

## PROPOSED CHANGES TO PROVISIONS

*Paragraph 290.39, and its heading, would be deleted and replaced with the following heading and paragraphs 290.39-290.49.*

### Violation of a Provision of this Section

- 290.39 A firm is required by *International Standards on Quality Control (ISQCs)* to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. Despite such policies and procedures, a circumstance may arise which results in a violation of this section occurring. Under ISQCs a firm is required to establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations.
- 290.40 If a violation is identified, any current interest or relationship that caused the violation shall be terminated promptly. The firm shall evaluate the significance of the violation and determine whether corrective measures are available that will resolve the situation such that the firm can continue the audit engagement or whether resignation is necessary. A violation may be so significant that the only appropriate action is to terminate the audit engagement.
- 290.41 The significance of the violation will depend on factors such as:
- (a) The duration of the violation before it was identified;
  - (b) Whether any current interest or relationship that caused the violation can be terminated promptly;
  - (c) Whether the action that caused the violation was taken by a member of the audit team or another member of the firm for whom independence is required;
  - (d) If the violation relates to an individual, whether the individual is a member of the audit team and, if so, the role of that individual;
  - (e) If the violation relates to a financial interest held by a member of the audit team, whether that individual held the financial interest knowing that it was a violation of a provision of this section; and
  - (f) If the violation relates to a non-assurance service, the extent to which the outcome of the service directly affects amounts recorded in the financial statements and the extent to which the amounts are material to the financial statements.
- 290.42 The firm shall determine whether corrective measures can be applied that will resolve the situation. Examples of such corrective measures include:
- (a) Removing the relevant individual from the audit team;
  - (b) Conducting an additional review of the affected audit work or re-performing that work to the extent necessary;

- (c) Having a professional accountant who is not a member of the firm expressing an opinion on the financial statements perform a review that is equivalent to an engagement quality control review;
  - (d) Engaging another firm to review or re-perform the affected audit work to the extent necessary; and
  - (e) Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service.
- 290.43 The firm shall evaluate whether the corrective measures will resolve the situation such that the firm can continue the audit engagement. When the firm determines that corrective measures are not available or cannot be applied to resolve the situation the firm shall terminate the audit engagement.
- 290.44 Subject to paragraphs 290.46 and 47, the firm shall discuss all violations with those charged with governance. The matters to be discussed shall include:
- The nature and significance of the violation;
  - Any corrective measures taken or proposed;
  - The rationale as to whether, in the firm’s professional judgment, the corrective measures resolve the situation such that the firm can continue the audit engagement;
  - A description of the firm’s relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained; and
  - An explanation of why, despite the policies and procedures, the violation occurred, and the steps taken or proposed to address any identified weakness in those policies and procedures.
- 290.45 The firm shall obtain from those charged with governance its agreement that the corrective measures, including any additional measures requested by those charged with governance, resolve the situation such that the firm can continue the audit engagement.
- 290.46 Those charged with governance may determine that the firm need not communicate some violations, such as those that are trivial and inconsequential and do not affect the firm’s ability to continue the audit engagement. If those charged with governance establish such a policy the firm shall obtain an understanding of the nature of the policy and communicate accordingly. The firm shall determine whether, even though the nature of the violation is such that in accordance with the policy it need not be communicated, the matter should be discussed with those charged with governance.
- 290.47 If an immediate family member of a partner or employee of the firm acquires a financial interest, other than by way of an inheritance, gift or the result of a merger, and such interest would not be permitted under this section, communication to those charged with governance is not required provided:

- (a) The partner or employee of the firm was not aware of the circumstances that led to the violation;
- (b) The firm has established policies and procedures equivalent to those required by International Standards on Quality Control;
- (c) The firm has established policies and procedures that require prompt notification to the firm of any violations resulting from the purchase of a financial interest in the audit client; and
- (d) The actions described in paragraph 290.116 (b) and (c) are taken as applicable.

The firm shall determine whether the magnitude of the matter is such that it is appropriate to discuss the matter with those charged with governance.

290.48 The firm shall comply with any formal or informal regulatory requirements to report independence violations to relevant regulators or others.

290.49 The professional accountant shall document:

- (a) The nature and significance of any violation,
- (b) Any corrective measures taken;
- (c) The rationale as to why the corrective measures resolve the situation such that the firm can continue the audit engagement;
- (d) The explanation of why, despite the firm's policies and procedures designed to provide the firm with reasonable assurance that independence is maintained, the violation occurred and steps taken to addresses any identified weaknesses in those policies and procedures; and
- (e) The results of the discussion with those charged with governance.

*The following paragraphs in the Code will be deleted:*

- 100.10
- 290.39
- 290.117
- 290.133
- 290.159
- 291.33
- 291.112
- 291.127

*Paragraph 290.116 would be amended as below and a similar change would be made to 291.111*

290.116 If a firm or a partner or employee of the firm, or a member of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an audit client, ~~for example,~~ by way of an inheritance, gift or as a result of a merger and such interest would not be permitted to be held under this section, then:

- (a) If the interest is received by the firm, the financial interest shall be disposed of immediately, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material;
- (b) If the interest is received by a member of the audit team, or a member of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material; or
- (c) If the interest is received by an individual who is not a member of the audit team, or by an immediate family member of the individual, the financial interest shall be disposed of as soon as possible, or a sufficient amount of an indirect financial interest shall be disposed of so that the remaining interest is no longer material, and pending the disposal of the financial interest, a determination shall be made as to whether any safeguards are necessary.

*291.33 would be replaced by paragraphs similar to 290.39-290.49 above.*