AUDIT INDEPENDENCE REVIEW POLICY FOR THE PARTNERS OF RAHMAN ANIS & CO., CHARTERED ACCOUNTANTS (REFERRED AS 'RAC')

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1. INTRODUCTION

1.1 This policy aims to clarify the meaning of independence while performing the partners' duties as Auditors. Professional integrity and independence is an essential characteristic of all the professions but is more so in the case of accountancy profession. Independence implies that the judgement of a person is not subordinate to the wishes or direction of another person who might have engaged him, or to his own self-interest. This document shall provide guidance to the partners about the specific circumstances and relationships that may create threats to independence. The policy also provides safeguards that should be employed by the partners to mitigate the risk arising from such circumstances and relationship leading to the threats to independence.

1.2 It is not possible to define "independence" precisely. Rules of professional conduct dealing with independence are framed primarily with a certain objective. The rules themselves cannot create or ensure the existence of independence. Independence is a condition of mind as well as personal character and should not be confused with the superficial and visible standards of independence which are sometimes imposed by law. These legal standards may be relaxed or strengthened but the quality of independence remains unaltered.

1.3 There are two interlinked perspectives of independence of auditors, one, independence of mind; and two, independence in appearance.

The Code of Ethics for Professional Accountants, issued by International Federation of Accountants (IFAC) defines the term 'Independence' as follows:

> "Independence is:
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> (a) Independence of mind – the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism; and
>
> (b) Independence in appearance – the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional skepticism had been compromised."

1.4 Independence of the partners of RAC has not only to exist in fact, but also appear to so exist to all reasonable persons. The relationship between the partner and his client should be such that firstly, he is himself satisfied about his independence and secondly, no unbiased person would be forced to the conclusion that, on an objective assessment of the circumstances, there is likely to be an abridgement of the auditors' independence.

1.5 In all phases of a partner's work, he is expected to be independent, but in particular in his work as auditor, independence has a special meaning and significance. Not only the client but also the stakeholders, prospective investors, bankers and government agencies rely upon the accounts of an enterprise/organization when they are audited by RAC. As statutory auditor of a limited company, for example, the partner would cease to perform any useful function if the persons who rely upon the accounts of the company do not have any faith in the independence and integrity of the partner. In such cases he is expected to be objective in his approach, fearless, and capable of expressing an honest opinion based upon the performance of work such as his training and experience enables him to do so.

1.6 The objective of an audit of financial statements, prepared within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, is to enable a partner to express an opinion on such financial statements. The auditor's opinion helps determination of the true and fair view of the financial position and operating results of an enterprise. The user, however, should not assume that the auditor's opinion is an assurance as to the future viability of the enterprise or the efficiency or effectiveness with which management has conducted the affairs of the enterprise.

1.7 The idea of independence is instilled in the minds of the partners of RAC from the commencement of their training under articles or audit service. It has to be applied in their day-to-day work and their success is dependent entirely upon their integrity, competence and independence of approach.

1.8 Dependent as it is on the state of mind and character of a person, independence, is a very subjective matter. One person might be independent in a particular set of circumstances, while another person might feel he is not independent in similar circumstances. It is therefore the duty of every partner of RAC to determine for himself whether or not he can act independently in the given circumstances of a case and quite apart from legal rules, in no case to place himself in a position which would compromise his independence.

1.9 Every partner of RAC should be straightforward, honest and sincere in his approach to his professional work. He must be fair and must not allow prejudice or bias to override his objectivity. He should maintain an impartial attitude and both be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity. This is not self-evident in the exercise of the reporting function but also applies to all other professional work. In determining whether a member in practice is or is not seen to be free of any interest which is incompatible with objectivity, the criterion should be whether a reasonable person, having knowledge of relevant facts and taking into account the conduct of the member and the member's behavior under the circumstances, could conclude that the member has placed himself in a position where his objectivity would or could be impaired.

1.10 While performing audit functions, maintaining quality control is the objectives of the quality control and policies to be adopted by a partner shall ordinarily incorporate the following:

Professional Requirements: Personnel in the firm are to adhere to the principles of Independence, Integrity, Objectivity, Confidentiality and Professional Behavior.

Skills and Competence: The firm is to be staffed by personnel who have attained and maintained the Technical Standards and Professional Competence required to enable them to fulfill their responsibilities with Due Care.

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Assignment: Audit work is to be assigned to personnel who have the degree of technical training and proficiency required in the circumstances.

Delegation: There is to be sufficient direction, supervision and review of work at all levels to provide reasonable assurance that the work performed meets appropriate standards of quality.

Consultation: Whenever necessary, consultation within or outside the firm is to occur with those who have appropriate expertise.

Acceptance and Retention of Clients: An evaluation of prospective clients and a review, on an ongoing basis, of existing clients is to be conducted. In making a decision to accept or retain a client, the firm's independence and ability to serve the client properly are to be considered.

Monitoring: The continued adequacy and operational effectiveness of quality control policies and procedures is to be monitored.

1.11 Standing alone, the word "Independence" may lead observers to suppose that a person exercising professional judgment ought to be free from all economic, financial and other relationships. This is impossible, as every member of society has relationships with others. Therefore, the significance of economic, financial and other relationships should also be evaluated in the light of what a reasonable and informed third party having knowledge of all relevant information would reasonably conclude to be unacceptable.

1.12 Many different circumstances, or combination of circumstances, may be relevant and accordingly it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action that should be taken. In addition, the nature of assurance engagements may differ and consequently different threats may exist, requiring the application of different safeguards. A conceptual framework that requires chartered accountants to identify, evaluate and address threats to independence, rather than merely comply with a set of specific rules in the public interest.

2. Threats to Independence

2.1 The Code of Ethics for Professional Accountants, prepared by the International Federation of Accountants (IFAC) identifies five types of threats. These are:

a. Self-interest threats, which occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. Examples include (i) direct financial interest or materially significant indirect financial interest in a client, (ii) loan or guarantee to or from the concerned client, (iii) undue dependence on a client's fees and, hence, concerns about losing the engagement, (iv) close business relationship with an audit client, (v) potential employment with the client, and (vi) contingent fees for the audit engagement.

b. Self-review threats, which occur when during a review of any judgement or conclusion reached in a previous audit or non-audit engagement, or when a member of the audit team was previously a director or senior employee of the client. Instances where such threats come into play are (i) when an auditor having recently been a director or senior officer of the company, and (ii) when auditors perform services that are themselves subject matters of audit.

c. Advocacy threats, which occur when the auditor promotes, or is perceived to promote, a client's opinion to a point where people may believe that objectivity is getting compromised, e.g. when an auditor deals with shares or securities of the audited company, or becomes the client's advocate in litigation and third party disputes.

d. *Familiarity threats* are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests. This can occur in many ways: (i) close relative of the audit team working in a senior position in the client company, (ii) former partner of the audit firm being a director or senior employee of the client, (iii) long association between specific auditors and their specific client counterparts, and (iv) acceptance of significant gifts or hospitality from the client company, its directors or employees.

e. *Intimidation* threats, which occur when auditors are deterred from acting objectively with an adequate degree of professional skepticism. Basically, these could happen because of threat of replacement over disagreements with the application of accounting principles, or pressure to disproportionately reduce work in response to reduced audit fees.

3. SAFEGUARDS TO INDEPENDENCE

3.1 The Chartered Accountants working as partners in RAC has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats.

3.2 To address the issue, partners are agreed to apply the following guiding principles: -

- For the public to have confidence in the quality of audit, it is essential that auditors should always be and appears to be independent of the entities that they are auditing.
- In the case of audit, the key fundamental principles are integrity, objectivity and professional skepticism, which necessarily require the auditor to be independent.

- Before taking on any work, he must conscientiously consider whether it involves threats to his independence.

- When such threats exist, the partner should either cease from the task or, at the very least, put in place safeguards that eliminate them. All such safeguards measure needs to be recorded in a form that can serve as evidence of compliance with due process.

- If the auditor is unable to fully implement credible and adequate safeguards, then he must not accept the work.

3.3 Provisions contained under various Acts applicable in Bangladesh

3.3.1 In order to ensure independence, the law has made certain provisions which either prohibit the appointment of a person as auditor in certain circumstances or place certain restrictions on his appointment as auditor or put third parties on guard against the possibility of an abridgement of independence by requiring certain disclosures to be made. These provisions are briefly outlined below:

Section 212 of the Companies Act, 1994 prohibits the appointment of a Chartered Accountant as auditor of a Company if he is:

Section 212. Qualification and disqualification of auditors: -

(1) No persons shall be appointed an auditor of any company unless he is a "chartered accountant" within the meaning of the Bangladesh Chartered Accountants Order, 1973, (P.O. No. 2 of 1973):

Provided that a firm whereof all the partners practicing in Bangladesh are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of company in which case any of the auditors so practicing may act in the name of the firm.

(2) None of the following persons shall be qualified for appointment as auditor of a company namely-

(a) an officer or employee of the company;
(b) a person who is partner, or who is in the employment of an officer or employee of the company;
(c) a person who is indebted to the company for an amount exceeding one thousand taka, or who had given any guarantee or provided any security in connection with the indebtedness of any third person to the company for an amount exceeding one thousand taka;
(d) a person who is director or member of a partner company, or a partner of a firm, which is the managing agent of the company;
(e) a person who is a director, or the holder of shares exceeding five percent in nominal value of the subscribed capital, of anybody corporate which is the managing agent of the company.

Provided that where any shares held by a person as nominee or trustee for any third person and in which the holder has no beneficial interest such shares shall be excluded in computing the extent of the subscribed capital for the purpose of this clause.
Explanation :- For the purposes of this sub-section the word "officer" or "employee" shall not in include an auditors.

(3) A person shall not be qualified for appointment as an auditor of a company, if-

(a) he, according to sub-section (2), is disqualified for appointment as auditor of any other body

corporate which is that company's subsidiary or holding company or a subsidiary of that company's holding company's;
(b) he would be disqualified for such appointment, had the said body corporate been a company. (4) If an auditor becomes subject, after his appointment to any of the disqualification's specified in sub-section (2) and (3), he shall be deemed to have vacated his office as such.

(4) If an auditor becomes disqualified on his appointment for any of the reasons mentioned in sub-sections (2) and (3), he shall be deemed to have resigned from the office of auditor.

(5) No person shall be eligible to be an auditor of a company established as a public interest body unless he is listed as an auditor by the Financial Reporting Council under section 31 of the Financial Reporting Act, 2015.