

## 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 100.10 would be deleted and replaced with the following:*

- 100.10 Sections 290 and 291 contain provisions with which a professional accountant shall comply if the professional accountant identifies a breach of an independence provision of the Code. If a professional accountant identifies a breach of any other provision of this Code, the professional accountant shall take steps as soon as possible, if any are available, to terminate or eliminate the circumstances or relationship that caused the breach. The professional accountant shall evaluate the significance of the breach and determine whether there are any actions that can be taken to address the consequences of the breach, including reporting the breach to those who may have been affected by the breach. The professional accountant shall comply with any duty to report a breach of a provision of this Code.

*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. A consequence of such a breach may be that termination of the audit engagement is necessary.
- 290.40 If the firm concludes that a breach has occurred, the firm shall communicate the matter to those charged with governance and terminate, suspend or eliminate the interest or relationship that caused the breach.

For example:

- If the breach relates to a financial interest held by a member of the audit team, disposing of the interest or removing the individual from the audit team;
- If the breach relates to a prohibited non-assurance service, suspending, or terminating the service.

- 290.41 When a breach is identified, the firm shall consider whether there are any applicable legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements.
- 290.42 When a breach is identified, the firm shall evaluate the significance of that 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 and duration of the breach;
  - The number and nature of previous breaches with respect to the client, if any, that are relevant to the current audit report;
  - Whether a member of the audit team had knowledge of the interest or relationship that caused the breach;
  - Whether the individual who caused the breach is a member of the audit team or another individual for whom there are independence requirements;
  - 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, the impact of that non-assurance service on the accounting records or amounts recorded in the financial statements on which the firm will express an opinion.
- 290.43 Depending upon the significance of the breach, it may be possible to take actions that satisfactorily address the consequences of the breach. The firm shall determine whether such action can be taken. In making this determination the firm shall consider whether, even if such actions can be taken, a reasonable and informed third party, weighing the significance of the breach, would be likely to conclude that the firm's objectivity would be compromised such that the firm is unable to issue an audit report.
- 290.44 Examples of actions that the firm might consider 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, in either case using different personnel;
  - Recommend the audit client engage another firm to review or re-perform the affected audit work to the extent necessary; and
  - Where 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.
- 290.45 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, after discussion with those charged with governance, take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements.

- 290.46 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it proposes to take with those charged with governance as soon as possible. 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 that, in the firm's professional judgment, objectivity has not been compromised and why;
  - The firm's rationale for why the action it will take to address the consequences of the breach will enable it to issue an audit report;
  - Any steps that the firm has taken or proposes to take to reduce or avoid the risk of recurrence of further breaches; and
  - Any additional action that those charged with governance may request the firm to take.
- 290.47 If those charged with governance agree with the firm's determination that action can be taken to address the consequences of the breach, the firm may continue with the audit provided that the firm puts in place procedures to ensure that the actions to address the breach are implemented.
- 290.48 If those charged with governance do not agree that the actions that the firm has taken or will take address the consequence of the breach, the firm shall take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements.
- 290.49 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with this section 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 reports, including the possibility of withdrawing such audit reports, and discuss the matter with those charged with governance and, if applicable, relevant regulators.
- 290.50 The firm shall document the actions taken and all the matters discussed with those charged with governance and, if applicable, discussions with relevant regulators. The matters to be documented shall include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the actions taken addressed the consequences of a breach such that the firm could issue an audit report

*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 If a breach of a provision of this section is identified the firm shall take steps as soon as possible to suspend or eliminate the interest or relationship that caused the breach, and shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The firm shall determine whether action can be taken that satisfactorily addresses the consequence of the breach. In making this determination, the firm shall consider whether, even if such action can be taken, a reasonable and informed third party, weighing the significance of the breach, would be likely to conclude that the firm's objectivity would be compromised and consequently that the firm is unable to issue an assurance report.
- 291.34 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, after discussion with the party that engaged the firm, or those charged with governance as appropriate, take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements.
- 291.35 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach with the party that engaged the firm or those charged with governance as soon as possible. If they agree with the firm's determination that action can be taken to address the consequences of the breach,, the firm may continue with the assurance engagement provided that the firm puts in place procedures to ensure that the actions to address the breach are implemented.
- 291.36 If those charged with governance do not agree that the actions that the firm has taken or will take address the consequence of the breach, the firm shall take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements.
- 291.37 The firm shall document the actions taken and the matters discussed with the party that engaged the firm or those charged with governance.