In addition to complying with the fundamental principles, the **International Independence Standards** (IIS) require professional accountants (PAs) in public practice to be independent when performing audits, reviews, or other assurance engagements. Independence is closely linked to the principles of integrity and objectivity and is an important element of serving the public interest.

**The Internal Perspective:**
In the previous installments of *Exploring the IESBA Code*, we reviewed the Code’s fundamental principles and conceptual framework. From the perspective of a PA at an international manufacturing company trying to expand into a new market, we then:

- Reviewed examples of facts and circumstances that could create threats to compliance with the fundamental principles; and
- Examined the thought process followed to identify, evaluate, and address such threats, including how to apply appropriate safeguards.

**The External Perspective:**
Let’s change perspective now and consider how the situation impacts the company’s auditors. Recall that:

- There are email communications suggesting money transfers were made by the company to external bank accounts around the same time that the expansion plan was being developed.
- During the audit, several large bank transfers were flagged by the auditor’s data analytics software.
- The field auditor has brought the flagged transactions to the audit manager for review.

**Why is independence so important?**
Stakeholders need to trust that auditors are independent of their client and of management. Auditors are expected to:

- Evaluate the appropriateness of evidence;
- Follow up on any discrepancies;
- Challenge a client’s leadership team—up to, and including, the CEO; and
- Take appropriate action if they suspect fraud.

To rely on the auditor’s report, there must be confidence that the auditor’s professional judgment was not compromised, and that the auditor was not influenced in a way that would threaten their integrity, objectivity, or professional skepticism.
Independence Versus the Fundamental Principles

Independence is not a fundamental principle, but the same threats to compliance with the principles can also threaten independence. In an audit of financial statements, compliance with the principles supports the exercise of professional skepticism.

Identifying Independence Threats

Consider the impact on stakeholder confidence if the auditor of the manufacturing company identified the following threats:

- **Self-Review**—the audit firm’s advisory group originally consulted on the company’s expansion plans and risk assessment.
- **Advocacy**—the audit firm has been retained to help defend the company’s actions in court, if needed, in the future.
- **Intimidation**—the company is a very important client for the audit firm, and the CEO is threatening to fire the firm if they require extra time to examine overseas transactions.

Clearly, each of these threats has the potential to reduce stakeholder confidence in the auditor’s report. If these threats arose, they would most likely not be at an acceptable level and would need to be addressed.

Evaluating and Addressing Independence Threats

Each of the threats to independence identified must be evaluated and, if deemed to be at an unacceptable level, addressed in accordance to the requirements set out in the conceptual framework (see Installment 4).

The level of a threat to independence will be impacted by the types of conditions, policies and procedures that a firm has in place to support ethical behavior, as well as any regulatory requirements. These are different from safeguards, which are specific actions that the firm takes to reduce an identified threat to an acceptable level. A commonly used form of safeguard is to have the firm’s work reviewed by an appropriate reviewer—often another PA—who is knowledgeable and impartial.

In some situations, there are no safeguards that can reduce threats to an acceptable level. For example, the IIS prohibit auditors from having a financial interest in an audit client.

In addition to the provisions that help firms apply the conceptual framework to independence, the IIS deals with other specific topics, including required communications with those charged with governance, independence requirements for network firms, and provisions that apply when a firm identifies a breach in independence.

WHERE TO GET ASSISTANCE?

The International Independence Standards are included in Parts 4A for audit and review engagements and 4B for assurance engagements other than audits and reviews.

The eCode, which is available at www.IESBaCode.org, is an on-line resource for accountants and other users of the Code. It provides quick and efficient access to the Code, making it easier to use, implement, and enforce.