

IMPARTIALITY and CONFLICT of INTEREST

Impartiality and objectivity are the basic prerequisites for effective and consistent Auditing service. This policy illustrates good behavioural practices for the benefit of both the Auditors themselves and of KELTON®.

Scope

The overall aim of this policy is to give confidence to all parties that rely on KELTON®. The main principles for inspiring confidence are independence, impartiality and competence both in action and appearance. This policy concerns itself with issues relating to the threats and safeguards to independence and impartiality.

Commitment to Impartiality

The organisational structure and procedures of KELTON® demonstrate how the primary requirement of impartiality is fulfilled. KELTON® demonstrate, by means of policies, procedures and training how it deals with the pressures and other factors that can compromise or can reasonably be expected to compromise objectivity and which may arise from a wide variety of activities, relationships, and other circumstances as well as from various personal qualities and characteristics of Auditors that may be sources of bias.

Threats to Impartiality

Threats to impartiality are sources of potential bias that may compromise, or may reasonably be expected to compromise the ability to make unbiased observations and conclusions.

Because threats may, or may reasonably be expected to, compromise the ability to make unbiased observations and conclusions, KELTON® identify and analyse the effects of threats that are sources of potential bias.

Threats are posed by various types of activities, relationships and other circumstances. In order to understand the nature of those threats and their potential impact on impartiality, KELTON® identify the types of threats posed by specific activities, relationships or other circumstances. The following list provides examples of the types of threats that may create pressures and other factors that can lead to biased behaviour.

Although the list is not mutually exclusive or exhaustive, it illustrates the wide variety of types of threat that KELTON[®] will consider when analysing independence and impartiality issues:

- ✚ self-interest threats: threats that arise from Auditors acting in their own interest. Self-interests include emotional, financial, or other personal interests. Auditors may favour, consciously or subconsciously, those self-interests over their interest in performing an audit. For example, KELTON[®] relationships with clients create a financial self-interest because the clients pay the KELTON[®] fees. Auditors also have a financial self-interest if they own shares in an auditee and may have an emotional or financial self-interest if an employment relationship exists
- ✚ self-review threats; threats that arise from reviewing the work done by themselves or by their colleagues. It may be more difficult to evaluate without bias the work of one's own organisation than the work of someone else or of some other organisation. Therefore, a self-review threat may arise when reviewing judgements and decisions they, or others in their organisation, have made
- ✚ familiarity (or trust) threats: threats that arise from being influenced by a close relationship with a person. Such a threat is present if Auditors are not sufficiently sceptical of a persons assertions and as a result, too readily accepts their viewpoint because of their familiarity with or trust in the person. For example, a familiarity threat may arise when an Auditor has a particularly close or long-standing personal or professional relationship with a person
- ✚ intimidation threats: threats that arise from being, or believing that they are being, openly or secretly coerced by other interested parties. Such a threat may arise, for example, if an Auditor or KELTON[®] is threatened with replacement over a disagreement with an application of a specific requirement of the normative document being used as the reference
- ✚ advocacy threats; e.g. a body or its personnel acting in support of, or in opposition to, a given organisation which is at the same time its customer, in the resolution of a dispute or litigation
- ✚ competition threats; KELTON[®] and/or the Auditor may be concerned about risking the audit contract.

Safeguards to Impartiality

KELTON[®] have in place safeguards that mitigate or eliminate threats to impartiality. Safeguards may include prohibitions, restrictions, disclosures, policies, procedures, practices, standards, rules, institutional arrangements, and environmental conditions. These are regularly reviewed to ensure their continuing applicability.

Note: safeguards exist in the environment in which projects are performed or can be mandated by independent decision makers in response to threats posed by various activities, relationships, and other circumstances. One way in which safeguards can be described is by where they reside.

Examples of safeguards that exist in the environment in which projects are performed include:

- ✚ the value KELTON® and an individual place on their reputations
- ✚ accreditation for KELTON® assess organisation-wide compliance with professional standards and regulatory requirements regarding impartiality
- ✚ general oversight by KELTON® governance structures (for example, boards of directors) concerning compliance with impartiality criteria
- ✚ other aspects of corporate governance, including the KELTON® culture that supports the certification process and impartiality
- ✚ rules, standards, and codes of professional conduct governing behaviour
- ✚ the raising of sanctions, and the possibility of such actions, by accreditation bodies
- ✚ the legal liability faced by KELTON®

Examples of safeguards that exist within the KELTON® management system include:

- ✚ maintaining a culture in KELTON® that stresses the expectation that staff will act in the wider interest and the importance of impartiality
- ✚ maintaining a professional environment and culture in KELTON® that supports behaviour of all personnel that is consistent with impartiality
- ✚ management systems that include policies, procedures, and practices directly related to maintaining impartiality
- ✚ other policies, procedures, and practices, such as those concerning the rotation of staff, internal audit, and requirements for internal consultation on technical issues
- ✚ personnel hiring, training, promotion, retention, and reward policies, procedures, and practices that emphasise the importance of impartiality
- ✚ safeguards that relate to threats arising in circumstances – for example, prohibitions against certain employment relationships between family members and KELTON®
- ✚ safeguards whose effects are to deter violations of other safeguards by punishing violators – for example, a zero tolerance policy enabling accreditation bodies to immediately suspend or withdraw accreditation

An alternative way in which safeguards can be described is by the extent to which they restrict activities or relationships that are considered threats to impartiality, such as prohibiting Auditors from providing consultancy to the clients.

In assessing the impartiality of its auditors KELTON® consider:

- ✚ the pressures and other factors that might result in, or might reasonably be expected to result in, biased behaviour – here described as threat to impartiality
- ✚ the significance of those pressures and other factors and the effectiveness of those controls
- ✚ the likelihood that pressures and other factors, after considering the effectiveness of controls, will reach a level where they compromise, or may

reasonably be expected to compromise, and Auditors ability to maintain an unbiased behaviour

Accessing the Level of Impartiality Risk

KELTON[®] assesses the level of impartiality risk by considering the types and significance of threats to Auditors impartiality and the types and effectiveness of safeguards. This basic principle describes a process by which KELTON[®] identify and assess the level of impartiality risk that arises from various activities, relationships, or other circumstances.

Note that the level of impartiality risk can be expressed as a point on a continuum that ranges from 'no risk' to 'maximum risk'. One way to describe those endpoints, the segments of the impartiality risk continuum that fall between those endpoints, and the likelihood of compromised objectivity to which the endpoints and segments correspond, is as follows:

Table 1: Level of impartiality risk

No Risk	Remote Risk	Some Risk	High Risk	Maximum Risk
Compromised objectivity is virtually impossible	Compromised objectivity is very unlikely	Compromised objectivity is possible	Compromised objectivity is probable	Compromised objectivity is virtually certain

Note also that although it cannot be measured precisely, the level of risk for any specific activity, relationship, or other circumstances that pose a threat to Auditors impartiality can be described as being in one of the segments, or at one of the endpoints, on the impartiality risk continuum.

Determining the Acceptability of the Level of Impartiality Risk

KELTON[®] determine whether the level of impartiality risk is at an acceptable position on the impartiality risk continuum. KELTON[®] evaluate the acceptability of the level of impartiality risk that arises from specific activities, relationships, and other circumstances. That evaluation requires us to judge whether safeguards eliminate or adequately mitigate threats to Auditors impartiality posed by those activities, relationships, or other circumstances. If they do not, KELTON[®] decides which additional safeguard, (including prohibition) or combination of safeguards would reduce the risk, and the corresponding likelihood of compromised objectivity, to an acceptably low level.

Given certain factors in the environment in which audits take place – for example, that KELTON[®] is paid by the auditee - the impartiality risk cannot be completely

eliminated and, therefore KELTON[®] always accept some risk that audit objectivity will be compromised. Nevertheless, in the presence of threats to the audit impartiality, KELTON[®] considers only a very low level of risk to be acceptable. Only such a small likelihood of compromised objectivity is consistent with both the definition and the goal of audit impartiality.

Some threats to audit impartiality may affect only certain individuals or groups within KELTON[®] and the significance of some threats may be different for different individuals or groups. To ensure that the risk is at an acceptably low level KELTON[®] identify the individual or groups affected by threats to impartiality and the significance of those threats. Different types of safeguards may be appropriate for different individuals and groups depending on their roles in the Company.

KELTON[®] ensure that the benefits resulting from reducing the impartiality risk by imposing additional safeguards, exceed the costs of those safeguards. Although benefits and costs are often difficult to identify and quantify, KELTON[®] consider them when they make decisions about impartiality issues.

Various parties bear a variety of costs in maintaining impartiality. Some of those costs relate directly to developing, maintaining, and enforcing safeguards, including the costs of KELTON[®] impartiality-related quality controls and costs related to the systems of accreditation and self-regulation of impartiality. Other, indirect costs of maintaining impartiality, sometimes called second-order effects or unintended consequences, also may exist. Those costs relate to possible reductions in quality or other negative outcomes that may result from safeguards that prohibit or restrict activities and relationships.

The direct and indirect costs of maintaining impartiality may be affected by many variables, including the number of individuals in an organisation who will be affected by a safeguard. Because the impartiality of Auditors is important not only in its own right but also in helping ensure that broad public interest objectives are met, KELTON[®] consider second-order effects or unintended consequences that go beyond the direct impact of their decisions on the impartiality.

Organisational and Structural Issues

In addition to the aspects outlined above, impartiality needs to be further protected by placing it within an organisational structure, which will guarantee that the safeguards required are implemented. The organisational structure should be such that KELTON[®] can demonstrate its impartiality to an informed and disinterested third party.

The structure and organisation of KELTON[®] to meet these objectives is transparent and supports the development and the application of the processes necessary to meet the above objectives. These processes include:-

- ✚ understanding the needs and expectations of customers and other stakeholders
- ✚ establishing the policy and objectives of the organisation
- ✚ determining the processes and responsibilities necessary to attain the objectives
- ✚ determining and providing the infrastructure and resources necessary to attain the objectives
- ✚ establishing and applying methods to determine the efficiency and effectiveness of each process
- ✚ the identification of potential conflict of interest at the level of both the organisation and the individual, and the means of identifying it and dealing with it
- ✚ determining means of preventing nonconformities and eliminating their causes
- ✚ establishing and applying a process for continual improvement of the above processes