

## CLEARLY INSIGNIFICANT – DETAILED COMMENTS

1.	Clearly insignificant	<p>Sections 290.4 and 290.32 of the Code state: “290.4: <i>The objective of this section is to assist firms and members of audit teams in applying a conceptual approach to achieving and maintaining independence that involves: (a) identifying threats to independence; (b) evaluating whether these threats are clearly insignificant; and (c) when the threats are not clearly insignificant, identifying and applying safeguards to eliminate the threats or reduce them to an acceptable level</i>”. “290.32: <i>Throughout this section, reference is made to significant and clearly insignificant threats to independence. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is deemed to be both trivial and inconsequential</i>”.</p> <p style="text-align: right;">Cont’d</p>	E&Y	
2.	Clearly insignificant	<p>We fully support the conceptual approach to identifying, evaluating and addressing threats to independence set out in 290.4. However, our experience with the implementation of the Code in recent years suggests that the threshold of "not clearly insignificant" used to determine when safeguards are necessary and documentation is required, is too low. “Clearly insignificant” is defined as "a matter that is deemed to be both trivial and inconsequential". This leads, in practice, to threats being evaluated, safeguards considered and the conclusions documented in too many situations, placing a very significant compliance burden that in many cases is simply unwarranted. If implemented literally, this provision does not strike the right balance between the costs of compliance and serving the wider public interest.</p> <p>We believe that the definition of “Clearly Insignificant” should be expanded to consider materiality when the matter is related to the financial statements of the audit client. Accordingly, we recommend that the definition of “Clearly Insignificant” be changed to: “<i>A matter that is deemed to be both trivial and inconsequential, or a matter related to the financial statements which is deemed to be clearly immaterial</i>”.</p>	E&Y	

3.	Clearly insignificant	<p>The ED utilizes the concept of “clearly insignificant” in assessing threats to an auditor’s independence. This term is defined as “a matter that is deemed to be both trivial and inconsequential.” The concept is used throughout the Code, as is the concept of materiality. The use of the “clearly insignificant” concept alongside the traditional and well understood materiality concept is in our view confusing at best and in application, may often be too low a threshold. Although it appears that the notion of materiality is often used to refer to matters that can be quantified, whereas significance covers more of a qualitative assessment (see an example of the distinction in paragraph 290.121 covering business relationships), this distinction is not clear in the Code. In fact, paragraph 290.32 refers to both qualitative and quantitative factors being important in evaluating the significance of a particular matter.</p> <p>Under the Code’s conceptual approach, the auditor is first required to determine if a threat to independence is “clearly insignificant.” If the threat is not “clearly insignificant” safeguards must be put in place regardless of whether, for example in the case of non-audit services, the results of the service will have a material impact on the client’s financial statements. A service that has an immaterial effect on the financial statements should not pose a threat to the auditor’s independence where the threat that gives rise to the concern about the service’s effect on the auditor’s objectivity is self-review.</p> <p>Further confusion is created because of the obvious gaps that exist with the Code’s terminology. What is the difference between a threat that is “clearly insignificant” as opposed to “insignificant?” Moreover, only when the threats are “so significant” does a prohibition exist. Is the auditor in the same position where the threats are “significant,” but not so significant, as when the threats are “insignificant” but not “clearly insignificant”?</p> <p style="text-align: right;">Cont’d</p>	DTT	
4.	Clearly insignificant	<p>It might be argued that the use of the word “clearly” raises the threat threshold to such an extent that practically speaking safeguards must be applied in virtually every case. We believe it is appropriate to use the materiality concept for determinations in this area. If the threat is material, safeguards should be applied. If the threat is not material, safeguards would be unnecessary. Alternatively, the language should be turned around and the safeguards applied only if the threat is “significant”.</p>	DTT	