

## PROPOSED CHANGES TO PROVISIONS

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

### **Breach of a Provision of this Section**

- 290.39 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. The nature of a breach may be such that termination of the audit engagement is necessary or reporting to a regulator or other body is required.
- 290.40 If a breach is identified, the interest or relationship that caused the breach shall be eliminated as soon as possible. For example:
- If the breach relates to a financial interest held by a member of the audit team, the interest shall be disposed of or the individual shall be removed from the audit team; and
  - If the breach relates to a prohibited non-assurance service, the non-assurance service shall be terminated or restructured such that it is no longer prohibited.
- 290.41 The firm shall evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an audit report. The significance of the breach will depend on factors such as:
- The nature of the breach;
  - The duration of the breach;
  - Whether a member of the audit team had knowledge of the interest or relationship that caused the breach;
  - Whether the individual(s) who caused the breach knew that the action or inaction would cause a breach;
  - Whether the individual who caused the breach is a member of the audit team or another individual for whom independence is required;
  - If the breach relates to a member of the audit team, the role of that individual; and
  - If the breach was caused by a non-assurance service, whether the outcome of the service affects the accounting records or amounts recorded in the financial

statements and, if so, whether those amounts are material to the financial statements on which the firm will express an opinion.

- 290.42 Depending upon the significance of the breach, it may be possible to undertake actions that satisfactorily address the consequences of the breach. The firm shall determine whether such action can be taken. In making this determination professional judgment shall be exercised taking into account whether a reasonable and informed third party, weighing the significance of the breach and the action to be taken, would be likely to conclude that the firm can still issue an audit opinion.
- 290.43 Examples of such actions may include one or more of the following:
- Removing the relevant individual from the audit team;
  - Conducting an additional review of the affected audit work or re-performing that work to the extent necessary;
  - Engaging another firm to review or re-perform the affected audit work to the extent necessary; and
  - When the breach relates to a non-assurance service that affects the accounting records or an amount that is recorded in the financial statements, 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.
- 290.44 The firm shall discuss a breach with those charged with governance on a timely basis. The matters to be discussed shall include:
- The significance of the breach including its nature and duration;
  - How the breach occurred and how it was detected;
  - A description of the firm's relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained;
  - The conclusion regarding whether or not, in the firm's professional judgment, objectivity has been compromised; and
  - The rationale as to whether actions can be taken to address the consequences of the breach such that the firm can still issue an audit opinion.
- 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.
- 290.46 If the firm determines that action can be taken to address the consequence of the breach, the firm shall discuss these actions with those charged with governance, and obtain agreement that the actions, including any additional actions requested by those charged with governance, satisfactorily address the consequences of the breach such that the firm can still issue an audit opinion. In addition to the matters listed above, the discussion shall include:
- Any disciplinary actions the firm has taken or proposes;

- The steps taken or to be taken to address any identified weakness in the firm's policies and procedures designed to provide it with reasonable assurance that independence is maintained.
- 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 the matters discussed with those charged with governance noted in paragraphs 290.44 and 290.46, and if applicable regulators.
- 290.49 If an identified breach occurred prior to the issuance of the previous audit opinion, the firm shall comply with paragraphs 290.40-290.48 in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period. The firm shall consider the impact of the breach, if any, on any previously issued audit opinions and discuss the matter with those charged with governance and, if applicable, relevant regulators.

*Paragraph 291.33, and its heading, would be deleted and replaced with the following heading and paragraphs 291.33-.*

#### **Breach of a Provision of this Section**

- 291.33 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. The nature of a breach may be such that termination of the assurance engagement is necessary.
- 291.34 If a breach is identified, the circumstance or relationship that caused the breach shall be eliminated as soon as possible. For example:
- If the breach relates to a financial interest held by a member of the assurance team, the interest shall be disposed of or the individual shall be removed from the assurance team; and
  - If the breach relates to a prohibited non-assurance service, the non-assurance service shall be terminated or restructured such that it no longer relates to the subject matter information of the assurance engagement.
- 291.35 The firm shall evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue an assurance report. The significance of the breach will depend on factors such as:
- The nature of the breach;
  - The duration of the breach;
  - Whether a member of the assurance team had knowledge of the interest or relationship that caused the breach;
  - Whether the individual(s) who caused the breach knew that the action or inaction would cause a breach;

- If the breach relates to a member of the assurance team, the role of that individual; and
  - If the breach was caused by a non-assurance service, whether the service involved the preparation of a material part of the subject matter information of the assurance engagement.
- 291.36 Depending upon the significance of the breach, it may be possible to undertake actions that satisfactorily address the consequences of the breach. The firm shall determine whether such action can be taken. In making this determination professional judgment shall be exercised taking into account whether a reasonable and informed third party, weighing the significance of the breach and the action to be taken, would be likely to conclude that the firm can still issue an assurance report.
- 291.37 Examples of such actions may include one or more of the following:
- Removing the relevant individual from the assurance team;
  - Conducting an additional review of the affected assurance work or re-performing that work to the extent necessary;
  - Engaging another firm to review or re-perform the affected assurance work to the extent necessary; and
  - When the breach relates to a non-assurance service that involves the preparation of the subject matter information of the assurance engagement, 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.
- 291.38 The firm shall discuss a breach with those charged with governance on a timely basis. The matters to be discussed shall include:
- The significance of the breach including its nature and duration;
  - How the breach occurred and how it was detected;
  - A description of the firm's relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained;
  - The conclusion regarding whether or not, in the firm's professional judgment, objectivity has been compromised; and
  - The rationale as to whether actions can be taken to address the consequences of the breach such that the firm can still issue an assurance report.
- 291.39 If the firm determines that action cannot be taken to address the consequences of the breach, the firm shall terminate the assurance engagement.
- 291.40 If the firm determines that action can be taken to address the consequence of the breach, the firm shall discuss these actions with those charged with governance, and obtain agreement that the actions, including any additional actions requested by those charged with governance, satisfactorily address the consequences of the breach such

that the firm can still issue an assurance report. In addition to the matters listed above, the discussion shall include:

- Any disciplinary actions the firm has taken or proposes;
- The steps taken or to be taken to address any identified weakness in the firm's policies and procedures designed to provide it with reasonable assurance that independence is maintained.

291.41 The firm shall document all the matters discussed with those charged with governance noted in paragraphs 291.38 and 291.40.

291.42 If an identified breach occurred prior to the issuance of the previous assurance report, the firm shall comply with paragraphs 291.33-291.41 in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an assurance report in the current period. The firm shall consider the impact of the breach, if any, on any previously issued assurance reports and discuss the matter with those charged with governance.