Such credibility depends on beliefs

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<sup>1</sup> In the case of certain bodies in the public sector, the auditors express an opinion as to whether the financial statements 'present fairly' the financial position.

concerning the integrity, objectivity and independence of the auditors and the quality of audit work they perform. APB establishes quality control, auditing and ethical standards to provide a framework for audit practice. The Auditors' Code underlies APB's standards and sets out the fundamental principles, which APB expects should guide the conduct of auditors.

- 5 APB Ethical Standards are concerned with the integrity, objectivity and independence of auditors. Ethical guidance on other matters, together with statements of fundamental ethical principles governing the work of all professional accountants, are issued by professional accountancy bodies.
- 6 **Auditors should conduct the audit of the financial statements of an entity with integrity, objectivity and independence.**

### **Integrity**

- 7 Integrity is a prerequisite for all those who act in the public interest. It is essential that auditors act, and are seen to act, with integrity, which requires not only honesty but a broad range of related qualities such as fairness, candour, courage, intellectual honesty and confidentiality.
- 8 It is important that the directors and management of an audit client can rely on the auditors to treat the information obtained during an audit as confidential, unless they have authorised its disclosure, unless it is already known to third parties or unless the auditors have a legal right or duty to disclose it. Without this, there is a danger that the directors and management will fail to disclose such information to the auditors and that the effectiveness of the audit will thereby be impaired.

### **Objectivity**

- 9 Objectivity is a state of mind that excludes bias, prejudice and compromise and that gives fair and impartial consideration to all matters

that are relevant to the task in hand, disregarding those that are not. Objectivity requires that the auditors' judgment is not affected by conflicts of interests. Like integrity, objectivity is a fundamental ethical principle.

- 10 The need for auditors to be objective arises from the fact that many of the important issues involved in the preparation of financial statements do not relate to questions of fact but rather to questions of judgment. For example, there are choices to be made by the board of directors in deciding on the accounting policies to be adopted by the entity: the directors have to select the ones that they consider most appropriate and this decision can have a material impact on the financial statements. Furthermore, many items included in the financial statements cannot be measured with absolute precision and certainty. In many cases, estimates have to be made and the directors may have to choose one value from a range of possible outcomes. When exercising discretion in these areas, the directors have regard to the applicable financial reporting framework. If the directors, whether deliberately or inadvertently, make a biased judgment or an otherwise inappropriate decision, the financial statements may be misstated or misleading.
- 11 It is against this background that the auditors are required to express an opinion on the financial statements. Their audit involves considering the process followed and the choices made by the directors in preparing the financial statements and concluding whether the result gives a true and fair view in accordance with the relevant financial reporting framework. The auditors' objectivity requires that they express an impartial opinion in the light of all the available audit evidence and their professional judgment. Objectivity also requires that the auditors adopt a rigorous and robust approach and that they are prepared to disagree, where necessary, with the directors' judgments.

## **Independence**

- 12 Independence is freedom from situations and relationships which make it probable that a reasonable and informed third party would conclude that objectivity either is impaired or could be impaired. Independence is related to and underpins objectivity. However, whereas objectivity is a personal behavioural characteristic concerning the auditors' state of mind, independence relates to the circumstances surrounding the audit, including the financial, employment, business and personal relationships between the auditors and their client.
- 13 The need for independence arises because, in most cases, users of the financial statements and other third parties do not have all the information necessary for judging whether the auditors are, in fact, objective. Although the auditors themselves may be satisfied that their objectivity is not impaired by a particular situation, a third party may reach a different conclusion. For example, if a third party were aware that the auditors had certain financial, employment, business or personal relationships with the audit client, that individual might reasonably conclude that the auditors could be subject to undue influence from the directors or would not be impartial or unbiased. Public confidence in the auditors' objectivity could therefore suffer as a result of this perception, irrespective of whether there is any actual impairment.
- 14 Accordingly, in evaluating the likely consequences of such situations and relationships, the test to be applied is not whether the auditors consider that their objectivity is impaired but whether it is probable that a reasonable and informed third party would conclude that the auditors' objectivity either is impaired or is likely to be impaired. There are inherent threats to the level of independence (both actual and perceived) that auditors can achieve as a result of the influence that the board of directors and management have over the appointment and remuneration of the auditors. The auditors consider the application of safeguards

where there are threats to their independence (both actual and perceived).

## COMPLIANCE WITH ETHICAL STANDARDS

- 15 **The audit firm should establish policies and procedures, appropriately documented and communicated, designed to ensure that, in relation to each audit engagement, the audit firm, and all those who are in a position to influence the conduct and outcome of the audit, act with integrity, objectivity and independence.**
- 16 For the purposes of APB Ethical Standards, a person in a position to influence the conduct and outcome of the audit is:
- (a) any person who is directly involved in the audit ('the engagement team'), including:
    - (i) the audit partners, audit managers and audit staff ('the audit team');
    - (ii) professional personnel from other disciplines involved in the audit (for example, lawyers, actuaries, taxation specialists, IT specialists, treasury management specialists);<sup>2</sup>
    - (iii) those who provide quality control or direct oversight of the audit;
  - (b) any person, who forms part of the chain of command for the audit within the audit firm;
  - (c) any person within the audit firm who, due to any other circumstances, may be in a position to exert such influence.
- 17 Compliance with the requirements regarding the auditors' integrity, objectivity and independence is a responsibility of both the audit firm and of individual partners and professional staff. The audit firm establishes

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<sup>2</sup> Where external consultants are involved in the audit, ISA (UK and Ireland) 620 'Using the work of an Expert' states that the auditor should evaluate the objectivity of the expert.

policies and procedures, appropriate to the size and nature of the audit firm, to promote and monitor compliance with those requirements by any person who is in a position to influence the conduct and outcome of the audit.<sup>3</sup>

- 18 **The leadership of the audit firm should take responsibility for establishing a control environment within the firm that places adherence to ethical principles and compliance with APB Ethical Standards above commercial considerations.**
- 19 The leadership of the audit firm influences the internal culture of the firm by its actions and by its example ('the tone at the top'). Achieving a robust control environment requires that the leadership gives clear, consistent and frequent messages, backed up by appropriate actions, which emphasise the importance of compliance with APB Ethical Standards.
- 20 In order to promote a strong control environment, the audit firm establishes policies and procedures that include:
- (a) requirements for partners and staff to report where applicable:
    - family and other personal relationships involving an audit client of the firm;
    - financial interests in an audit client of the firm;
    - decisions to join an audit client.
  - (b) monitoring of compliance with the firm's policies and procedures relating to integrity, objectivity and independence. Such monitoring procedures include, on a test basis, periodic review of the audit engagement partners' documentation of their consideration of the auditors' objectivity and independence, addressing, for example:

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<sup>3</sup> Monitoring of compliance with ethical requirements will often be performed as part of a broader quality control process. ISQC (UK & Ireland) 1 '*Quality Control for firms that perform audits and reviews of historical financial information and other assurance and related services engagements*' establishes the basic principles and essential procedures in relation to a firm's responsibilities for its system of quality control for audits.

- financial interests in audit clients;
  - economic dependence on audit clients;
  - the performance of non-audit services;
  - audit partner rotation;
- (c) prompt communication of possible or actual breaches of the firm's policies and procedures to the relevant audit engagement partners;
- (d) evaluation by audit engagement partners of the implications of any identified possible or actual breaches of the firm's policies and procedures that are reported to them;
- (e) reporting by audit engagement partners of particular circumstances or relationships as required by APB Ethical Standards;
- (f) prohibiting members of the audit team from making, or assuming responsibility for, management decisions for the audit client;
- (g) operation of an enforcement mechanism to promote compliance with policies and procedures;
- (h) empowerment of staff to communicate to senior levels within the firm any issue of objectivity or independence that concerns them; this includes establishing clear communication channels open to staff, encouraging staff to use these channels and ensuring that staff who use these channels are not subject to disciplinary proceedings as a result.
- 21 **Save where the circumstances contemplated in paragraph 23 apply, the audit firm should designate a partner in the firm ('the ethics partner') as having responsibility for:**
- (a) the adequacy of the firm's policies and procedures relating to integrity, objectivity and independence, their compliance with APB Ethical Standards, and the effectiveness of their communication to partners and staff within the firm; and**
  - (b) providing related guidance to individual partners.**

- 22 In assessing the effectiveness of the firm's communication of its policies and procedures relating to integrity, objectivity and independence, ethics partners consider whether they are properly covered in induction programmes, professional training and continuing professional development for all partners and staff. Ethics partners also provide guidance on matters referred to them and on matters which they otherwise become aware of, where a difficult and objective judgment needs to be made or a consistent position reached.
- 23 In audit firms with three or less partners who are 'responsible individuals'<sup>4</sup>, it may not be practicable for an ethics partner to be designated. In these circumstances all partners will regularly discuss ethical issues amongst themselves, so ensuring that they act in a consistent manner and observe the principles set out in APB Ethical Standards. In the case of a sole practitioner, advice on matters where a difficult and objective judgment needs to be made is obtained through the ethics helpline of their professional body, or through discussion with a practitioner from another firm. In all cases, it is important that such discussions are documented.
- 24 To be able to discharge his or her responsibilities, the ethics partner is an individual possessing seniority, relevant experience and authority within the firm and is provided with sufficient staff support and other resources, commensurate with the size of the firm. Alternative arrangements are established to allow for:
- the provision of guidance on those audits where the ethics partner is the audit engagement partner; and
  - situations where the ethics partner is unavailable, for example due to illness or holidays.

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<sup>4</sup> A 'responsible individual' is a partner or employee of the audit firm who is responsible for audit work and designated as such under the audit regulations of a Recognised Supervisory Body.

- 25 Whenever a possible or actual breach of an APB Ethical Standard, or of policies and procedures established pursuant to the requirements of an APB Ethical Standard, is identified, the audit engagement partner, in the first instance, and the ethics partner, where appropriate, assesses the implications of the breach, determines whether there are safeguards that can be put in place or other actions that can be taken to address any potential adverse consequences and considers whether there is a need to resign from the audit engagement.
- 26 An inadvertent violation of this Standard does not necessarily call into question the audit firm's ability to give an audit opinion, provided that:
- (a) the audit firm has established policies and procedures that require all partners and staff to report any breach promptly to the audit engagement partner or to the ethics partner, as appropriate;
  - (b) the audit engagement partner or ethics partner promptly notifies the relevant partner or member of staff that any matter which has given rise to a breach is to be addressed as soon as possible and ensures that such action is taken;
  - (c) safeguards, where appropriate, are applied, (for example, having another partner review the work done by the relevant partner or member of staff or removing him or her from the engagement team); and
  - (d) the actions taken and the rationale for them are documented.

## **IDENTIFICATION AND ASSESSMENT OF THREATS**

- 27 Auditors identify and assess the circumstances, which could adversely affect the auditors' objectivity ('threats'), including any perceived loss of independence, and apply procedures ('safeguards'), which will either:
- (a) eliminate the threat (for example, by eliminating the circumstances, such as removing an individual from the

engagement team or disposing of a financial interest in the audit client); or

- (b) reduce the threat to an acceptable level, that is a level at which it is not probable that a reasonable and informed third party would conclude that the auditors' objectivity is impaired or is likely to be impaired (for example, by having the audit work reviewed by another partner or by another audit firm).

When considering safeguards, where the audit engagement partner chooses to reduce rather than to eliminate a threat to objectivity and independence, he or she recognises that this judgment may not be shared by users of the financial statements and that he or she may be required to justify the decision.

### **Threats to objectivity and independence**

28 The principal types of threats to the auditors' objectivity and independence are:

- ***self-interest threat***

A self-interest threat arises when auditors have financial or other interests which might cause them to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct or outcome of the audit (for example, where they have an investment in the client, are seeking to provide additional services to the client or need to recover long-outstanding fees from the client).

- ***self-review threat***

A self-review threat arises when the results of a non-audit service performed by the auditors or by others within the audit firm are reflected in the amounts included or disclosed in the financial statements (for example, where the audit firm has been involved in maintaining the accounting records, or undertaking valuations that are incorporated in the financial statements). In the course of the audit, the auditors may need to re-evaluate the work performed in the non-audit service. As, by virtue of providing the non-audit

service, the audit firm is associated with aspects of the preparation of the financial statements, it may be (or may be perceived to be) unable to take an impartial view of relevant aspects of those financial statements.

- ***management threat***

A management threat arises when the audit firm undertakes work that involves making judgments and taking decisions, which are the responsibility of management (for example, where it has been involved in the design, selection and implementation of financial information technology systems). In such work, the audit firm may become closely aligned with the views and interests of management and the auditors' objectivity and independence may be impaired, or may be perceived to be, impaired.

- ***advocacy threat***

An advocacy threat arises when the audit firm undertakes work that involves acting as an advocate for an audit client and supporting a position taken by management in an adversarial context (for example, by acting as a legal advocate for the client in litigation). In order to act in an advocacy role, the audit firm has to adopt a position closely aligned to that of management. This creates both actual and perceived threats to the auditors' objectivity and independence.

- ***familiarity (or trust) threat***

A familiarity (or trust) threat arises when the auditors are predisposed to accept or are insufficiently questioning of the client's point of view (for example, where they develop close personal relationships with client personnel through long association with the client).

- ***intimidation threat***

An intimidation threat arises when the auditors' conduct is influenced by fear or threats (for example, where they encounter an aggressive and dominating individual).

These categories may not be entirely distinct: certain circumstances may give rise to more than one type of threat. For example, where an audit firm wishes to retain the fee income from a large audit client, but encounters an aggressive and dominating individual, there may be a self-interest threat as well as an intimidation threat.

- 29 Threats to the auditors' objectivity, including a perceived loss of independence, may arise where the audit firm is appointed to a non-audit service engagement for a non-audit client, but where an audit client makes this decision. In such cases, even if the non-audit client pays the fee for the non-audit service engagement, the auditors consider the implication of the threats (especially the self-interest threat) that arise from the appointment.
- 30 **The audit firm should establish policies and procedures to require persons in a position to influence the conduct and outcome of the audit to be constantly alert to circumstances that might reasonably be considered threats to their objectivity or the perceived loss of independence and, where such circumstances are identified, to report them to the audit engagement partner or to the ethics partner, as appropriate.**
- 31 Such policies and procedures require that threats to the auditors' objectivity and independence are communicated to the appropriate person, having regard to the nature of the threats and to the part of the firm and the identity of any person involved. The consideration of all threats and the action taken is documented. If the audit engagement partner is personally involved, or if he or she is unsure about the action to be taken, the matter is resolved through consultation with the ethics partner.
- 32 **The audit firm should establish policies and procedures to require the audit engagement partner to identify and assess the**

**significance of threats to the auditors' objectivity, including any perceived loss of independence:**

- (a) when considering whether to accept or retain an audit engagement;<sup>5</sup>**
- (b) when planning the audit;**
- (c) when forming an opinion on the financial statements;<sup>6</sup>**
- (d) when considering whether to accept or retain an engagement to provide non-audit services to an audit client; and**
- (e) when potential threats are reported to him or her.**

33 An initial assessment of the threats to objectivity and independence is required when the audit engagement partner is considering whether to accept or retain an audit engagement. That assessment is reviewed and updated at the planning stage of each audit. At the end of the audit process, when forming an opinion on the financial statements but before issuing the report, the audit engagement partner draws an overall conclusion as to whether any threats to objectivity and independence have been properly addressed in accordance with APB Ethical Standards. If, at any time, the auditors are invited to accept an engagement to provide non-audit services to an audit client, the audit engagement partner considers the impact this may have on the auditors' objectivity and independence.

34 When identifying and assessing threats to their objectivity and independence, auditors take into account their current relationships with the audit client (including non-audit service engagements), those that existed prior to the current audit engagement and any known to be in prospect following the current audit engagement. This is because those

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<sup>5</sup> Consideration of whether to accept or retain an audit engagement does not arise with those bodies in the public sector where responsibility for the audit is assigned by legislation.

<sup>6</sup> In the case of listed companies, the auditors also assess whether there is any threat to their objectivity and independence when discharging their responsibilities in relation to preliminary announcements and when reporting on interim results.

prior and subsequent relationships may be perceived as likely to influence the auditors in the performance of the audit or as otherwise impairing the auditors' objectivity and independence.

- 35 Where the audit client or a third party calls into question the objectivity and independence of the audit firm in relation to a particular client, the ethics partner carries out such investigations as may be appropriate.

## **IDENTIFICATION AND ASSESSMENT OF SAFEGUARDS**

- 36 **If the audit engagement partner identifies threats to the auditors' objectivity, including any perceived loss of independence, he or she should identify and assess the effectiveness of the available safeguards and apply such safeguards as are sufficient to eliminate the threats or reduce them to an acceptable level.**
- 37 The nature and extent of safeguards to be applied depend on the significance of the threats. Where a threat is clearly insignificant, no safeguards are needed.
- 38 Other APB Ethical Standards address specific circumstances which can create threats to the auditors' objectivity or loss of independence. They give examples of safeguards that can, in some circumstances, eliminate the threat or reduce it to an acceptable level. In circumstances where this is not possible, either the auditors do not accept or withdraw from the audit engagement.
- 39 **The audit engagement partner should not accept or should not continue an audit engagement if he or she concludes that any threats to the auditors' objectivity and independence cannot be reduced to an acceptable level.**

- 40 Where a reasonable and informed third party would regard ceasing to act as the auditor as detrimental to the shareholders (or equivalent) of the audit client, then resignation may not be immediate. However, the audit firm discloses full details of the position to those charged with governance of the audit client, and establishes appropriate safeguards.

## **REVIEW BY AN INDEPENDENT PARTNER**

- 41 **In the case of listed companies the independent partner<sup>7</sup> should:**
- (a) consider the audit firm's compliance with APB Ethical Standards in relation to the audit engagement;**
  - (b) form an independent opinion as to the appropriateness and adequacy of the safeguards applied; and**
  - (c) consider the adequacy of the documentation of the audit engagement partner's consideration of the auditors' objectivity and independence.**
- 42 The audit firm's policies and procedures will also set out the circumstances in which an independent review is performed for other audit engagements. These policies will take into consideration the nature of the entity's business, its size, the number of its employees and the range of its stakeholders.

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<sup>7</sup> ISA (UK and Ireland) 220 'Quality control for audits of historical financial information', requires the audit engagement partner to appoint an engagement quality control reviewer for all audits of listed entities...The engagement quality control review involves consideration of...the engagement team's evaluation of the independence of the firm...'

## OVERALL CONCLUSION

- 43 **At the end of the audit process, when forming an opinion but before issuing the report on the financial statements, the audit engagement partner should reach an overall conclusion that any threats to objectivity and independence have been properly addressed in accordance with APB Ethical Standards. If the audit engagement partner cannot make such a conclusion, he or she should not report and the audit firm should resign as auditors.**
- 44 If the audit engagement partner remains unable to conclude that any threat to objectivity and independence has been properly addressed in accordance with APB Ethical Standards, or if there is a disagreement between the audit engagement partner and the independent partner, he or she consults the ethics partner.
- 45 In concluding on compliance with the requirements for objectivity and independence, the audit engagement partner is entitled to rely on the completeness and accuracy of the data developed by the audit firm's systems relating to independence (for example, in relation to the reporting of financial interests by staff), unless informed otherwise by the firm.

## OTHER AUDITORS INVOLVED IN THE AUDIT OF GROUP FINANCIAL STATEMENTS

- 46 **The group audit engagement partner should be satisfied that other auditors (whether a network firm or another audit firm) involved in the audit of the group financial statements, who are not subject to APB Ethical Standards, are objective and document the rationale for that conclusion.**

- 47 The group audit engagement partner obtains written confirmation from the other auditors that they have a sufficient understanding of and have complied with the IFAC Code of Ethics for Professional Accountants, including the independence requirements<sup>8</sup>.
- 48 In the case of a listed company, the group audit engagement partner establishes that the company has communicated its policy on the engagement of external auditors to supply non-audit services to its affiliates and obtains confirmation that the other auditors will comply with this policy.

## **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

- 49 **The audit engagement partner should ensure that those charged with governance of the audit client are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.**
- 50 The audit committee, where one exists, is usually responsible for oversight of the relationship between the auditors and the entity and of the conduct of the audit process. It therefore has a particular interest in being informed about the auditors' ability to express an objective opinion

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<sup>8</sup> Section 8 of the International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants (the IFAC Code) establishes a conceptual framework for independence requirements for assurance engagements that is the international standard on which national standards should be based. No Member Body of IFAC is allowed to apply less stringent standards than those stated in that section. In addition, members of the IFAC Forum of Firms have agreed to apply ethical standards, which are at least as rigorous as those of the IFAC Code.

on the financial statements. Where there is no audit committee, this role is undertaken by the board of directors.<sup>9, 10</sup>

51 The aim of these communications is to ensure full and fair disclosure by the auditors to those charged with governance of the audit client on matters in which they have an interest. These will generally include the key elements of the audit engagement partner's consideration of objectivity and independence, such as:

- the principal threats, if any, to objectivity and independence identified by the auditors, including consideration of all relationships between the audit client, its affiliates and directors and the audit firm;
- any safeguards adopted and the reasons why they are considered to be effective;
- any independent partner review;
- the overall assessment of threats and safeguards;
- information about the general policies and processes within the audit firm for maintaining objectivity and independence.

52 In the case of listed companies, the auditors, as a minimum:

(a) disclose in writing:

- (i) details of all relationships between the auditors and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditors consider may reasonably be thought to bear on their objectivity and independence;
- (ii) the related safeguards that are in place; and

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<sup>9</sup> Where there is no audit committee, references to communication with the audit committee are to be construed as including communication with the board of directors.

<sup>10</sup> Some bodies in the public sector have audit committees but others have different governance models.

(iii) the total amount of fees that the auditors and their network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services.<sup>11</sup> For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted, are separately disclosed;

(b) confirm in writing that they comply with APB Ethical Standards and that, in their professional judgment, they are independent and their objectivity is not compromised, or otherwise declare that they have concerns that their objectivity and independence may be compromised (including instances where the group audit engagement partner does not consider the other auditors to be objective); and explaining the actions which necessarily follow from this; and

(c) seek to discuss these matters with the audit committee.

53 The most appropriate time for final confirmation of such matters is usually at the conclusion of the audit. However, communications between the auditors and those charged with the governance of the audit client will also be needed at the planning stage and whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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<sup>11</sup> When considering how to present this analysis of fees, the auditors take account of any applicable legislation and whether the types of non-audit services provided differ substantially.

## DOCUMENTATION

- 54 **The audit engagement partner should ensure that his or her consideration of the auditors' objectivity and independence is appropriately documented on a timely basis.**
- 55 The requirement to document these issues contributes to the clarity and rigour of the audit engagement partner's thinking and the quality of his or her judgments. In addition, such documentation provides evidence that the audit engagement partner's consideration of the auditors' objectivity and independence was properly performed and, for listed companies, provides the basis for review by the independent partner.
- 56 Matters to be documented<sup>12</sup> include all key elements of the process and any significant judgments concerning:
- threats identified and the process used in identifying them;
  - safeguards adopted and the reasons why they are considered to be effective;
  - review by an independent partner;
  - overall assessment of threats and safeguards; and
  - communication with those charged with governance.

## EFFECTIVE DATE

- 57 Effective for audits of financial statements for periods commencing on or after 15 December 2004.

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<sup>12</sup> The necessary working papers can be combined with those prepared pursuant to paragraph 12 of ISA (UK and Ireland) 220 '*Quality control for audits of historical financial information*', which states that: 'The engagement partner should ... document conclusions on independence and any relevant discussions with the firm that support these conclusions.'

- 58 Firms may complete audit engagements relating to periods commencing prior to 15 December 2004 in accordance with existing ethical guidance from the relevant professional body, putting in place any necessary changes in the subsequent engagement period.
- 59 Firms may implement revisions to their policies and procedures as required under paragraphs 15 and 21 during the year commencing 15 December 2004.

## **NOTICE TO READERS**

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