

Ethical Dilemmas for Auditors

Discussion Paper

May 2006

Ethical Dilemmas for Auditors

<u>Dilemma One – Non-Audit Services</u>	3
<u>Dilemma Two – Fee Levels</u>	6
<u>Dilemma Three – Ethics Partner</u>	7
<u>Dilemma Four – Long Association with the Audit Client</u>	8
<u>Dilemma Five – Commencement in Practice</u>	9
<u>Dilemma Six – Financial Interest in a Client</u>	10
<u>Dilemma Seven – Business relations with audit clients</u>	11
<u>Dilemma Eight - Policies and Procedures</u>	12
<u>Appendix 1 – Accounting services - dos and don'ts</u>	13
<u>Appendix 2 – Accounting services - examples of threats and safeguards</u>	14
<u>Appendix 3 – Non-audit services – sample audit work paper</u>	16
<u>Appendix 4 – Sample audit planning letter</u>	26
<u>Appendix 5 – Long association with audit client, sample audit work paper</u>	29

Dilemma One – Non-Audit Services

I provide a complete suite of services to my small corporate clients such as accounting services, tax work and ad hoc projects that they may request me to do.

I have heard that there may be a problem with this? What should I do?

Whether or not you can provide these services will depend on the type of client that you have and the type of service that you are providing. You will need to be careful that you review all services to clients to ensure that a threat to your firm's independence does not exist. The threats that may be created are "self review" and "management" threats. Where non-audit services are provided to your clients your consideration of your independence should be documented on your audit file.

Accounting services

Unlisted clients

You may provide certain accounting services to the client provided **safeguards** are applied.

The accounting services that you can provide should not involve initiating transactions or making management decisions and should be of a mechanical nature.

The safeguards should be as follows;

- Accounting services are provided by staff not involved in the audit
- Accounting services are reviewed by a partner who is not part of the audit team
- The audit is reviewed by another partner

The audit engagement partner should ensure that those charged with governance of the client are appropriately informed (e.g. audit planning letter).

Small companies (per PASE)

If you cannot apply the above safeguards, then the following alternatives are available;

1. If your client can avail of the PASE, safeguards need not be applied provided;

- The client has informed management
- The firm extends the cyclical inspection of completed engagements that is performed for quality control purposes (firm's annual compliance review).

2. Where the client does not have "informed management" then you will need to avail of additional **exemptions** provided for in the **PASE**.

Where you do this you will need to ensure that

- The issue is disclosed in the financial statements (audit report and notes) and
- You discuss objectivity and independence issues related to the provision of non-audit services with those charged with governance (this can be done in the audit planning letter, see appendices).

Taxation Services

The range of activities encompassed by the term “tax services” is very wide and it is important that the services provided to clients are assessed on a client by client basis.

Where the auditor provides a compliance and advisory services to the client there may be appropriate safeguards that the auditor can implement to ensure that there are no threats to independence. These safeguards include the following;

- The tax services are provided by partners and staff who have no involvement in the audit of financial statements;
- The tax services are reviewed by an independent tax partner, or other senior tax employee;
- External independent advice is obtained on the tax work
- Tax computations prepared by the audit team are reviewed by a partner or senior staff member with appropriate expertise who is not a member of the audit team; or
- An audit partner not involved in the audit engagement reviews whether the tax work has been properly and effectively addressed in the context of the audit of the financial statements.

The following services should not be provided;

- advice on tax structures where there is a reasonable doubt as to the appropriateness of the accounting treatment (see ES 5 para 66 for more detail),
- work undertaken on a contingent fee basis (see ES5 para 68 for more detail)
- where the work undertaken would equate to a management role (see ES 5 para 70 for more detail)
- where the work would amount to acting as an advocate (see ES 5 para 73 for more detail).

Availing of exemptions in the PASE

Under the PASE, an audit firm may provide tax services to a client where this would involve **acting as an advocate** for the audit client. To do this appropriate disclosures should be made in the financial statements and the audit report.

Where a “management” threat is identified, the following safeguards should be applied;

- Discuss objectivity and independence issues with those charged with governance and
- Appropriate disclosure made in the financial statements and the audit report

Where a self-review threat is identified, safeguards need not be applied where

- The client has informed management
- The firm extends the cyclical inspection of completed engagements that is performed for quality control purposes

Documentation of Non-Audit Services

The audit engagement partner must ensure that the reasoning for a decision to undertake an engagement to provide non-audit services to an audit client, and any safeguards adopted, is **appropriately documented**.

Matters to be documented include the following;

- Threats identified
- Safeguards adopted and the reasons why they are considered to be effective and
- Communication with those charged with governance

Helpsheets

Appendix 1 – Accounting services- dos and don'ts

Appendix 2 – Examples of threats and safeguards

Appendix 3 – Non-audit services – sample audit work paper

Appendix 4 – Sample audit planning letter

Reference : Ethical Standard 5 – Non-audit services provided to audit clients

Dilemma Two – Fee Levels

My firm has a number of audit clients. One audit client in particular made up 12% of the firms total income for 2005. Is this allowed?

Fees from non-listed clients

Where you expect that the fee from both audit and non-audit services receivable from a non-listed client and its subsidiaries will **regularly** exceed **15%** of the annual fee income of the audit firm, then the firm should not act as auditor.

Where it is expected that the fee income will **regularly** exceed **10%**, but will not regularly exceed 15%, the audit engagement partner should:

- Disclose that expectation to the ethics partner and to those charged with governance of the client
- Arrange an external independent quality control review of the audit engagement to be undertaken before the audit report is finalised (Hot file review)

Availing of the PASE

Where your client is small enough to enable you to avail of the PASE, then in a case where the income exceeds 10% but not 15% the engagement partner should;

- Disclose that expectation to the ethics partner and to those charged with governance of the client

There is no requirement to have a hot file review of the audit file.

Reference: Ethical Standard 4 –Fees, Remuneration and Evaluation Policies, Gifts and Hospitality

Dilemma Three – Ethics Partner

I have heard the term “Ethics Partner” and “Engagement Partner” used in conjunction with the ethical standards. What do they mean and what do I do as I am a sole practitioner and I do not have any partners?

The **audit engagement partner** is a partner or other person in the firm who is responsible for the audit engagement and its performance and for the report that is issued on behalf of the firm, and who, where required has the appropriate authority from a professional, legal or regulatory body.

The **ethics partner** is a partner or other person in the audit firm having the responsibility for 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. Where the firm has less than three partners who are responsible individuals, it may not be practical to appoint an ethics partner. In such cases, all partners should regularly discuss ethical issues.

In the case of a **sole practitioner**, advice on matters where a difficult and objective judgement needs to be made is obtained through contact with your professional body, or through discussion with a practitioner from another firm.

Reference: Ethical Standard 1 – Integrity, objectivity and independence

Dilemma Four – Long Association with the Audit Client

I am in practice for 20 years and have had a number of audit clients for more than 10 years. Do I have to give up these audits?

No, not necessarily.

However, where you have held an audit appointment for a continuous period of ten years, careful consideration should be given to impairment of objectivity and independence. Acting for an audit client for such a long period may lead to a “familiarity threat”.

Where the audit engagement partner is not rotated after 10 years it is important that

- **Alternative safeguards are applied – such as an internal quality review or**
- **the reasoning as to why the individual continues to participate in the audit and these facts are communicated to those charged with governance and documented.**

It is important that where you are acting for a client for more than ten years that this issue is documented on your audit file – see appendix 5 for a sample audit working paper.

Helpsheets

Appendix 5 – Long association with audit client – sample audit work paper

Reference: Ethical Standard 3 – Long association with the audit engagement

Dilemma Five – Commencement in Practice

I have just commenced practising as a CPA. I estimate that my income for this year will be €60,000. A potential audit client has approached me. I have estimated that his fee will total €10,000. Can I take on this audit?

A new audit firm seeking to establish itself may find the requirements relating to economic dependence difficult to comply with in the short term. In these circumstances, such firms would;

- **Not undertake any audits of listed companies, where fees from such a client would represent 10% or more of the annual fee income of the firm; and**
- **For a period not exceeding two years, require external independent quality control reviews of those audits of unlisted entities that represent more than 15% of the annual fee income before the audit opinion is issued**

The firm might also develop its practice by accepting work from non-audit clients so as to bring the fees payable by each audit client below 15%.

Reference: Ethical Standard 4 – Fees, Remuneration and Evaluation Policies, Gifts and Hospitality

Dilemma Six – Financial Interest in a Client

A client has offered me some shares in a company that he is establishing. He has also requested that I do the audit as I know the industry quite well and would be well placed to do it. It's a very good deal, what should I do?

The standard is quite clear on this point. You should not hold any shares in an audit client. The standards state that the audit firm, any partner in the firm, a person in a position to influence the conduct and outcome of the audit or the immediate family member of such a person should not hold;

- Any direct financial interest in an audit client or an affiliate of an audit client
- Any indirect financial interest in an audit client where the investment is material to the audit firm or to the individual.

Reference: Ethical Standard 2 – Financial, business, employment, and personal relationships

Dilemma Seven – Business relations with audit clients

I have an audit client who offers great holiday deals. I was flicking through their holiday brochure this year and spotted a holiday that I was interested in. They won't be offering me any special discounts. Can I purchase this holiday?

Audit firms, persons in a position to influence the conduct and outcome of the audit and immediate family members, should not enter into business relationships with an audit client except where they involve the purchase of goods and services from the audit firm or the audit client in the ordinary course of business and on an arms length basis and the value involved is not material to either party.

In your case you should ensure that the holiday is offered to you on an arms length basis and in the ordinary course of business. If the amount is material to either you or the client, then the holiday should not be purchased from this source.

Reference: Ethical Standard 2 – Financial, business, employment, and personal relationships

Dilemma Eight – Policies and Procedures

An audit senior from our firm was at a CPE event recently where they were informed that all audit firms should implement policies and procedures in relation to the APB Ethical Standards. What do we need to do?

All audit firms should have written and communicated policies and procedures in relation to the following matters;

- General matters such as
 - In-house reporting structures
 - In- house monitoring and evaluation of compliance
- Relationships (financial, business, employment and personal)
- Long association with the audit client
- Fees, remuneration and evaluation, gifts and hospitality
- Non audit services

Reference: Ethical Standard 1 – Integrity, objectivity and independence

Appendix 1

Accounting Services - What you can and cannot do for the audit client.

Preparing accounting records and financial statements

Cannot do	Can do – with informed management
Initiate, authorise or approve transactions	Prepare the financial statements based on underlying accounting records, which have been prepared by management.
Prepare originating data/source documents	Post entries approved by client management to the trial balance.
Determine or change journal entries, or the classifications for accounts or transactions, or other accounting records without client management approval	Record transactions for which management has determined the appropriate account classification, post transactions for which management has determined the appropriate account classification, post transactions coded by the client to the GL.
Make changes to source documents without client approval	Propose standard, adjusting or correcting journal entries that affect the financial statements provided that the client reviews and understands the nature and the impact of the entries, and approves the entries.
Authorise or approve disbursements, including disbursements for payroll or payroll taxes.	Use client-provided and client-approved time records, generate unsigned cheques, process client's payroll. Transmit client- approved payroll or other disbursement information to a bank when the client has authorised you to make the transmission and has arranged for the bank to limit the corresponding individual payments as to the amount and payee. In addition the client must authorise the bank to process the information following transmission.
Authorise or approve purchase invoices for payment	Prepare cheques for client approval and signing

Appendix 2

Provision of Accounting Services to an Audit Client

Example of Threats and Safeguards

Management threat

Provision of accounting services to an audit client may give rise to a management threat. A management threat exists when the audit firm undertakes work that involves making judgements and taking decisions that should be the responsibility of management.

Safeguard - example

The accounting service to the audit client is provided in accordance with the audit firm's policies and procedures, which set out circumstances in which accounting services are not undertaken for non-listed audit clients.

[Following is an example of an audit firm's policies and procedures, which set out circumstances in which accounting services are not undertaken for non-listed audit clients:

Accounting services are not undertaken for non-listed clients where:

- The services involve initiating, authorising or approving transactions.*

- The services involve determining or changing journal entries, or the classifications for accounts or transactions, or other accounting records without client management approval.*

- The services involve preparing originating data or source documents.*

- The services involve making changes to source documents without client approval.*

- The services involve authorising or approving disbursements.*

- The services involve authorising or approving invoices for payment.*

- The services do not fall into the definition of services that are of a technical, mechanical or an informative nature.*

- There is no informed management at the client (except for audit clients who are 'Small Entities' within the definition in ES-PASE – but if this provision is availed of there will be a modified audit report)]*

Self-review threat

Provision of accounting services to an audit client may give rise to a self-review threat. A self-review threat exists if the results of a non-audit service performed by the audit team, or by others within the audit firm, are reflected in amounts included or disclosed in the financial statements.

Safeguards - examples

Examples of safeguards to address the self-review threat are:

- Ensuring that the accounting service is not performed by a member of the audit team.
- Involving an additional appropriately qualified individual to review the work done or otherwise advise as necessary. This could be someone from within the firm, who is not involved in the audit team, or someone from outside the firm.
- Discussing independence issues with the board of directors or audit committee
- Disclosing to the board of directors or audit committee the nature of the services provided and extent of fees charged. Include section in engagement letter.
- Policies and procedures to ensure members of the audit team do not make or assume responsibility for management decisions for the audit client.
- Requiring source data for the accounting entries to be provided by the client.
- Requiring all underlying assumptions to be provided and approved by the audit client.

Appendix 3 – Sample audit working paper

Provision of Non-Audit Services to an Audit Client

This document must be completed by the audit engagement partner when considering:

- whether to provide non-audit services to an audit client,
- whether to provide audit services to a client that you are (or will be) also providing non-audit services to.

This document should be updated annually, or whenever there is a change in the range or type of non-audit services provided to the audit client.

This document should be filed in the planning section of the audit working papers.

This document contains the following Sections:

- SECTION A: Non-Audit Services
- SECTION B: Non-Audit Services Prohibited
- SECTION C: Assessment of Threats and Safeguards
- SECTION D: Conclusion
- SECTION E: Communication with Those Charged With Governance

SECTION A - Non-Audit Services

Indicate type of non-audit service(s) provided (or that you are considering providing) to the audit client (tick relevant box):

Tax service	
Accounting service	
Recruitment and remuneration service	
Legal service	
Information technology service	
Valuation service	
Actuarial valuation service	
Litigation support service	
Transaction related service	
Corporate finance service	
Other	

Document detail of non-audit service(s):

--

SECTION B- Non-Audit Services Prohibited

Determine if the provision of the non-audit service is prohibited? For guidance on types of non-audit services prohibited refer to the CPA website.

- For any services prohibited, decline or discontinue audit engagement or the non-audit service. Document conclusion in Section D.
- For any services not prohibited, complete Section C, Section D and Section E.

SECTION C:

Threats, Safeguards And The Audit Partners Consideration of The Effectiveness of Safeguards to Eliminate the Threats or Reduce Them to an Acceptable Level.

For *each* non-audit service, that is not prohibited, the audit engagement partner should complete this section.

If the service is not prohibited, identify and document the threats.

Appendix 1 lists the main threats relating to the various non-audit services. Ethical Standard 5, on non-audit services, should also be read when identifying threats arising from the provision of non-audit services to audit clients.

(1) Non-Audit Service: _____

Complete the table below by indicating:

- the threats identified (eg self-review, management threat etc.); and
- the significance of the identified threats (tick relevant box)

Threats Identified by Audit Engagement Partner	Is threat significant?	
	No ⁽¹⁾	Yes ⁽²⁾

⁽¹⁾ For all threats that are considered not significant:

- In text box below, document reasoning as to why they are considered not significant,
- Complete Sections D and E of this document; and
- Proceed with the non-audit service.

⁽²⁾ For all threats that are considered significant identify and document possible safeguards.

Significant threats (threats indicated in 'yes' column in above table)	Safeguards available (indicate yes or no)?	Do safeguards eliminate or reduce threats to an acceptable level (indicate yes or no)? ⁽³⁾

⁽³⁾ If answer is 'yes' (ie available safeguards are considered effective in eliminating or reducing threats to an acceptable level) please:

- Document in the text box below the safeguards available,
- Document in the text box below how the safeguards eliminate threats or reduce the threats to an acceptable level,
- Complete Sections D and E of this document; and
- Proceed with the non-audit service.

⁽³⁾ If answer is 'no' (ie available safeguards are not considered effective in eliminating threats or reducing them to an acceptable level), or there are no available safeguards, consider:

Is client a 'Small Entity' as defined in Ethical Standard – Provisions Available for small Entities (ES-PASE)?

Yes

No

If client is a 'Small Entity', can you avail of provisions in ES-PASE, which would allow you to provide the non-audit service to the audit client?

Yes

No

If Yes:

- Document provision(s) you are availing of in the text box below,
- Complete Sections D and E of this document; and
- Proceed with the non-audit service.

If client cannot avail of provisions in ES-PASE:

- Complete Section D of this document
- Decline or discontinue audit engagement/non-audit service.

(2) Non-Audit Service: _____

Complete the table below by indicating:

- the threats identified (eg self-review, management threat etc.); and
- the significance of the identified threats (tick relevant box)

Threats Identified by Audit Engagement Partner	Is threat significant?	
	No ⁽¹⁾	Yes ⁽²⁾

⁽¹⁾ For all threats that are considered not significant:

- In text box below, document reasoning as to why they are considered not significant,
- Complete Sections D and E of this document; and
- Proceed with the non-audit service.

⁽²⁾ For all threats that are considered significant identify and assess possible safeguards.

Significant threats (threats indicated in 'yes' column in above table)	Safeguards available (indicate yes or no)?	Do safeguards eliminate or reduce threats to an acceptable level (indicate yes or no)? ⁽³⁾

⁽³⁾ If answer is 'yes' (ie available safeguards are considered effective in eliminating or reducing threats to an acceptable level) please:

- Document in the text box below the safeguards available,
- Document in the text box below how the safeguards eliminate threats or reduce the threats to an acceptable level,
- Complete Sections D and E of this document; and

- Proceed with the non-audit service.

⁽³⁾ If answer is 'no' (ie available safeguards are not considered effective in eliminating threats or reducing them to an acceptable level), or there are no available safeguards, consider:

Is client a 'Small Entity' as defined in Ethical Standard – Provisions Available for small Entities (ES-PASE)?

Yes

No

If client is a 'Small Entity', can you avail of provisions in ES-PASE, which would allow you to provide the non-audit service to the audit client?

Yes

No

If Yes:

- Document provision(s) you are availing of in the text box below,
- Complete Sections D and E of this document; and
- Proceed with the non-audit service.

If client cannot avail of provisions in ES-PASE:

- Complete Section D of this document
- Decline or discontinue audit engagement/non-audit service.

SECTION D

Conclusion

I conclude that, with respect to the non-audit services identified in Section A of this document, the following services will (continue to) be provided to the audit client as:

1. They are not prohibited
and
2. The resulting threats are not significant; or the threats are significant but are eliminated or reduced to an acceptable level by appropriate safeguards.

I conclude that with respect to the non-audit services identified in Section A of this document, the following services will not (continue to) be provided to the audit client as they are prohibited

I conclude that with respect to the non-audit services identified in Section A of this document, the following services will not (continue to) be provided to the audit client as there are no available safeguards to eliminate the threats or to reduce them to an acceptable level.

I confirm that the above assessment and conclusions have been performed in accordance with APB Ethical Standards.

_____ [Audit Engagement partner Signature]

SECTION E
Communication With Those Charged With Governance

The audit engagement partner should ensure that those charged with governance of the audit client ¹are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence, related to the provision of non-audit services, including the safeguards put in place.

Details which should be communicated to those charged with governance with respect to the provision of non-audit services to an audit client are:

- Details of all services (audit and non-audit) provided by the audit firm to the client, its directors, its senior management and its affiliates
- The related safeguards in place
- Total amount of fees that the audit firm has charged to the client and its affiliates for the provision of services (audit and non-audit) during the reporting period.
- Amounts of any future services, which have been contracted for, or tendered for.
- Confirm that the auditors comply with the APB Ethical Standards, and that in the auditor's professional opinion they are independent

The most appropriate time for this communication is:

- at the planning stage of the audit (include section on non-audit services in the engagement letter), and whenever significant judgements are made about threats to objectivity and independence, and the appropriateness of safeguards put in place; and
- when accepting an engagement to provide non-audit services.]

Please document details of communication with those charged with governance in relation to the provision of non-audit services and the auditor's independence.

I confirm that those charged with governance of the audit client have been appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence, related to the provision of non-audit services, including the safeguards put in place

_____ [Audit Engagement Partner Signature]

¹ Ethical Standard 1, paragraphs 49 – 53, states that 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. The standard explains that those charged with governance are usually either the board of directors or the audit committee. Matters to be communicated include the principal threats, if any, to objectivity and independence identified by the auditors.

Non-Audit Service	Main Threats (as identified in ES5)
Tax service	Self-interest threat Management threat Advocacy threat Self-review threat
Accounting service	Self-review threat Management threat
Recruitment and remuneration service	Management threat Familiarity threat
Legal service	Advocacy threat Self-review threat Management threat
Information technology service	Self-review threat Management threat
Valuation service	Self-review threat Management threat
Actuarial valuation service	Self-review threat Management threat
Litigation support service	Self-review threat Management threat Advocacy threat
Transaction related service	Management threat
Corporate finance service	Self-review threat Management threat Advocacy threat Self-interest threat

Appendix 4

Sample Audit Planning letter

The Board of Directors
XYZ Limited
30 Pembroke Street
Dublin

Date

Re: Audit planning letter

Dear Sirs

We are writing in connection with the audit due to start on Further to our meeting we now set out below some matters in relation to our audit planning.

At this point we aim to ensure that there is a mutual understanding of the audit and the respective responsibilities of the auditors and the directors

In addition to providing our formal audit report on your financial statements, we will communicate in our audit findings letter those matters, which we believe to be relevant to the directors that come to our attention as a result of the performance of our audit of the financial statements.

Independence and objectivity

In accordance with the Auditing Practices Board Ethical Standards we as auditors must ensure that our independence and objectivity is maintained at all times.

The following issues are potential threats to our independence:

- a.
- b.
- c.

We have introduced the following safeguards to counter these potential threats.

- a.
- b.
- c.

We confirm that, in our professional judgement and having regard to the safeguards in place, the firm is independent within the meaning of the Auditing Practices Board's Ethical Standards and the objectivity of the audit engagement

partner and staff is not impaired. Therefore, we are pleased to proceed in accordance with our appointment.

Nature and scope of the audit

We set out below an outline of the nature and scope, including where relevant, any limitations thereon, of the work we propose to undertake and the form of the report we expect to make

We have a duty to form an opinion on the financial statements at the end of the audit. We must give an opinion on whether the financial statements give a true and fair view at the year-end, whether the financial statements have been properly prepared in accordance with the Companies Acts 1963-2005, we must also state whether all the information and explanations which we consider necessary for the purpose of the audit have been obtained, whether proper books of account have been kept by the company and whether the information given in the Directors' Report is consistent with the financial statements. We must also state whether the financial situation under Section 40(1) of the Companies (Amendment) Act 1983 exists (i.e. the net assets of the company are less than half of the called up share capital) and this would require the convening of an extraordinary general meeting.

We will express an unqualified opinion when the financial statements give a true and fair view in accordance with the financial reporting framework. Any modification to this unqualified audit opinion will be expressed in our auditor's report and in the audit findings letter.

We will conduct our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an examination on a test basis of evidence relevant to the amounts and disclosures in the financial statements.

We will also document the internal controls and the systems of your company. We will review internal and external operational, financial, compliance and other risks facing the company, which might affect the financial statements, including the likelihood of those risks materialising and how they are managed.

We will also document and review the control environment within the company, including the attitude of management to controls and whether management have a process for keeping under review the effectiveness of the system of internal control and, where a review of the effectiveness of internal control has been carried out and the results of that review.

We will also review the actions that the directors' plan to take in response to matters such as developments in law, accounting standards and other developments relevant to the Company's financial statements.

Findings from the audit

At the end of the audit we will draft an audit findings letter for the attention of the directors' of the company.

The audit findings letter will include our views and comments on the following:

- Weaknesses in the internal control and accounting systems
- Significant audit risks that have an impact on the audit report
- Unadjusted misstatements
- VAT/PAYE issues
- Qualitative aspects of the company's accounting practices and financial reporting
- Matters specifically required by other ISAs (UK and Ireland) to be communicated to the directors'
- Any other audit matters of governance interest.

This letter was prepared for the sole use of the company, the content must not be disclosed to any third party, without our prior written consent and we assume no responsibility to any other person.

Yours faithfully

Auditors

Appendix 5

Long Association Document – For Unlisted Audit Clients

This document should be completed by the audit engagement partner for all audit engagements where the audit engagement partner has held this role for a continuous period of 10 years.

This document should be updated annually.

This document should be filed in the planning section of the audit working papers.

Background

Where audit engagement partners, key audit partners and staff in senior positions have a long association with the audit, the audit firm should assess the threats to the auditors' objectivity and independence and, where the threats are other than clearly insignificant, should apply safeguards to reduce the threats to an acceptable level. Where appropriate safeguards cannot be applied, the audit firm should either resign as auditors or not stand for reappointment, as appropriate. (Ethical Standard 1, par 6)

Once an audit engagement partner has held this role for a continuous period of ten years, careful consideration is given as to whether a reasonable and informed third party would consider the audit firm's objectivity and independence to be impaired...(Ethical Standard 1, par 9)

Have you acted as audit engagement partner for a period greater than 10 years?

yes no

If answer to the question above is 'no', the sections below are not required to be completed.

If answer to the question above is 'yes', please complete either section A or section B, as applicable. One of these sections must be completed.

Section A – to be completed if safeguards have been applied to address the threats to the auditors' objectivity and independence due to long association with the audit.

Please document the safeguards in place to address the threats (self-interest, self-review and familiarity threats) to the auditors' objectivity and independence due to the long association with the audit engagement. See Appendix 1 for examples of possible safeguards.

[Details of reviews, consultations etc should be detailed here, or referenced to where the safeguards are detailed on the audit working papers]

Section B – to be completed if safeguards have not been applied to address the threats to the auditors’ objectivity and independence due to long association with the audit.

(1) Documentation

If no safeguards are in place to address the threats to the auditors’ objectivity and independence please document the reasoning as to why the individual continues to participate in the audit engagement. See Appendix 2 for guidance.

(2) Discussion with Client

The facts relating to the length of time that the audit engagement partner has held this role should be communicated to those charged with governance of the audit client in accordance with paragraphs 49-53 of APB Ethical Standard 1.

Please document detail of the form and timing of communication with those charged with governance in relation to the audit engagement partner’s long association with the audit.

I confirm that those charged with governance of the audit client have been appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence, related to the provision of non-audit services, including the safeguards put in place

_____ [Audit Engagement Partner Signature]

Appendix 1

Examples of possible safeguards to address the threats to auditor independence due to long association of the audit engagement partner with the audit:

- Independent external quality control review
- External review of the significant subjective audit issues before audit report is signed off.
- Involving an additional partner not involved on the audit engagement to review the work done by the audit partner and to advise as necessary (in the case of practices with one partner this could involve a reciprocal arrangement with a partner from another audit firm).
- Consultation on subjective matters with an independent external third party (eg partner under reciprocal arrangement, expert) or with the Institute before the audit report is signed off.

Appendix 2

The reasoning as to why the individual continues to participate in the audit engagement would typically be a statement as to why safeguards are not necessary, for example:

“I am able to continue giving an objective audit opinion as there are no significant subjective issues on this client. If any arise I will take external advice”.

Ethical Dilemmas for Auditors

The Professional Standards Department of the Institute receives queries from members on Ethical issues. The issues raised in this paper are based on commonly asked questions from CPA audit firms. It does not cover all requirements of the APB Ethical Standards.

These issues can often be quite complex in nature and cases are not always the same, therefore it is advisable that if you identify an issue, that you discuss it with a third party.

If you wish to discuss any of these issues with a member of the technical staff in the Institute, you can contact the Professional Standards Department at 01-6314665.

Further information can also be obtained from the CPA website at www.cpaireland.ie.

**Professional Standards Department
The Institute of Certified Public Accountants in Ireland,
9 Ely Place,
Dublin 2**

**Phone: 01-6314665
E-mail: techqueries@cpaireland.ie**

This document has been prepared exclusively for educational purposes only. It is a guide only and does not purport to give definitive advice.

Whilst every care has been taken in the preparation of this document, ICPAI does not guarantee the accuracy, appropriateness, and suitability of applicability of any information contained therein. CPA shall therefore not be liable for any damage or economic loss whether arising from negligence, breach of contract or otherwise of CPA.