

Restricted Use Reports

Background

The Code currently provides that for restricted use reports in respect of a non-financial statement audit client, the users of the report are considered to be knowledgeable about the limitations of the report. This increased knowledge and ability of the firm to communicate with all users may be taken into account in evaluating any threats to independence. Accordingly, 290.19 provides that for such engagements the assurance team is required to comply with the independence provisions in the section and the firm may not have a material financial interest in the client.

Discussion

The Task Force considered such types of reports. It noted that often such reports are confidential in nature, are non-recurring and may need to be commenced in a short time frame. In considering the threats to independence that might be created in such circumstances the Task Force concluded that the engagement team (those participating on the engagement) should be required to comply with all of the independence provisions as should those who consult on the engagement and those who provide quality control for the engagement. Such individuals are actively involved in the engagement and, therefore, irrespective of the ability of the firm to communicate with the users, the individuals should be subject to same independence requirements as for non-restricted use assurance engagements. With respect to other members of the assurance team (i.e. those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement), the Task Force is of the view that such individuals are not closely involved in the engagement and might not even be aware of the nature of the engagement, if it is confidential in nature. Accordingly, the Task Force recommends that the firm needs to consider any threats that it has reason to believe would be created by interests and relationships of such individuals – that it the firm would have to react to known interests and relationships but would not necessarily need to make inquiries of these individuals.

The Task Force noted that there was some ambiguity with respect to the obligations of the firm. 290.19 states “Further, if the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threats created would be so significant no safeguard could reduce the threat to an acceptable level.” The Task Force noted that this could be read one of two ways:

- With respect to the financial interest restrictions the threshold for restricted use engagements to non-financial statement audit clients is whether the financial interest is material. With respect to other restrictions, for example the provision of non-assurance services, the restrictions in the rest of the section apply; or

- With respect to the financial interest restrictions the threshold for restricted use engagements to non-financial statement audit clients is whether the financial interest is material. With respect to other restrictions the firm applies a threats and safeguards approach.

The Task Force is of the view that the first alternative was what was intended when the Code was originally drafted, The Task Force is of the view that this continues to be appropriate. The accommodation is with respects to financial interests only. Therefore, the Task Force recommends that Section 290 make this clear.

Illustrative wording

290.19 ~~In the case of an~~An assurance report in respect of a non-financial statement audit client may be expressly restricted for use by only the intended users specified in the report. In such engagements, the users of the report are considered to be knowledgeable as to the purpose, subject matter information and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to deliver the services, including the criteria against which the subject matter are to be evaluated or measured. This knowledge and the enhanced ability of the firm to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence in appearance. These circumstances may be taken into account by the firm in evaluating the threats to independence and considering the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level.

290.19a Members of the engagement team are required to be independent of the assurance client, accordingly ~~At a minimum,~~ it will be necessary to apply the provisions of this section ~~in evaluating the independence of to the~~ members of the ~~assurance engagement~~ team and their immediate and close family. Also, consideration should be given to whether threats to independence are created by interests and relationships between the following members of the assurance team and the assurance client:

- Those who provide consultation regarding technical or industry specific issues, transactions or events; and
- Those who provide quality control for the engagement, including those who perform the engagement quality control review.

Consideration should also be given to any threats that the engagement team has reason to believe may be created by interests and relationships between the assurance client and others within the firm who can directly influence the

outcome of the assurance engagement including those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement.

290.19b Further, if the firm had a material financial interest, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Accordingly, the firm should not have such a financial interest. In addition, the firm is required to comply with the other applicable provisions of this section described in paragraphs 290.126 – 290.214. Limited consideration of any threats created by network firm interests and relationships may be sufficient.

Action requested

Members are asked to consider the recommendation of the Task Force and the illustrative wording.