

## Basis for Conclusions: Section 290 – Independence Assurance Engagements

---

*Prepared by the Staff of the International Ethics Standards Board for  
Accountants*



**International Federation  
of Accountants**



July 2006

## **Staff Summary of Basis for Conclusions on Section 290 *Independence – Assurance Engagements***

This Basis for Conclusions has been prepared by staff of the International Ethics Standards Board for Accountants (“IESBA”) and has not been discussed by the IESBA. It does not form part of the revised Section 290 *Independence – Assurance Engagements*.

### **Background**

1. The IESBA considered and approved a project to revise the extant Section 290 *Independence – Assurance Engagements* (“Section 290”), in February 2004 because concern had been expressed that the definition of network firm was too narrow and it did not appropriately consider the importance of the way firms present themselves.
2. The IESBA issued an exposure draft of the proposed revised Section 290 (“ED 290”) in June 2005, with a comment deadline of September 30, 2005. The IESBA received 27 comment letters from a variety of respondents, including regulators, IFAC member bodies, and firms. As a result of these comments, the IESBA made a number of changes to ED 290 in finalizing the text of the revised Section 290. The following summarizes the more significant issues raised by respondents, and how the IESBA addressed them.

### **Alignment to the EU 8th Directive**

3. When ED 290 was approved by the IESBA (then the IFAC Ethics Committee) in June 2005, the European Union 8<sup>th</sup> Directive (“EU 8<sup>th</sup> Directive”) had not been finalized and approved. The IESBA recognized that the EU 8<sup>th</sup> Directive would contain a definition of a network and agreed to consider the final wording during the exposure period of ED 290.
4. A number of respondents to ED 290 expressed the view that the Section 290 definition should be aligned with the EU 8<sup>th</sup> Directive. These respondents noted that the two definitions were substantially similar and it would be helpful to those in Europe and of no detriment to those elsewhere if the IESBA definition was aligned with the EU 8<sup>th</sup> Directive. The IESBA reviewed the EU 8<sup>th</sup> Directive definition and agreed that the Section 290 definition should be aligned. In addition Section 290 contains explanatory material on the application of elements of the definition.

### **Disclosure of Being Part of an Association (Paragraph 290.26)**

5. ED 290 noted that when a firm does not meet the criteria of a network firm but describes itself as being a member of an association of firm the description may create the appearance that the firm is part of a network. To avoid such an appearance, the ED 290 proposed that the firm should clearly describe the nature of its membership in the association, for example, by stating on its stationery or promotional material that it is “an independent firm associated with

XYZ Association of Accounting Firms.” This proposal elicited several comments from respondents including the following:

- The proposed requirement could be interpreted as implying that any reference to an association results in the presumption of a network unless stated otherwise;
  - The proposal could be interpreted to mean that such a disclosure negates the expanded requirement of the network firm definition;
  - The proposed language might not be appropriate in all jurisdictions; and
  - The proposed disclosure is similar to language used today by large global accounting associations that would be considered to be network firms. There should be no implication that major global accounting networks fall outside the network firm definition.
6. The IESBA did not envisage that this requirement would be treated as a method for firms that meet the network firm criteria to opt out of the requirements
  7. The IESBA recognized that given the differing legal frameworks in various jurisdictions it was not possible to draft proposed language that would be appropriate in all circumstances. Accordingly, the IESBA has deleted the proposed disclosure from the final standard.

### **Effective Date**

8. ED 290 proposed that the effective date of the revised Section 290 should be assurance reports dated on or after December 31, 2006. Some respondents noted that the proposed change would need to be translated and communicated to all firms within a network and firms may need to establish cross-border mechanisms for the identification and reporting of audit clients and relationships. Respondents further noted that independence is required throughout the period covered by the financial statements, the proposed effective date would require compliance on January 1, 2006 and time would be needed for member bodies and practitioners to implement the standard.
9. The IESBA agreed that it is in the public interest to set the effective date so that member bodies and practitioners could implement the final standard at the earliest opportunity. At the same time, the IESBA recognized the need to allow a reasonable time for translation, education and implementation. The IESBA determined that the revised Section 290 should be effective for assurance reports dated on or after December 31, 2008.

\* \* \*



**International Federation of Accountants**

545 Fifth Avenue, 14<sup>th</sup> Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 [www.ifac.org](http://www.ifac.org)