

International Ethics Standards Board for Accountants

Inadvertent Violation

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Project Status

- IESBA approved project proposal November 2010
- Task Force met 2010 and 2011
- Developed draft wording
- Discuss with CAG March 2011
- Approve Exposure Draft June 2011

Project Approach

- Review of need for provisions
- Review of existing language
- Types of possible violation
- Actions to be taken
- Consider whether all the Code or only independence

Review of need for provision

- Objective of such provisions
 - Distinguishing mark of accountancy profession is its acceptance to act in the public interest
 - Objective to ensure public protected to extent possible if a provision of the Code is violated
 - If automatic consequence of independence violation is resignation of auditor, public may not be well served

Arguments for provision

- Despite good policies and procedures violations do occur from time to time
- If there is a violation it calls into question firm's ability to continue the audit
- Not all jurisdictions have a regulator to deal with – so will look to the Code
- Without guidance needs to be addressed on an ad hoc and perhaps inconsistent manner

Arguments against provision

- Provision could be viewed as providing an exception to a requirement
- Provision could allow for an easy avenue for accountant to “cleanse” the situation and increase risk of abuse or discourage accountants to focus on compliance
- Code should focus on what is required and consequences of an inadvertent violation left to enforcement
- Regulation should not include guidance on how to address a violation

Review of existing language

- Inadvertent
 - Objective is robust and transparent mechanism
 - Automatic consequence of resignation may be disproportionate
 - Is inadvertent relevant/necessary
- Generally will be deemed not to compromise independence

Types of violations

- Financial interest – family member (teenage son) of partner in the office buys shares in an audit client of the office
- Partner rotation – partner miscounts number of years on assignment
- Scope of services – network firm provides a prohibited service
- Scope of services – rules change and network firm continues to provide a newly prohibited service

Action to be Taken

- Evaluate significance of violation
- Determine whether corrective measures are available or whether resignation is necessary
- Resign or apply corrective measures
- Discuss with those charged with governance
- Documentation

Discuss with those charged with governance

- Nature and significance of violation
- Any corrective measures taken or proposed
- Rationale, whether in firm's judgment, corrective measures resolve the situation such that firm can continue the audit engagement
- Description of firm's policies and procedures on independence
- An explanation of why, despite policies and procedures, violation occurred and steps taken or proposed to address any identified weaknesses

Independence only or all Code?

- Task Force reviewed other provisions of Code
- Distinguishing feature of independence is the consequence of the violation
 - If firm has to resign, entity needs to find another auditor, may miss regulatory filing deadlines and have to face all associate consequences
 - Disproportionate if nature of violation small