<u>TOPIC 3: LEGAL AND PROFESSIONAL FRAMEWORK</u>

<u>Auditor's legal framework</u>

It is a legal requirement under the company's Act that every limited liability company shall appoint an auditor in each and every AGM to hold office from the conclusion of that AGM to the conclusion of the other AGM.

According to the company's Act, in every AGM audited accounts, together with auditor's reports shall be laid before the members.

Appointment of the company's auditor

1. **Eligibility for appointment**

   According to Section 161 of the company's Act, a person or a practice shall not be legible for appointment unless each and every partner in the practice is: I. A fully qualified accountant.

   II. A member of ICPAK.

   III. Registered with Registration of Accountants Board of Kenya. /KASNEB

   IV. Possess a valid practicing certificate with at least 3 yrs of experience

2. **<u>Ineligibility for appointment</u>**

According to Section 161 of the company's Act the following persons are disqualified or are illegible for the appointment:

I. A servant or an officer of the company.

II. A person who is in employment or in partnership with the officer of the company.

III. A body corporate is limited liability. **Reasons:**

a) An audit involves expression of an opinion only a natural person can form an opinion**.**

b) If a company is appointed auditor the professional will hide behind the veil of incorporation (**ensures that a company is a separate legal entity from its directors and shareholders**) and cannot be held personally liable.

IV. An un-discharged bankrupt person i.e. coz they lack contractual capacity. V. A person who is indebted to company for huge sums of money.

VI. Any person disqualified from auditing any member of the group of companies.

How The Company Auditor Is Appointed?

Parties that are empowered to appoint an

auditor

1) Shareholders.

2) Directors of the company

3) Registrar of the company.

1. **By shareholders** -The shareholders have the primary responsibility of appointing the auditors in every AGM. To hold office from the conclusion of that AGM to the conclusion of the next AGM. Automatic reappointment Where the shareholders fail to appoint an auditor in the AGM, the present auditors are considered to be automatically re-appointed unless:
    - ❖ They have expressed in writing their wiliness to be re-appointed.
    - ❖ They have been disqualified by the company's Act.
    - ❖ A resolution has been passed that they shall not be re-appointed.

2. **By directors of the company** -The directors of the company are empowered to appoint auditors in the following circumstances:

- ❖ The first auditors of the company on incorporation. The first auditors of the company are those appointed upon incorporation to audit the company's initial financial statements.
- ❖ To fill in a casual vacancy arising either out of death or auditor's incapacitation. A casual vacancy is said to arise when there is no auditor before the next AGM. This may be caused by death, incapacitation or resignation of the auditor.

N.B: However, a casual vacancy as a result of auditor's resignation s filled by the shareholders in an extra-ordinary general meeting.

3. **By the Registrar of companies**- The registrar is empowered to appoint an auditor when either the shareholders or the directors fail to exercise their powers by appointing one within the stipulated time/period.

Statutory duties of the company's auditor according to Company's Act

- ❖ To express an opinion on the truth and fairness of the financial statement.
- ❖ To report to the company's members in the manner prescribed by the law and the company's

  Act. The reporting framework of the auditor is provided for in the 7th schedule of the company's act which requires the auditor to include in his audit report his opinion on:

  I. Whether the client company has maintained proper books of accounts.

  II. Whether he received all the information and explanation that he deemed necessary for the purpose of audit.

III. Whether he received all the returns from branches.

IV. Whether in his opinion the books of accounts are in agreement with the financial statement.

V. Whether the financial statement reflect a true and fair view and have been prepared in accordance with identified financial reporting framework.

Other duties

- Duty to certify financial statement in the prospectus.
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  A duty to call for information regarding the company's securities.

❖ A duty to assist in investigation into financial affairs of the company by the authorities.

<u>Rights of the auditor (statutory)</u>

❖ These are privileges given to the statutory auditor by the company's Act to enable the auditor to fulfill his statutory obligations.

❖ Right to unrestricted access all books of accounts, records and documents of the entity at all time.

❖ A right to access the company's premises including the branches at all times.

❖ A right to receive notices of and to attend all general meetings of members regardless whether or not the financial statements are subject of discussion or not.

❖ A right to speak to such meetings including correcting a wrong impression created by the director to the shareholders.

❖ A right to remuneration. The auditors' remuneration shall consist of audit fee, re-imbursement of all out of pocket moneys incurred by the auditor in connection with the audit.

❖ A right to seek legal and technical advice.

❖ The right to hold the records until the audit fees is paid (lien) but not on legal documents, tax return, certificate of incorporation and A.O.A.

❖ A right to protection against a loss/financial burden(indemnity) of any expense incurred in defending himself against false accusations by the client.

<u>Rights during his removal include:</u>

a) A right to receive a notice of the in attention to remove him from office.
b) A right to circulate written representations to company members.
c) A right to receive yet another notice to attend a meeting that will discuss his removal.
d) A right to make oral representations in the meeting discussing his removal.
e) Right to speak at the AGM to defend his/her position.
f) Right to take an appropriate legal action against the company for wrongful removal.

Causes/reasons for Auditor's Removal from office

a. Charging of exorbitant(high/overcharge) audit fee.
b. Persistence disagreement with the directors.
c. Conflict of interest or independence.
d. Disqualification by the company Act.
e. Criminal involvement.
f. Negligence.
g. Change in the ownership of the company.
h. Expiry of the contract.
i. Incapacitation.
j. Resign
k. Death

Causes/reasons for Auditor's resignation

a. Persistent disagreement with the directors.
b. Client has demonstrated inability to pay the audit fee.
c. Incapacitation. (Inability to act)
d. Integrity issues with the management.
e. Conflict of interest or significant threat to independence.
f. Disqualification by the company's Act.
g. Material limitation in the scope of work.
h. An intention to remove him from office.

Procedure of removing an auditor from office-company to auditor

a. The company must give an auditor a notice of not less than 28 days about the intention to remove him from office.
b. The company must allow the auditor to circulate written representation to company members.
c. The company should send yet another notice copied to the auditor to attend the meeting that will discuss his removal.
d. In the meeting the auditor would be allowed to make oral representations.
e. The auditor's removal/retain will be though a simple majority votes.

Procedures by the auditor to company

a) The auditor should give a notice to the company of not less than 28 clear days stating date and time he is resigning from office.

b) The auditor should accompany to notice with a statement of circumstances causing his resignation.
c) The auditor should deposit the notice and the statement at the company registered office.
d) The auditor should requisite for a meeting of members to discuss his resignation.

Procedures by the company's management

a. Upon the receipt of the resignation statement, the company should notify the registrar, members and creditors of the company within a period of not more than 14 days' failure to which the officer responsible will be criminally liable.
b. The company shouldn't accept the notice unless its accompanied by a statement of factors causing circumstance of resignation.
c. The company should call for a general meeting at the request of the audit.
d. The company should ensure that the auditor's resignation was accepted through a simple majority vote.

Legal liability of an auditor -Parties that can sue an auditor

I. The client i.e. the company as a body.
II. Investors – shareholders and debenture holders.
III. Creditors and other lenders.
IV. The government.
V. The employees.
VI. Customers.
VII. The public.

The auditor's legal liability arises under:

Legal liability

Liability under statute Liability under

CRIMINAL LIABILITY (Act of Parliament)

Criminal liability of the auditor arises when the auditor breaches a statute established through an Act of parliament. The offence in this case is against **the state**. The remedies of the offence include fine imprisonment or both.

Circumstances under which the Auditor's criminal liability may arise (Sept 2021 Q5c)

1. Allowing his name to be used by unqualified persons. This is deception under theft act.
2. Where the auditor knowingly and willingly makes a written statement of accounts which to his knowledge is misleading the public and the shareholders.
3. The auditor colluding with the management to commit or conceal a fraud.
4. Where the auditor seems to be qualified knowingly himself not qualified ie the auditor acts as an auditor knowing himself to be disqualified.

5. When auditor is privy to alteration, destruction or manipulation of evidence.
6. Privy inserting or introducing fraudulent and misleading information in the financial statements.
7. Where the auditor knows or suspects any person has engaged in Acts that are prejudicial to the public interest and doesn't report the matter to the relevant authorities e.g. treason, money laundering.
8. When an auditor of holding or subsidiary company fails to avail audit evidence to the group auditor.

Ways to minimize Auditor's criminal liability

1. Avoid being negligent.
2. Introduce a disclaimer statement.
3. Withdraw from the assignment when the liability is likely to arise.
4. Organize for seminars/workshops/trainings for the audit staff so that they perform quality audit.
5. In the report, indicate clearly work done, work not done and any limitation in your work.
6. Clearly indicate engagement letter and in the auditor's report the intended use of the report so that it's not used for other purpose.
7. Ensure compliance to auditing standards and other professional pronouncements.
8. Take up indemnity cover with an insurance company.
9. Proper screening of the clients before you take up an assignment/being appointed.

Civil liability (law of contract) company/client vs

auditor This arises under the normal law of contract.

When the auditor accepts appointment as the statutory auditor of the company, he enters into a contract with the company as a body and not with the individual shareholders.

The contract has both implied and expressed terms. One of the implied terms of the contract is that the auditor will exercise professional skill and due care.

If, however the auditor fails to exercise due care audit of financial statement (he's negligent) causing the company a loss, then the company can sue the auditor for damages under the law of contract.

1. Case: The London Oil Storage Co. Ltd. vs Seear, Hasluck & Co. (1904)

Fact of the case: This was another case *where the auditors had concerned themselves only with the entries in the books, and not with verification procedure. The balance sheet showed cash balances of almost £ 800, which agreed with the books, but the actual balance was only £ 30, the* *difference having been misappropriated. The auditor was held to have been negligent in not verifying the balance. However, damages of only five guineas were awarded against the auditor because the court held that the director responsible for supervising the fraudulent employee was the person primarily responsible for the loss*.

Legal view: There are two important aspects to this case.

The first is that the court again held that auditors have a duty to verify assets and not merely to check bookkeeping entries.

The second, and very important, or aspect is that auditors are responsible for the loss resulting directly from their negligence and thus are not responsible where the loss has resulted from other causes.

For the company to succeed against the auditor, he must prove the following:

- **a.** There was a contract.
- **b.** The auditor owed the client a duty of care.
- **c.** The auditor breached the duty of care i.e. he was negligent.
- **d.** That the company/client suffered a loss as a result of the breach.
- **e.** The loss is quantifiable in monetary terms.

The auditor is said to have been negligent in the following situation:

1. When the auditor fails to follow the ISA's in audit of financial statement.
2. Failure to detect material misstatements in the accounts which would ordinarily been detected by any other qualified/competent accountant.
3. In carrying out their duty. They did not exercise reasonable care and skill expected from professional accountant.

Civil liability (law of Tort)-3rd party

Eg Britania Security group, ADT vs. the Auditor

The auditor had accounted the accounts of Britania Security group which ADT acquired £105 million but later found to be worth only 40 million pounds. Although under Caparo case, auditors do not owe a duty of care to general public, the judge found that the audit partner was in the meeting in the Run-up to the acquisition and therefore had taken a contractual relationship with HELD: ADT were awarded damages.

The 3rd party (ADT) to be successful, he must prove that:

- ✓ Party must indicate that the auditor owned 'duty of care'.
- ✓ Duty of care was breached ie the auditor was negligent
- ✓ The 3rd party really suffered a loss.
- ✓ The loss is quantifiable into monetary terms.
- ✓ The loss suffered can be directly attributed to negligence on the part of the auditor.
- ✓ The auditor never introduced a disclaimer in his report.

Factors that have led to increased litigations against auditor's form 3rd parties

1. Growing awareness of the responsibilities of the auditors by users of the financial statement.
2. An increased consciousness on the part of regulators such as the capital markets authority (CMA) of its responsibilities to protect the investors.
3. Complexity of auditing and accounting functions caused by technological advancement.
4. Increased corporate frauds.
5. The tendency by the society to accept law suits by injured parties against anyone who might be able to provide compensation, regardless of who was at fault.
6. Complexity of business operations and globalization.

Litigation avoidance measures

1. Proper client screening before accepting appointment.
2. Following the ISA's in audit of financial statement.
3. Stating in the report the work carried out, work not done and any limitations to the work.
4. By stating in the report, the purpose of the report and that it may not be used for any other purpose e.g. putting disclaimer.
5. By instructing the client to obtain your permission before using our name and denying the permission where appropriate.
6. Attaching other appropriate disclaimers.
7. Implementing quality control procedures in the audit.
8. Continuous training of the audit staff.
9. Identifying the authorized recipients of the report in the report.
10. Carrying out audit reviews.

Restricting or limiting the auditor's liability

1. Taking a professional indemnity insurance cover which covers 3rd parties.

Advantages

i) It provides funds for innocent party to be compensated for a wrong having been done against them.
ii) It provides protection against bankruptcy of the auditor.

Disadvantages

i) Every insurance policy has a limit.
ii) It may encourage auditors to take less care.
iii) It increases the operational cost of the audit firm i.e. due to payment of premiums.

2. Out of court settlement

The auditor here negotiates with the aggrieved party and they settle on damages without going through the court process.

Advantages

i) The auditor avoids adverse publicity.
ii) The auditor avoids expensive litigation costs.
iii) A lower settlement figure can be negotiated.

Disadvantages

i) The final responsibility is left undetermined.
ii) The 3rd party may not be fully compensated.
iii) The reputation of the audit firm and the profession may be tainted if settlement figure becomes public knowledge.
iv) It may encourage auditors to take less care.

3. **A final cap**

This is a limit agreed upon between the auditor and the client regarding the amount the auditor will pay the client in the event of a successful litigation.

Implications of the financial cap on the profession

1) It will encourage auditors to take less care because of the lowered risk exposure.

2) Users of the financial statement will have less confidence in the auditor's work.

3) It will force the audit fee in the market downwards as clients will argue that the auditor is not taking on a risk.

4) It will create unhealthy competition in the audit market since audit firms will be able to put a higher cap than smaller audit.

This arrangement can only apply between the auditor client relationships.

4. **Incorporation** i.e. registering the practice as a limited partnership.

5. **Providing joint and several liabilities**. The auditor can share liability with the directions of the company by providing joint and several liabilities.

The directors of the company have a statutory obligation to cause the company to prepare financial statement in line with the identified financial reporting framework and ensure that they are free from material misstatements.

Measures put in place by professional accountancy bodies to minimize litigations against auditors:

- ✓ Issuing auditing standards and guidelines.
- ✓ Issuing and enforcing compliance with the professional code of ethics.
- ✓ Use of CPD programs (continuing professional development)
- ✓ Use of disciplinary committees.
- ✓ Control of issue of practicing certificates.

ISA 250 – Consideration of laws and legislations in audit of financial statements

The auditor is required to determine the effect of the client's compliance with the laws and regulations on financial statement.

The auditor should obtain an understanding of the entity's environment

1. Understanding the legal and regulatory framework applicable to the entity.

2. Obtain on understanding of how the entity is complying with that framework.

3. The effect of non-compliance on the financial statements.

The auditor should obtain sufficient appropriate audit evidence regarding compliance with the provisions of the laws and regulations that have a direct effect on financial statement.

The auditor should perform the following audit procedures to identify instances of non-compliance.

a) Enquire from the management and those charged with governance as to whether the entity is complying with such laws and regulations.

b) Inspect correspondences if any wit the relevant regulatory authorities.

c) During the audit, the auditor should remain alert to the possibilities that other audit procedures that will be applied may bring out instances of non-compliance.

Money laundering

Money laundering is a process by which a criminal attempt to hide the true origin and ownership of proceeds of criminal activity ie legalizing what is illegal.

It's away in which money earned from criminal i.e. "dirty money" or "wash wash" is transferred and transformed so as to appear like it has come from legitimate source.

Offences of money laundering that could be committed by accountants

1. Handling the proceeds of criminal activities or advising on the use of such processes.
2. Failure to report knowledge of or suspicion of money laundering activities to the appropriate authorities.
3. Making disclosure which is likely to prejudice an investigation to money laundering (tipping off).
4. Failure to comply with the specific regulatory requirements in relation to money laundering.

Policies and procedures to be carried out regarding money laundering

1. Appointment of a money laundering reporting officer.
2. Customer identification procedures i.e. know your customer.
3. Communication and training the audit staff so that they are aware of money laundering regulation and how to identify money laundering.
4. Risk assessment and monitoring.

Auditors professional frame work

The practice is regulated by the profession at two levels.

i) Local level – i.e. ICPAK, KASNEB, RAB and the Accountants Act
ii) International level – i.e. IFAC which has several subcommittees namely: IAASB, IESBA, IASB and IPSASB.

International ethics standards Board for Accountants (IESBA)

This is one of the sub-committees of IFAC. IFAC is an international non-governmental non-profit making organization whose members are countries that subscribe to international accounting and auditing standards.

IESBA has the mandate of developing and issuing the professional code of ethics for practicing accountants.

The professional code of ethics in form of fundamental principles and other guidelines which professional accountants should observe in provision of professional services.

The five fundamental principles

1. Integrity
2. Objectivity
3. Confidentiality
4. Professional competence and due care.
5. Professional behavior.

I. ***<u>Integrity</u>***: Professional accountants should be honest and straight forward in all their business and professional relationships.
II. ***Objectivity***: A professional accountant should be fair and should not allow any bias, prejudice, conflict of interest or influences of others to affect his professional judgment.
III. ***Confidentiality:*** A practicing accountant should respect the confidentiality of the information obtained in the course of providing a professional service. It should not disclose any such information to a 3rd party without the explicit permission of the client.

However, there are exceptions to this principle of confidentiality which include:

1) When the auditor finds it reasonably necessary in defending himself.
2) When giving evidence in court.
3) When the information is required by regulatory authorities e.g. EACC, CBK, KRA, CID.
4) Where the information is required by ICPAK.
5) Where the auditor knows or suspects that the client has engaged in acts that are prejudicial to the public interest. He has a public responsibility to report to the relevant authorities.

<u>Importance of confidentiality in the client – auditor relationship</u>

1. In order to form an opinion, the auditor must work closely with those who prepared the financial statements and must have their trust. If this trust is lacking, he client will not open up to the auditor fearing that the matters will be reported to the competitors, legal authorities etc.
2. To safeguard the client's secrets.
3. Confidentiality is one of the fundamental principles of the code of ethics
4. Breach of confidentiality therefore amounts to professional misconduct.
5. Auditors have no legal duty to report illegal acts.

IV) ***Professional competence and due care***: A professional accountant should perform professional services with diligence due care.

He has a professional duty to keep himself updated with the development in the profession so that the client has the advantage of receiving a service that is based on up-to-date development, legislation and techniques.

Importance of professional competence and due care in an audit.

1) The auditor has a contractual obligation to carry out the work with reasonable core and skill.
2) It enables the auditor to express an appropriate opinion.
3) The auditor has both legal and ethical duty to employ reasonable care.
4) Whenever auditors are called upon enquiry i.e. made suspicious they have a duty to investigate the issue to the bottom to obtain reasonable satisfaction regarding the truth and fairness of the financial statement.
5) It minimizes the auditors' liability.

v) Professional behavior: A professional accountant should behave in a manner that is consistent with the good name of the profession.

He should avoid any actions that may discredit the name of the profession.

Other professional guidelines

1) Changes in professional appointment 2) Obtaining professional work
3) Advertising and publicity.
4) Independence.

1. ***Changes in professional appointment:*** A professional accountant in practice should respect

the right of the client in choosing whoever they want as their auditor

When a member in practice is nominated auditor he should:

- ✓ Seek permission from the client that he may communicate with the out- going auditor if such permission is denied the auditor should decline/reject the appointment.
- ✓ If the permission is granted, the auditor should request in writing of the outgoing auditor of all the information that t ought to be made known to him.
- ✓ On receipt of the request, the outgoing auditor should first seek permission from the client that he may communicate to you freely about the client's affair. If the permission is denied decline the appointment.

2. ***Obtaining professional work:*** A member in practice should not comply to a request to give a fee quotation to a company that is not a client.

A member in practice shouldn't obtain professional work for himself or for others in any unprofessional manner.

He should not give a commission, a reward or a fee to a 3rd party for introducing him to a client.

3. ***Advertising and publicity:*** A professional accountant in practice should not advertise their services directly to the client.

However, advertisement in paid media is permitted for the following:

1) When seeking for staff.

2) When acting on behalf of the client.

3) Acting in a fiduciary capacity.

4) Advertising for sub-contracting work.

Paid announcements in the media are permitted for the following:

1) Opening of a new office.

2) Changes in the membership of the audit firm.

3) Changes in the address of the audit firm.

4) Member's appointment.

4. Independence: is essentially an attitude of the mind characterized by objectivity, Integrity and professional skepticism in approach to professional work.

An auditor must be and must be seen to be independent meaning that independence is exercised at
2 levels.

i) Independence of mind Independence of appearance.

II). Independence of mind/in fact

I). Independence of mind/in fact

This is the state of mind that permits provision of an opinion without being affected by influences of others, prejudice or bias that might compromise professional judgment.

It is the state of mind that enables the auditor to act without allowing any bias, prejudice, conflict of interest or influences of others to override his objectivity, integrity and professional skepticism.

II) Independence in appearance

This is avoidance of facts and circumstances that may cause a reasonable and informal 3rd party to think or suspect that the auditor or audit firms' integrity and professional skepticism has been compromised.

Threats to the auditor's independence and compliance with the professional code of ethics

1) Familiarity threats.
2) Self-interest threats.
3) Self-review threats.
4) Advocacy threats.
5) Intimidation threats.
6) Management threats

1. Familiarity threats This arises when the auditor has a close association with the client. This could arise from:

a) Close blood relation with the client's key officers.
b) Long engagement period with the client.
c) The auditor having been a former director of the client company.
d) Acceptance of gifts from the client (under hospitality)

2. Self-interest threats This arises when the auditor has financial interest in the client company. It arises where:

a) The auditor has beneficial shareholding in the client company i.e. holding more than 5% of the total share capital of the client company.
b) Over-relying/undue dependence on the client for professional fee
c) Significant business association with the client e.g. as a major customer/ major supplier.
d) Loan to or from the client. e) Preferential terms of trade from the client i.e. undue hospitality.
f) Contingent fee where your fee is dependent on something.

3. Self-review threats These threats arise when the auditor appears to be reviewing his own work.

This will happen when the auditor is providing other non-auditing services to the client e.g.

1) Preparing audit financial statement for the audit client.
2) Providing specialized series such as expert valuation, taxation, designing the ICS for the audit client.

How provision of other non-audit services may compromise the auditors' independence

1) Providing other non-audit services such as preparing financial statement for the client may imply that the auditor is taking on the responsibility for the accounts.

2) Providing other non-audit services such as expert valuation means that the auditor will be reviewing his own work.

He may not see mistakes in the work that he did or maybe unwilling to expose the mistakes.

3) Providing other non-audit services means that the auditor becomes actively involved in the management of the client's business.

4) Providing other non-audit services may create other self-interests since the auditor will be drawing significant revenue from the client.
5) Acting as the client's advocate may create advocacy threats.
6) Familiarity threats may arise as the auditor will be spending a lot of time in the business.

Benefits of the auditor providing other non-audit services to the audit client

1) The auditor enjoys more income charged for those other services.
2) Because of spending more time in the client's business, the auditor gets a detailed understanding of the client's business and systems.
3) It can reduce the audit work at the end of the year.
4) The auditor keeps in touch with the accounts of the company and arrests any problems which may arise early enough.
5) The client gets expected advice from the auditor as a professional.
6) The auditor will save time in the audit leading to a lower audit fee.
7) The employees of the client will save time as they will not need not to explain their activities to different people.
8) The client receives relevant and timely information from the auditor.

Measures to safeguard the auditors' independence in relation to provision of other non-audit services

1) Use of Chinese walls. This involves separating the team that is involved in audit assignment from the team that is involved in the other assignments.
2) Second-partner review.
3) Implementing quality control procedures.
4) Ensuring that the engagement letter makes it clear that the non-audit services being provided do not imply that the auditor is taking on responsibility for the accounts.
5) The auditor should not accept engagements where it implies they are taking responsibility for the accounts.
6) Train the staff on the importance of independence.

4. Advocacy threats This arises when the auditor is promoting the interest of the audit client in other capacity in addition to being their audit e.g. o The auditor is promoting the shares of the company.

- Auditor is acting as the company's advocate in a court case or in a dispute with 3rd party.
- Attending social events organized by the clients.

5. ***Intimidation threats*** These threat increases when the auditor is acting under duress i.e. where there is actual or perceived threat from the client e.g. Threatened litigation, threat of removal or where the auditor is pressurized by the management to inadvently reduce the amount of audit work in order to reduce the audit fee.

6. *Management Threats*- company's vulnerability to external and internal risks that could disrupt operations, compromise data, or cause financial losses, and the process of identifying, assessing, mitigating, and responding to these risks to protect the organization's assets and continuity. Common examples include cyberattacks like *phishing and ransomware*, *insider threats*, supply chain vulnerabilities, misconfigurations in systems, and a general lack of cybersecurity awareness or skilled personnel

General Measures To Safeguard The Auditors' Independence

1. The audit firm should decline audit engagements where the threat to independence is significantly high.
2. The audit firm should have an internal regulation system that reflects ethical requirements. e.g.
   no audit partner or staff should have shares I the client company.
3. Independence should be reviewed a fresh at the start of each years' audit.
4. Audit firms should practice audit rotation.
5. Use of Chinese walls.
6. The audit firm should have a policy regarding acceptance of gifts from the client.
7. The audit firm should have consultation procedures in place regarding matter of independence.
8. Having a second partner review before the audit report is signed.
9. The audit firm should have policies and procedures to monitor and if necessary manage reliance on fee/income received from a single client.
10. Training the audit staff on the importance of independence.
11. ICPAK should take disciplinary actions against auditors who compromise on their independence.
12. Always follow the ISA's in audit of financial statements.