



Meeting Location: Conference Call

Meeting Date: 07:00-09:00 Eastern Time - July 21, 2011

Breach of an Independence Requirement

Objective of Agenda Item

1. To review revised guidance addressing a breach of an independence requirement in the Code and provide feedback to the Task Force.

Background

On the first day of its June 2011 meeting in Warsaw, the IESBA discussed draft guidance to address a breach of an independence provision of the Code. The Task Force¹ met on the evening of the second day of the meeting to revise the guidance in response to input from IESBA members. The IESBA discussed a revised draft on the morning of the third day of the meeting and provided some additional input to the Task Force. This additional input has been considered by the Task Force and the Task Force is presenting a revised draft for the further input of the IESBA.

Discussion

Section 290

Timing of Discussing a Breach

The IESBA discussed the timing of discussing a breach with those charged with those charged with governance. The Task Force proposal was that the discussion be “on a timely basis”. Ms. Spargo reported that the Task Force had considered other timing and had concluded that timely was appropriate because it was contextual – a significant breach would be discussed more quickly than a minor, technical breach. IESBA members made the following comments:

- It might not be clear that “timely” was contextual, especially when translated;
- “Timely discussion” with those charged with governance is a not a concept that currently exists in the Code and, therefore, it might be interpreted in different ways;
- An alternative view was expressed that the timing of the discussion should be linked to the materiality of the breach – for example, if the breach was such that it might change the decision of those charged with governance it would be

¹ Kate Spargo (chair), Wui San Kwok, Alice McCleary and Marisa Orbea

- discussed immediately, if it would not change the decision later discussion would be acceptable;
- Another view was expressed that a breach should be discussed as soon as possible because of the difficulty that would arise if an accountant determined that a breach could be discussed at a later date, but those charged with governance would have wanted the matter to have been discussed at an earlier date;
 - A third view was expressed that the discussion should take place as soon as the firm had completed its analysis of the situation.

After discussion, the IESBA concluded that the firm should discuss the breach with those charged with governance “as soon as possible”. The Task Force has revised the drafting to reflect the IESBA’s view.

Other matters

The IESBA provided some additional comments on clarifying the meaning of certain paragraphs. IESBA members also provided editorial comment which has been considered by the Task Force and is reflected in the revised drafting.

Section 291

While draft wording for this section was presented to the IESBA in Warsaw, the IESBA did not discuss the detailed wording. The IESBA discussed how the guidance for this section should be structured.

After discussion, the IESBA tentatively concluded that the guidance for Section 291 should follow the same approach as that taken in Section 290 but should be at a more principle-based approach.

The Task Force has developed this guidance to reflect the views of the IESBA. The guidance is based on the principles contained in section 290 with appropriate changes to reflect the nature of an other assurance engagement, such as the fact that the accountant may not have access to those charged with governance. This is presented as version 2 in Agenda Paper 1-A.

The Task Force is of the view that this approach is the appropriate one but also presents an alternative version (version 1) for the information of the IESBA. This version is based on the 290 approach presented in Agenda Paper 1-A, marked-up as appropriate to reflect the nature of an other assurance engagement.

Action Requested

IESBA members are asked to consider and provide comment on the proposed wording in Agenda Paper 1-A.

Next Steps

The Task Force will make any necessary changes to the guidance based on the input from the IESBA. The revised guidance will then be discussed with the CAG at its meeting on September 14, 2011. The Task Force will meet on Sept 30 –Oct 1, as necessary, to discuss input from CAG members and make any further changes to the document.

At its October meeting, the Task Force will present a document marked-up to show any changes made to address comments of CAG members and will ask IESBA for input on these changes. The IESBA will be asked to approve the document for exposure.

Each exposure draft is accompanied by a Basis for Conclusions. This document is a staff document and the Board is not asked to approve it. The Board is, however, provided the opportunity to provide comment on the document. A draft of the document was circulated at the meeting in Warsaw but because there was no vote on the exposure draft, Board members were not asked to provide staff with any comments. A revised Basis for Conclusions will be circulated to the IESBA prior to the October meeting to provide Board members with the opportunity to provide input.

Material Presented

Agenda Paper 1	This Agenda Paper
Agenda Paper 1-A	Breach of an Independence Requirement – proposed wording

Action Requested

1. IESBA members are asked to address the questions set out in the agenda paper.