

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, and a consequence of such a breach may be that termination of the audit engagement is necessary.

290.40 If a breach is identified, the firm shall take steps as soon as possible to 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 in relation to how a breach is to be addressed and, if so, it shall take the steps necessary to comply with those regulatory requirements.

290.42 When ~~it becomes aware of~~ 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 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 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 ~~undertake~~ 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 objectivity would be compromised and consequently 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;
 - Arranging for the ~~entity-audit client~~ to 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, terminate the audit engagement or otherwise ~~support—pursue~~ the termination of the audit engagement in accordance with the processes set out in applicable law or regulation.
- 290.46 The firm shall discuss a breach with those charged with governance ~~on a timely basis~~ 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 regarding whether or not, in the firm's professional judgment, objectivity has been compromised;
 - 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 report; and
 - Any steps that the firm has taken or proposes to take to reduce or avoid the risk of recurrence of further breaches.

- 290.47 ~~Subject to any applicable law or regulation, the~~ The firm shall terminate the audit engagement ~~in accordance with applicable law or regulation~~, unless those charged with governance ~~conclude~~ agree that the actions that the firm has taken or proposes to take to address the consequence of the breach, together with any additional actions requested by those charged with governance, satisfactorily address the consequences of the breach.
- 290.48 If those charged with governance ~~conclude~~ agree that the firm may continue with the audit if certain actions are taken, the firm shall put in place procedures to ensure that those actions are implemented.
- 290.49 The firm shall document the actions taken and all the matters discussed with those charged with governance referred to in paragraphs 290.44 – 290.46.
- 290.50 If an identified 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.

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

Version 1 – which mirrors 290, amended as appropriate because of subject matter (the mark-up shows the changes from the 290 proposed above)

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, and a consequence of such a breach may be that termination of the ~~audit~~ assurance engagement is necessary.

291.34 If a breach is identified, the firm shall take steps as soon as possible to 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.

291.35 When a breach is identified, the firm shall consider whether there are any applicable legal or regulatory requirements in relation to how a breach is to be addressed and, if so, it shall take the steps necessary to comply with those requirements.

291.36 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~~ assurance report. The significance of the breach will depend on factors such as:

- The nature and duration of the breach;
- Whether a member of the ~~audit~~ assurance 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~~ assurance team ~~or another individual for whom there are independence requirements;~~
- If the breach relates to a member of the ~~audit~~ assurance 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~~ subject matter information of the assurance engagement.

291.37 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 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 objectivity

would be compromised and consequently that the firm is unable to issue an audit assurance report.

291.38 Examples of actions that the firm might consider include one or more of the following:

- Removing the relevant individual from the audit assurance team;
- Conducting an additional review of the affected audit assurance work or re-performing that work to the extent necessary, in either case using different personnel;
- Arranging for the audit assurance client to engage another firm to review or re-perform the affected audit assurance 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 subject matter information, 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.

291.39 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~~ the engaging party, terminate the audit assurance engagement ~~or otherwise pursue the termination of the audit engagement in accordance with the processes set out in applicable law or regulation.~~

291.40 The firm shall discuss a breach with ~~those charged with governance~~ the engaging party 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 regarding whether or not, in the firm's professional judgment, objectivity has been compromised;
- 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 assurance report; and
- Any steps that the firm has taken or proposes to take to reduce or avoid the risk of recurrence of further breaches.

291.41 The firm shall terminate the audit assurance engagement ~~in accordance with the processes set out in applicable law or regulation,~~ unless ~~those charged with governance~~ the engaging party agrees that the actions that the firm has taken or proposes to take to address the consequence of the breach, together with any additional actions requested by ~~those charged with governance~~ the engaging party, satisfactorily address the consequences of the breach.

- 291.42 If ~~those charged with governance~~the engaging party agrees that the firm may continue with the audit assurance engagement if certain actions are taken, the firm shall put in place procedures to ensure that those actions are implemented.
- 291.43 The firm shall document the actions taken and all the matters discussed with ~~those charged with governance~~the engaging party referred to in paragraphs 290.44 – 290.46.
- 291.44 If an identified breach occurred prior to the issuance of the previous audit assurance 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 assurance report in the current period. The firm shall consider the impact of the breach, if any, on any previously issued audit assurance reports, including the possibility of withdrawing such audit assurance reports, and discuss the matter with ~~those charged with governance and, if applicable, relevant regulators~~the engaging party.

Version 2 – the abridged, principles-based approach

- 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 cause 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 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 engaging party or those charged with governance, terminate the assurance engagement.
- 291.35 The firm shall discuss a breach with the engaging party or those charged with governance as soon as possible. The firm shall terminate the assurance engagement unless the engaging party agrees that the actions that the firm has taken or proposes to take to address the consequence of the breach, together with any additional actions requested by the engaging party, satisfactorily address the consequences of the breach.
- 291.36 The firm shall document the actions taken and the matters discussed with the engaging party or those charged with governance.