

# Breach of an Independence Requirement

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## *Inadvertent Violations*

### **Recap: Where we finished in February 2011**

- Code 'should' contain mechanism to deal with violations
- BUT only regarding independence given public interest aspect
- AND should relate to ALL violations not just inadvertent
- Public Interest: the primary consideration not consequences to the Accountant

## **CAG and NSS Comments**

- CAG Members
  - Varying views about need for provisions BUT majority of CAG members expressed support
  - Agreement re: ALL types of violations
- NSS
  - Unanimously agreed Code should address breaches, limited to independence and reference to inadvertent to be removed

**Discussion Points for this meeting - 1**

- ‘Violation’ versus ‘Breach’
- Resignation from the audit shall be considered – not all breaches can be rectified
- Disclosure of ALL breaches – no minimum threshold

**Discussion Points for this meeting - 2**

- Agreement from those charged with governance for continuation of audit
- Potential reporting beyond those charged with governance to Regulators and others

## **Review Draft Provisions**

- Change of Heading – ‘Breach of a Provision of this Section’
- 290.39 – introductory; recognises reality & refers to termination and reporting
- 290.40 – elimination of interest or relationship as soon as possible

## **Review Draft Provisions**

- 290.41
  - the firm shall evaluate the significance of the breach with reference to the ability to issue an audit report
  - List of factors to be considered
  - Knowledge of the interest or relationship
  - Causing a breach ‘knowingly’

## **Review Draft Provisions**

- 290.42
  - In SOME circumstances it may be possible to take actions that satisfactorily address
  - Use of professional judgment
  - A reasonable and informed party – what would they conclude



## **Review Draft Provisions**

- 290.43 Examples of Possible Actions
  - Removing the individual
  - Additional review or rework
  - Another firm
  - Non Assurance Services

### **Review Draft Provisions**

- 290.44 – The Firm SHALL discuss the breach with those charged with governance
  - On a timely basis
  - Factors to be discussed include significance, detection, policies and procedures: whether objectivity compromised and whether actions can address

## **Review Draft Provisions**

- 290.45 – If the firm determines that action cannot be taken to address the consequences of the breach, the firm SHALL TERMINATE THE AUDIT ENGAGEMENT

### **Review Draft Provisions**

- 290.47 – The firm shall comply with any relevant requirements of regulators or other bodies to report independence breaches
- 290.48 – The firm shall document all matters discussed
- 290.49 – Audit in a prior period

## **Review Draft Provisions**

- 291.33-42 contains matching provisions