

**Breaches  
Exposure Draft Comments**

X ref	Par Ref	Comment	Respondent	Proposed Resolution
<b>General comments</b>				
1.		We agree with the IESBA that it is in the public interest to have a robust framework that provides guidance to professional accountants when encountering breaches of the Code. While a regulatory process exists in the United States for appropriate consultation with regulators and professional associations when a breach is identified, we recognize that many jurisdictions do not have a formal process for dealing with such breaches and therefore, guidance on appropriate steps to be taken would benefit professional accountants and users of the Code.	AICPA	General supportive comment
2.		<p>AAT fully supports the IESBA's view that any breach of the Code should be treated with the utmost importance. Prior to responding to the specific questions below , AAT considers it appropriate to establish context around the observations put forward by IOSCO, namely that "inadvertent breach" provisions might encourage unscrupulous behaviour and potential abuse in complying with the Code. AAT considers that it is difficult to easily legislate for unscrupulous behaviour and, as such, if a member or firm is so inclined, then any additional safeguards may be unlikely to deter such behaviour.</p> <p>Taking the above into account, having reflected on our records we can confirm that there have been no cases where a member has pleaded inadvertent breach in defending their case. If this were to be the case across the wider professional body arena it would suggest that wilful usage of the inadvertent breach claim is likely to be negligible. That point notwithstanding, AAT is of the view that the rationale behind the inclusion of the "inadvertent breach" provisions initially was sound.</p> <p>On this basis, AAT would urge proportionality in the approach taken. The IESBA recognises through the drafting of the consultation document that there is no evidence to demonstrate how these provisions have been used to date. Therefore its vulnerability to abuse as observed by IOSCO could be viewed to be speculative at this stage. The risk associated with fully removing this provision is the likelihood of a disproportionate outcome. There is a distinction within the existing regulation (depending on the nature</p>	AAT	General supportive comment

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		and significance of the breach) between a low risk inadvertent breach, and a significant inadvertent breach, which has the potential to call into question not only integrity, but professional competence and due care. Use of inadvertent breach as a defence to a significant breach (whether inadvertent or not) to this end is likely to fail when the application of the Code is put into the context of local disciplinary and membership regulations as well as national standards as applicable, whilst the sliding scale of culpability exists.		
3.		<p>APESB is supportive of the changes proposed in the Exposure Draft (referred to as the 'proposed changes to the Code' in this submission) which aim to provide a more robust framework to evaluate, document and communicate breaches of the Code. APESB believes that these proposed amendments are in the public interest and enhance the transparency of a professional accountant's or audit firm's evaluation of these matters.</p> <p>APESB has incorporated into APES 110 <i>Code of Ethics for Professional Accountants</i> (the Australian Code) additional Australian requirements that specifically address independence breaches of the Code (i.e. inadvertent violations, as per the existing Code).</p> <p><i>Termination of audit engagement and resignation of auditor (Paragraphs 290.45 and 291.36)</i> APESB believes that IESBA's proposal that an auditor should terminate the audit engagement in circumstances where the auditor is unable to satisfactorily deal with an independence breach significantly strengthens the Code.</p>	APESB	General supportive comment
4.		We welcome the IESBA's move to establish a robust framework that can be applied across all jurisdictions in order to assist those charged with governance, auditors, and regulators in evaluating the impact of an independence violation and determining whether it should result in the auditor resigning or whether actions can be taken to satisfactorily address the consequences of the breach. We agree with the simplification of wording from 'inadvertent violation' to 'breach'.	BDO	General supportive comment
5.		CGA-C is supportive of the goal to provide additional clarity to the provisions as they relate to inadvertent violations of the Code, with the objective of ensuring established and robust preventative controls to properly identify threats to independence.	CGA Canada	General supportive comment

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6.		We concur with the ED's conclusion that the public interest is not well served if the automatic response to any violation of an independence requirement is that the firm must resign regardless of the magnitude of the violation and its impact on the firm's objectivity. While resignation may be necessary in certain situations, it is not always necessary that a resignation takes place. We believe that the ED spells out a robust framework for addressing breaches of the code's independence requirements, what actions a firm must take and what role those charged with governance should take in addressing whether or not the firm should continue with the engagement.	CICA	General supportive comment
7.		Overall, CICPA is supportive of the proposed changes put forward in the Exposure Draft. We agree that the proposed changes will provide more specific requirements and guidance for a professional accountant on actions to be taken under the situation of any breach of an independence requirement.	CICPA	General supportive comment
8.		CPA Australia supports the adoption of the proposed changes to the Code of Ethics for Professional Accountants (Code) related to provisions addressing a breach of a requirement of the Code. We are of the opinion that the proposed changes provide a framework that would assist our Members to evaluate and manage independence and other breaches.	CPA Australia	General supportive comment
9.		Overall the proposed framework provides auditors with a more robust standard which should result in increasing the transparency of audits and ensuring communications with those charged with governance are effective.	CPAB	General supportive comment
10.		We broadly support the effort to provide more guidance to professional accountants on how to address breaches of the Code. We also support measures to enhance transparency and involvement by those charged with governance in evaluating the impact of breaches and in determining the appropriate response.	E&Y	General supportive comment
11.		In general, we support the proposals in the ED to include in the Code a general provision that will address the consequences of a breach of a requirement if a professional accountant identifies a breach of an independence provision of the Code but also a breach of any other provision of the Code.	FEE	General supportive comment

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12.		We participate in the Ethics Working Party of Federation des Experts Comptables Europeens (FEE).and therefore we have followed the preparation of the comment letter from FEE, which we generally support.	FSR	General supportive comment
13.		<p>In summary, we are supportive of the proposed changes to include a requirement that a professional accountant take whatever actions that might be available as soon as possible to satisfactorily address the consequences of a breach of a provision of the IESBA Code. For a breach of an independence requirement in the IESBA Code, a detailed framework is provided setting out the action to be taken. Specifically, the proposed changes would require a firm to:</p> <ul style="list-style-type: none"> <li>• terminate, suspend, or eliminate the interest or relationship that caused the breach;</li> <li>• evaluate the significance of the breach and determine whether action can be taken to satisfactorily address the consequences of the breach;</li> <li>• communicate all breaches with those charged with governance and obtain their agreement with the proposed course of action; and</li> <li>• document the actions taken and all the matters discussed with those charged with governance and, if applicable, any relevant regulators.</li> </ul>	HKICPA	General supportive comment
14.		The Institute is generally supportive of the overall intention of the Exposure Draft to introduce provisions which address breaches of the Code.	ICAA	General supportive comment

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15.		<p>Firstly we firmly support IESBA's view that:</p> <p>"In respect of violations of independence requirements, the IESBA concluded that it is in the public interest to have a robust framework that can be applied across all jurisdictions in order to assist those charged with governance, auditors, and regulators in evaluating the impact of an independence violation and determining whether it should result in the auditor resigning or whether actions can be taken to satisfactorily address the consequences of the violation. If the automatic response to any violation of an independence requirement is that the firm must resign, regardless of the magnitude of the violation and its impact on the firm's objectivity, the IESBA believes the public interest is not well served."</p> <p>We are supportive of IESBA's view that the Code should provide such a framework to promote consistent analysis and outcomes.</p>	ICAS	General supportive comment
16.		<p>We congratulate the IESBA for the great work that is going on to enhance the usefulness of standards and in particular ethics. We believe this is a timely initiative and we support it.</p>	ICPAR	General supportive comment

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17.		<p>We support the IESBA's efforts to re-examine those paragraphs in the Code that address significant breaches of the Code that might have the consequence that the audit firm's objectivity and ability to issue an audit report is compromised.</p> <p>Failure by an auditor and the audit firm to address a significant breach might be deemed to compromise the objectivity principle that underpins the entire audit, review and other assurance services provided by auditors and professional accountants. This will ultimately impact on the confidence placed globally in the reliability of audited and reviewed financial statements.</p> <p>In 2005 the IRBA adopted and continues to prescribe the IAASB standards on <i>International Quality Control, Auditing, Review and Other Assurance and Related Services Engagements</i> for use by registered auditors in South Africa. Both the IRBA and IFAC Codes are to be interpreted in the context of the independence requirements contained in the IAASB standards. This includes requirements in ISQC 1, <i>Quality Control...</i>, for the firm to have processes for all public interest engagements to ensure the independence and other requirements in the Code are complied with.</p> <p>Whilst your questions are framed in the context of '<i>professional accountants</i>' our responses should be interpreted as relating to its application to '<i>registered auditors</i>' who perform audits, reviews and provide other assurance services.</p>	IRBA	General supportive comment
18.		<p>We agree with the basic intent of the exposure draft. In our view, the provision of guidance in addressing a breach of a requirement of the Code is also of value to the concerned professional accountants, can establish consistency in the consequences of addressing a breach of a requirement and can be expected to serve the public interest.</p>	JICPA	General supportive comment
19.		<p>We welcome the publication of the Exposure Draft and are fully supportive of the IESBA's goal to provide a robust framework in the Code for addressing a breach of an independence requirement. We concur with the Board's view that whether the action causing the breach was inadvertent or not should not affect the need to focus on the impact on the firm's objectivity and the actions necessary to address the consequences of the breach.</p>	KPMG	General supportive comment

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20.		<p>We support the amendments proposed to the Code to deal with breaches. It is extremely important to have strong and transparent procedures to deal with breaches, whether inadvertent or not. The proposed amendment formalizes what already is in place in firms in many jurisdictions, as auditors have to confirm their independence to audit committees every year.</p> <p>Having a clear procedure puts an emphasis on the consequences of a breach and could discourage professional accountants to voluntarily breach the Code.</p> <p>In jurisdictions where there are no such provisions, the only solution for the auditor is to resign when there is a breach of an independence requirement. The cost of this resignation could outweigh the benefits for the public interest depending on the nature and the magnitude of the breach.</p>	Mazars	General supportive comment
21.		<p>In general, we support the proposed changes to the International Ethics Standards Board for Accountants.</p> <p>We appreciate the opportunity to comment on the Exposure Draft. We support the primary thrust of the proposed standard, and offer comments on what should be communicated to those charged with governance of the entity, and the potential impact on those charged with governance of the entity.</p>	NASBA	General supportive comment
22.		The NZAuASB is supportive of the proposals in relation to addressing a breach of a requirement of the Code.	NZAuSB	General supportive comment
23.		We support the Board's initiative to enhance the provisions of the Code dealing with breaches of a requirement in the Code and in overall terms we believe that the proposed changes are helpful and an improvement. In particular, we support the proposed deletion of references to 'inadvertent' violations of a requirement.	PWC	General supportive comment
24.		We support the proposed provisions to Code and believe that continuing to set high quality ethical standards for the accounting profession will assist the IESBA with its mission to serve the public interest.	GTI	General supportive comment

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25.		<p>Also, we do support the convergence of all single national code of Ethics into the IESBA Code, and therefore believe that the change of the Code relating to provisions addressing a breach of a requirement of the Code will be a step forward to the convergence.</p> <p>We support the views expressed by IESBA regarding the fact that public interest would not be served properly if the only automatic response to any violation of an independence provision is that the firm must resign regardless of the magnitude of the violation and its impact on the firm's objectivity.</p> <p>Finally, we agree that instead of having various provisions enshrined in the code dealing with inadvertent violations related to specific situations, one single provision dealing with breaches of independence requirements in addition to the overall provision related to any breach of a provision of the code will be a step forward and therefore should be supported.</p>	CNCC-OEC	General supportive comment
26.		ACCA is supportive of the measures proposed to set out the appropriate course of action to take when a professional accountant identifies a breach of the Code, and we are content that the proposals go some way to ensuring that outcomes are proportionate and in the public interest. However, we express some areas of concern in our responses to specific questions raised.	ACCA	Respondent expresses general support but has areas of concern in response to specific questions as addressed below
27.		While we do not believe that 'breaches' provisions are necessary to be included in the IESBA Code ('the Code'), we are content for them to be included if others would find them helpful. We are generally supportive of the proposals, though believe that the timing of reporting of breaches to those charged with governance should reflect their potential effect. This is discussed further in paragraphs 7 and 8 below.	ICAEW	Respondent does not believe provisions are necessary. IESBA of the view that the Code should contain such provisions.
28.		The IDW agrees that it is in the public interest for the implications and consequences of those breaches of a provision in the Code (irrespective of whether they occurred inadvertently or purposefully) that cause an accountant or auditor not to comply with the fundamental principles of the Code of Ethics for Professional Accountants be clear and not open to wilful misinterpretation. We therefore support the IESBA's initiative in seeking to address the issues connected with breaches of the requirements of the Code. We also believe that the IESBA needs to explain clearly what it intends a breach of a provision of the Code to mean and agree with the IESBA's view that rather than having the Code deal solely with breaches of the provisions of Sections 290 and 291 applicable to independence, it would be appropriate for breaches of any provisions of the Code to be addressed with a general provision as proposed in the replacement of paragraph 100.10.	IDW	Respondent believes that the Board should adopt a more principles-based approach to addressing breaches to ensure that significant breaches are treated with the seriousness they deserve and trivial issues are excluded from costly and time consuming

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		Below we discuss matters of a general nature with which we have certain concerns that have led us to the view expressed above. As those parts of the Code primarily affected by the proposed changes apply to professional accountants providing audit, review (Section 290) and other assurance services (Section 291), we have concentrated our comments on the issue of independence in the context of assurance services. In the appendices to this letter we have responded to the specific questions raised in the Exposure Draft and included wording issues concerning specific paragraphs. Contd		considerations.  IESBA of the view that all breaches should be treated with utmost severity.
29.		<p><b>General Matters</b>  <i>Support for Principles- Rather than Rules-Based Approaches</i>  The IDW has repeatedly called for IFAC Standard Setting Boards to adopt principles- rather than rules-based approaches wherever feasible. In our opinion, principles-based approaches can best ensure that the spirit, rather than merely “the letter”, of requirements are met in practice. Rules-based requirements, which, since by their very nature cannot cover all potential eventualities, risk circumvention that nevertheless allows (full) compliance to be claimed.</p> <p>We have previously commented to the IESBA our concerns as to the overly rules-based approach the Code has taken in some respects, including the need we perceive for de minimis exemptions within independence requirements of Sections 290 and 291 of the Code (see IDW letters dated August 19, 2008, October 15, 2007 and April 30, 2007). We note that our suggestions have not been taken up, and such exemptions have not been introduced. We continue to believe this to be the most appropriate solution.</p> <p>Given the fact that the Code itself includes no provision, for example, for de minimis exemptions for direct financial interests, in our opinion, it would be simply naive to expect that all professional accounting firms that provide auditing and other assurance services will be able to achieve 100% compliance with each and every requirement of the Code. The IAASB does not anticipate that a firm shall seek to achieve 100% compliance nor to identify 100% of any breaches<sup>1</sup>.</p> <p>In support of this contention, we would like to refer again here to the example we had given in an earlier</p>	IDW	See above

<sup>1</sup> ISQC 1.20-23 which deal with a firm’s compliance with ethical requirements, including independence and breaches thereof require a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements and that it is notified of breaches. ISQC 1 defines reasonable assurance as a high, but not absolute, level of assurance.

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		<p>letter of a child who may hold a token share in a company for artistic or other nonfinancial reasons. Because there is no provision in Sections 290.103 or 290.104 of the Code for direct financial interests that are <i>clearly trivial</i> to be excluded, a parent of such a child would be precluded from serving on the audit team of the company, or entities in which it has a controlling interest or from being partners in the office in which the engagement partner auditing the company practices, unless they were to dispose of the holding. This in turn means that audit firms and networks have to capture data on <i>all</i> direct financial interests of their audit staff and immediate family members on an international scale, irrespective of the significance of individual interests. This, on the large scale that would be needed in many networks in particular, can be an extremely costly procedure with no real benefit in terms of consequences for ethical behaviour. Due to the growing complexities of entities and accounting networks that are increasingly active globally there are also considerable practicalities that need to be taken into account in forming expectations as to the potential for all firms' such data to be up-to-date and accurate. In some jurisdictions data protection and privacy laws and regulations vis a vis spouses and other family members may also prevent compliance. In proposing what amounts to a "nil tolerance" stance to breaches regardless of their relative significance, IESBA appears to dismiss these issues as being of no practical consequence.</p> <p style="text-align: right;">Contd</p>		
30.		<p><i>Likely Impact of the Proposals on Public Perception</i></p> <p>We believe the IESBA's proposals could be in danger of "tarring the profession with one brush", as public perception may not be as positive as the IESBA seems to believe, if the public draws the conclusion that as all breaches are treated in the same way they are equally serious. The lack of differentiation between significant breaches and those that are clearly trivial may also potentially create a public perception that the profession is <i>often</i> in breach of its own Code without the public being in a position to appreciate that minor breaches do not necessarily equate to accountants being unethical.</p> <p>The IDW believes that the message that needs to be conveyed to the public is that the profession is well able to deal, in a stringent and appropriate manner, with all significant breaches of requirements pertaining to its own Code of Ethics that result in an accountant or auditor compromising a fundamental principle of the Code – not that the profession is itself (overly) meticulous in pursuing each and every breach without regard to its relevant significance (reinforcing the image of bean counter rather than of professionalism).</p> <p style="text-align: right;">Contd</p>	IDW	See above
31.		<i>Striving for Consistent Analysis of Breaches and Appropriate Outcomes</i>	IDW	See above

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		<p>The IDW is a strong supporter of ethical behaviour, including auditor independence. We agree with the IESBA's conclusion stated at the bottom of page 4 of the Exposure Draft: "It is in the public interest to have a robust framework that can be applied across all jurisdictions in order to assist those charged with governance, auditors, and regulators in evaluating the impact of an independence violation and determining whether it should result in the auditor resigning ...". and the statement on page 5: "The IESBA is of the view that the Code should provide such a framework to promote consistent analysis and outcomes".</p> <p>However, we do not believe that the proposals made in this Exposure Draft allow the Code to constitute such a framework, because the proposals provide neither guidance nor criteria against which individual breaches can be analysed, or measures to address them determined. Instead, the proposals concentrate on ensuring that each and every breach is discussed with those charged with governance in quite some detail and so documented. Undoubtedly this introduces rigour into the discussions, but does not get around the fact that professional judgment on the part of auditors and those charged with governance will have to be applied in determining how to address individual breaches.</p>		
32.		<p>We support the notion that the audit firm should discuss breaches of the independence requirements in the Code to the extent they are not trivial or inconsequential with those charged with governance (or a subset thereof, such as the audit committee); however, we strongly oppose the proposed changes to the Code as described in the ED. Our response to Question 2 sets forth the reasons we do not support this proposal.</p>	DTT	Respondent supports need to address but has concerns with approach taken as discussed further below
33.		<p>We support the IESBA's commitment to developing and promoting high-quality ethical standards for professional accountants. However, based on our concerns expressed below, we do not agree with the proposed changes to the Code as described in the ED. We are concerned that the ED proposal dealing with a breach of an independence provision of the Code may not be in the public interests nor reduce a firm's motivation to establish robust preventive controls to properly maintain independence in contrast to the IEASB's intention.</p> <p>In particular, we are concerned that the ED appears to depart from the principles-based approach. We believe that the IEASB needs to revisit the concept of independence and reinforce the value of the principles-based approach.</p> <p style="text-align: right;">Cont'd</p>	KICPA	Respondent does not support proposal. IESBA supports majority position that the Code address such matters

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34.		<p><i>Concept of independence</i></p> <p>According to Paragraph 290.6 in the Code, independence is comprised of independence of mind and independence in appearance. Independence of mind is not easily identified and it is difficult to prove that independence of mind is impaired or not. Therefore, independence in appearance is practically considered in determining whether overall independence is impaired or not.</p> <p>However, independence of mind should not be treated unimportantly just for the reason that it is difficult to identify its existence. Independence of mind is rather more important than independence in appearance.</p> <p>We do not fully understand the rationale for the elimination of the term, "inadvertent". We do not believe that overall independence is deemed to be impaired even in the situation where it is clear that independence of mind is not impaired but only independence in appearance is impaired due to trivial negligence or mistakes. In our view, the IESBA's rationale for the elimination of "inadvertent" is ignoring the concept of "independence of mind" at all; therefore, it is inconsistent with the concept of "independence" stipulated in the Code.</p> <p><i>Situation in Korea</i></p> <p>In Korea, a regulatory authority determines whether termination of the audit engagement is necessary due to a breach of independence. However, in the ED's proposal: if an inadvertent violation occurs, a firm is required to not only comply with its local law but also communicate with those charged with governance and document the actions taken and all matters discussed. Therefore, it would be excessively burdensome for the firm and its client because of time-consuming processes.</p> <p>Under the legal regime in Korea, a violation of the Code leads to a violation of the national law, the Certified Public Accountant Act, which is subject to a criminal penalty. As described in the ED, if those charged with governance determine the nature and severity of consequences and necessary steps to be taken, we are concerned that interpretation and application of the law would be carried out by those charged with governance arbitrarily.</p>	KICPA	See above
35.		<p><i>Global convergence</i></p> <p>Some jurisdictions such as the US, UK, Australia, etc. include a de-facto exemption clause to an inadvertent or similar violation of their own ethical standards or rules. Furthermore, the current provision on an inadvertent violation was already applied in most of jurisdictions who already adopted the current Code.</p>	KICPA	See above

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		Member bodies or regulators in each jurisdiction will bear the cost of adopting new provisions. Therefore, we believe that there should be a sufficient and reasonable basis justifying that the proposed change is necessary to be in the public interests or strengthen the auditor's independence.		
36.		First of all we would like to mention that after the comprehensive amendments to the Code of Ethics (hereafter referred to as "CoE") over the past years, resulting in, at times considerable, demands on the member organizations in terms of implementation and regulation (including translation), there should be no further amendments to the CoE at this time.	WPK	Respondent calls for period of stability in the Code. Majority of respondents support need for Code change to address breaches
<b>Q1. Do respondents agree that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code? If not why not?</b>				
37.	1	Yes.	AGNZ	Supportive comment
38.	1	We agree	ICPAR	Supportive comment
39.	1	Yes, we agree  We also believe that it is important for the Code to include a general provision to promote ethical behavior by professional accountants if a violation of other requirements in the Code occurs.	ICAS	Supportive comment
40.	1	We support the inclusion of more detailed guidelines in the Code of Ethics on how to deal with breaches of the requirements.	FSR	Supportive comment
41.	1	We support that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code, no matter the breach is deemed to compromise independence or not.	CICPA	Supportive comment

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42.	1	CPA Australia agrees that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code. Such provisions are significant in general and in relation to auditing and assurance engagements in particular.	CPA Australia	Supportive comment
43.	1	We agree with the IESBA's view that <u>any</u> breach of a provision of the Code should be treated as a matter of utmost importance and a professional accountant should be required to take whatever actions that might be available to satisfactorily address the consequences of a breach of a provision of the Code. The proposal to remove the exception for 'inadvertent' violations emphasizes the seriousness of violations and reinforces the requirement that all breaches must be appropriately addressed.	CPAB	Supportive comment
44.	1	Yes, I agree that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code. This viewpoint has relation a new modification about Engagement Team, this is very important.	DSFJ	Supportive comment
45.	1	We agree that the Code should contain provisions that provide guidance to professional accountants for when a breach of the Code occurs and how to appropriately address a breach. We also support the removal of the general provision 100.10 which allows for inadvertent violations, even involving fundamental principles, to be deemed not to compromise compliance which we believe lacks sufficient rigor. We believe the proposed provisions will increase transparency and will serve to reduce the appearance of self-interest on the part of the professional accountant in the evaluation of an independence breach.	E&Y	Supportive comment
46.	1	Far agrees that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement of the Code.	FAR	Supportive comment
47.	1	We support the proposal that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code.	HKICPA	Supportive comment

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48.	1	The Institute agrees that the Code should contain provisions addressing the consequences of a breach, and we particularly feel that it is beneficial to have introduced into the Code statements addressing the possibility of an engagement needing to be terminated as part of the resolution of a breach, as we consider that insufficient focus may have been afforded by members to this option in the past.	ICAA	Supportive comment
49.	1	Yes, we agree. It is important and necessary to provide professional accountants with clear guidelines on the steps to take when a breach of a requirement in the Code is identified and we believe professional accountants will find the provisions very useful.	ICPAS	Supportive comment
50.	1	We agree. In our opinion, it appears disproportionate and may not serve the public interest if even a minor breach of a requirement of the Code automatically compels a firm to resign from an audit engagement, irrespective of the magnitude of the breach and its impact on the firm's objectivity. Although the current provisions of the Code can be construed to the effect that all inadvertent violations can be corrected by applying necessary safeguards, the particulars of what situations a safeguard would be applied in and what types of safeguards should be applied are not altogether clear. Consequently, in our view, the provision of guidance on addressing a breach of a requirement of the Code is of value, as stated above.	JICPA	Supportive comment
51.	1	<p>Inevitably, breaches of the Code will occur and, therefore, firms will require guidance in such situations. It is essential that the provisions of the Code focus on the public interest when addressing the implications of breaches, and the public interest would not be well served by a requirement or an assumption that an audit firm should terminate an audit engagement whenever a breach is discovered.</p> <p>Therefore, we agree that the Code should contain provisions that address breaches of the Code by requiring professional accountants to consider the consequences and take appropriate action. We support the broad requirement of the proposed section 100.10.</p>	ACCA	Supportive comment

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52.	1	<p>This proposal will clarify an already existing implied term; therefore AAT would welcome such a move, recognising the value members place in being guided explicitly in their ethical obligations.</p> <p>An inadvertent breach (whether by virtue of the provisions of paragraph 110.10 or 290.39) is only inadvertent as long as the practitioner or firm is unaware the breach is occurring. As soon as a practitioner has knowledge or suspicion of the breach, it crystallises and therefore, action is already required under the Code. The consequences of that breach should be addressed, in order to prevent further breaches of the Code, namely the practitioner or firm's integrity being called into question.</p>	AAT	Supportive comment
53.	1	<p>The AIA recognises the possibility that professional accountants may find themselves in breach of the Code through some error or oversight. Such breaches will, hopefully, be both rare and very minor. In principle, any accountant should take steps to rectify such a breach without there being any need for compulsion. The AIA does, however, agree that a formal regulation is desirable.</p>	AIA	Supportive comment
54.	1	<p>Yes. As noted above, due to the fact that many jurisdictions do not have a formal process for dealing with breaches of the Code, we believe it is appropriate for the Code to provide guidance on this subject.</p>	AICPA	Supportive comment
55.	1	<p>APESB agrees that the Code should contain these provisions. Consistent with the IESBA view, APESB agrees that their inclusion will promote responsible ethical behaviour by professional accountants and strengthens the Code.</p>	APESB	Supportive comment
56.	1	<p>We agree that the Code should contain provisions that require professional accountants to address the consequences of a breach. Breaches of the Code do occur from time to time notwithstanding the policies and procedures that accounting firms may establish and, accordingly, it is important that the Code provide guidance on how such breaches be addressed. We also concur with the elimination of the provisions dealing with inadvertent violations as such provisions are open to interpretation and may lead to a lack of rigor in the manner with which such breaches are dealt with. We believe that establishing a requirement to address breaches of the Code and to communicate them to those charged with governance will enhance transparency and serve to reduce any perception of self-interest regarding how such matters are dealt with.</p>	ASSIREVI	Supportive comment

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57.	1	We agree that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code. This recognises that despite having robust policies and procedures in place, breaches can still occur. The proposed requirements would create a professional framework to consult when deciding which actions should be taken when a breach is identified.	BDO	Supportive comment
58.	1	Yes, we agree that the Code should contain provisions that require professional accountants to address the consequence of a breach of a requirement in the Code. Without this provision, the aggregate import of the Code, itself, is diminished and could serve to encourage abuse of the requirements. CGA-Canada is of the view that any breach should be taken seriously. The profession must not only be clear about how to handle such instances, but member bodies must concomitantly be aware of the requirement(s) to discipline members if there is a failure to adhere to ethical expectations.	CGA Canada	Supportive comment
59.	1	Overall, the Institute agrees with the initiative of this exposure draft. We believe that this will reduce unscrupulous behavior and potential abuse by accountants in complying with the Code. Furthermore, this promotes responsible behavior by accountants and provides clearer guidance to accountants on the procedures to be carried out, whenever a contravention of the Code occurs.	MIA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
60.	1	<p>We welcome the Board's efforts to re-examine a fundamental subject that underpins the entire audit process and the results thereof. Auditor independence is critical to an auditor's objectivity, which is a key to providing reliable audited financial statements and promoting investor confidence in the capital markets. To be credible, the auditor's work effort must be objective, must be performed with integrity and must be absent of any undue influences from the audit client, management or its owners. Public confidence in the audited financial statements will be eroded by evidence of, or a perception that, the auditor was lacking objectivity due to a lack of independence.</p> <p>We appreciate the Board undertaking this project in response to concerns we previously expressed on certain provisions of the Code. We see the Board's efforts as a significant step in the right direction to promote independence and objectivity by professional accountants. Specifically, we recognize the Board's move away from the notion of an "inadvertent violation" and inclusion of a requirement that if the audit firm concludes that a breach has occurred, then the firm shall assess the consequences (presumably on the firm's objectivity), communicate the matter to those charged with governance of the audit client and document the matter's resolution. We do, however, appreciate the challenges facing the Board particularly in writing a Code of Conduct to be applied in various jurisdictions. We have tried to consider those in offering our comments on the Board's proposed Section 290, which applies to audits and reviews of financial statements.</p>	IOSCO	Supportive comment
61.	1	<p>We welcome the publication of the Exposure Draft and are fully supportive of the IESBA's goal to provide a robust framework in the Code for addressing a breach of an independence requirement. We support the use of the term "breach" rather than "violation" and concur with the Board's view that whether the action causing the breach was inadvertent or not should not affect the need to focus on the impact on the firm's objectivity and the actions necessary to address the consequences of the breach.</p>	KPMG	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
62.	1	<p>Yes – We agree that there is a need for a procedure to deal with breaches of independence, as the independence section is more rules based rather than principles based.</p> <p>Moreover, in the absence of harmonization of independence requirements around the world there is a high risk of breaches of independence requirements, especially when rules are nearly the same but not totally the same. It is extremely complex to apply different sets of rules, especially for international engagements. Convergence of independence requirements would certainly be a means to limiting the risk of breaches globally.</p> <p>It is also necessary to have a procedure to deal with breaches of other parts of the Code. Nevertheless, it should be more explicit that in the case of a breach of a fundamental principle, the only solution is to resign from the engagement or to terminate the relationship. Proposed paragraph 100.10 is not specific enough and could be read as a possibility to breach other parts of the Code with no consequences for the professional accountant.</p>	Mazars	Supportive comment
63.	1	<p>We concur with the conclusion that the Code should contain a provision that requires professional accountants to address the consequences of a breach of a requirement of the code. A fundamental aspect of a threats and safeguards approach, as well as sound quality control procedures, involves accounting firms conducting an appropriate investigation and addressing breaches of the code of professional conduct, whether inadvertent or advertent, when they become aware of the breach or the possible breach.</p>	NASBA	Supportive comment
64.	1	<p>Yes, the NZAuASB is supportive of including provisions dealing with a breach of the independence requirements. Violations of these requirements do occur in practice and therefore the NZAuASB commends the IESBA on working to establish a practical framework that promotes appropriate actions when such breaches occur.</p> <p>In addition, the NZAuASB supports the withdrawal of existing paragraph 100.10 dealing with the breach of the general provisions and the fundamental provisions of the Code as we agree that it is difficult to conceive that inadvertent violations of fundamental principles occur.</p>	NZAuSB	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
65.	1	<p>We support the Code including robust provisions to help accountants and those charged with governance address the consequences of a breach of the Code, whether related to independence matters or otherwise. This will provide for enhanced transparency and consistency in responding to a breach. If the existing Code were to be amended such that it did not address the consequences of a breach of an independence requirement, the consequences of that breach would arguably be resignation (as independence is deemed impaired) – depending on the circumstances this may not be in the public interest and such an outcome could be a disproportionate response to the breach.</p> <p>We concur with the deletion of 290.39 (emphasis on “deemed not to compromise independence”), replacing it by provisions that require the auditor to evaluate and demonstrate that a breach of the Code has not compromised objectivity and that steps can be taken, where appropriate, to allow the audit to be completed.</p> <p>We believe that the approach adopted in relation to “other” breaches of the Code as proposed in revised 100.10 is appropriate.</p>	PWC	Supportive comment
66.	1	<p>Yes, we agree that code should include the said requirement. We are of the opinion the omission of required actions to address breaches mentioned in the code may encourage non compliance. The proposed wording is more robust and transparent. It results in more certainty for the professional accountant in the approach to be followed and removes any ambiguities.</p>	SAICA	Supportive comment
67.	1	<p>Grant Thornton is supportive of the proposed provisions to the IESBA Code of Ethics (Code) that require professional accountants to address the consequences of a breach of a requirement in the Code. The IESBA's intent to strengthen the Code by providing additional ethical requirements such as communicating breaches with those charged with governance, we believe will strengthen public confidence in the independence requirements for professional accountants and will create a more robust Code.</p>	GTI	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
68.	1	<p>As an overall comment, we support the views expressed by IESBA regarding the need to change the Code as regards to a breach of a requirement of the Code, as it will help professionals in dealing with breaches of independence, once the situation will occur, in a consistent and appropriate manner, rather than because the current provisions of the Code might encourage unscrupulous behaviour and potential abuse from professionals.</p> <p>We are of the opinion that the Code should contain such a provision. We are therefore supportive of the proposed change to the wording of paragraph 100.10 in order to include an overall provision.</p> <p>This proposed change will create an opportunity to better address the consequences of a breach, which may occur from time to time.</p>	CNCC-OEC	Supportive comment
69.	1	CNDCEC agrees with the need to define specific provisions on actions to be taken in case of breach of a requirement in the Code. This would allow to better regulate the consequences of such violations, thus reducing the risk of abuse.	CND-CEC	Supportive comment
70.	1	We agree that the Code should include such provisions. The Ethics Committee believe that professional accountants normally report all breaches of the Code in any event and rarely make use of the inadvertent breachesprovisiuns as currently drafted even though many breaches maybe construed as inadvertent.	CARB	Supportive comment
71.	1	We agree that the Code should specify the actions that should be taken when there is a breach of a requirement in the Code. The Code takes a principles-based approach; however, given the recent strengthening of the Code with the use of the word “shall”, coupled with the many other changes that have been made to Section 290, there could potentially arise a number of circumstances where the professional accountant would be in breach of a requirement in the Code. Failing to address such situations presumably leaves the professional accountant, in the case of a Section 290 breach, with two choices – either resign from the audit engagement or ignore the breach. Although resigning from the audit may be warranted in some cases, we believe that in many others, this outcome would neither be reasonable nor in the public interest. Disregard of the Code would also be a highly undesirable result. Thus, addressing the issue of breaches is prudent in our view to avoid such adverse consequences.	DTT	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
72.	1	We agree that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code, however, we believe that circumstances would seldom occur where it would be necessary to report such breaches to the client. Two examples might be when there is a breach of confidentiality or where there is a conflict of interest breach. In such circumstances, when any breach is significant, we believe the professional accountant should also consider whether or not such breaches should be reported to a regulator (such as a privacy commissioner), securities regulator or to a regulatory body having oversight of the professional accountant.	CICA	Paragraph 100.11 amended to require accountant to determine to whom to report the breach and provide those who might be affected by the breach and a regulatory authority as two examples.
73.	1	<p>We agree that the Code should contain provisions to address the consequences of a breach of a requirement of any provision of the Code. We are therefore in support of the proposed change to paragraph 100.10 of the Code to include such an overall provision.</p> <p>We are fully supportive of the IESBA initiative to enhance the provisions to address the consequences of a breach of a requirement. We believe this is particularly important to address real life issues as breaches are, oftentimes unintentionally, bound to occur sooner or later. However, as we explain in our response to Question 3, we do have concerns as to the approach proposed, in that the IESBA decided to reject outright the inclusion of de minimis exceptions.</p> <p>We do not agree with the view of some contributors that addressing a breach of a requirement of the IESBA Code is an implicit encouragement or even invitation to professional accountants to commit a breach. To the contrary, we believe it will enable professional accountants to better identify, communicate, correct and document breaches through the application of the necessary safeguards. Overall, the proposed changes to the Code will create an opportunity to better address the consequences of a breach.</p>	FEE	General supportive comment but concern with no de minimis exception as discussed below
74.		Yes agree that Code should contain such provision to enhance creditability and independence.	ICAP	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
75.	1	The FAOA largely agrees with the statements made in the Draft. Subject to national law, we suggest the inclusion of an additional requirement to report breaches to the oversight or other authorities.	FAOA	<p>Majority of respondents did not support a requirement to report to a regulatory authority.</p> <p>290.41 amended to indicate that a firm may determine that consultation with a member body, relevant regulator or other oversight authority is appropriate.</p>
76.	1	As noted in the accompanying letter, we support the IESBA's initiative to clarify the issues surrounding a breach of the requirements of the Code of Ethics. However, we would strongly urge the IESBA to introduce a more principles-based approach to addressing breaches in order to ensure that significant breaches are treated with the seriousness they deserve, but that issues of a clearly trivial nature are excluded from time consuming and costly considerations.	IDW	IESBA determined that all breaches should be reported but there could be some flexibility on the timing of reporting
77.	1	<p><b>Response: Yes</b></p> <p>We agree that, in line with the Conceptual Framework approach in Section 100 of the Code, for identifying threats and applying safeguards, the Code should contain provisions that require the auditor to address the <i>consequences of a breach</i> of the independence provisions, or any other provision of the Code, identified at any stage during an audit, review or other assurance engagement. This is particularly important where the circumstances of the breach have the consequence that the audit firm's <i>objectivity and ability to issue an audit report</i> is, or may be perceived to be, <i>compromised</i>, and it is not credible in the circumstances to conclude that the firm's objectivity was not impaired.</p> <p>We believe that the extant paragraph 100.10 relating to '<i>inadvertent violations</i>', may have confused the application of the conceptual approach to threats and safeguards in paragraphs 100.6 to 100.9 since all threats shall, in any event, be considered by the auditor at all times: prior to client and engagement acceptance, throughout the course of the audit, review or other assurance engagement, and in finalising the opinion or conclusion. Evidence of this should be included in the audit documentation.</p> <p>The proposed paragraph 100.10 should clarify that the "<i>consequences of the breach</i>" relate specifically to the audit firm's <i>objectivity and ability to issue an independent audit report</i>. Although dealt with in the</p>	IRBA	<p>Supportive comment</p> <p>Paragraph 100.10 addresses breaches other than</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>proposed paragraph 290.42, we believe that this is an important principle and should be incorporated into the proposed paragraph 100.10 as well.</p> <p>It should be recognised, however, that Identifying “<i>those who may have been affected by the breach</i>” for purposes of reporting the breach to those charged with governance, as suggested in the proposed paragraphs 100.10, 290.40, 290.4 and 291.34, could present difficulties in identifying who the appropriate persons are in respect of whom the breach should be reported. Furthermore, it is recognised in the proposed paragraph 290.41 that these provisions might be affected by jurisdictional requirements. For example, the Companies Act, 2008, (the Act) in South Africa requires the appointment of an audit committee for public interest and state owned companies, comprised of independent non-executive directors, with appropriate expertise, including expertise affecting financial reporting. The Act further imposes statutory responsibilities on the audit committee to, inter alia:</p> <ul style="list-style-type: none"> <li>• determine that the auditor nominated and appointed is independent;</li> <li>• to pre-approve all non-audit (assurance) services provided by the auditor; and</li> <li>• to report specifically in the annual financial statements, inter alia, “whether the audit committee is satisfied that the auditor appointed was independent of the company”.</li> </ul> <p>Audit regulators would seek documented evidence in the course of a firm or file inspection, or in an investigation in the event of a complaint received regarding <i>breaches</i> of independence or other provisions of the Code that have, or could be perceived to have <i>compromised</i> the firm’s <i>objectivity</i> to the extent that the firm is unable to issue an independent audit report.</p>		<p>independence breaches – proposed change to 100.10 to require accountant to evaluate the significance of the breach and its impact on the accountant’s ability to comply with the fundamental principles.</p>
78.	1	<p>Most jurisdictions may have the particular laws or regulations mandated by their governments or professional bodies on how to deal with a general breach, including an advertent breach, of a provision in the Code. We believe that addressing a general breach of a provision in the Code is the purview of professional bodies or regulators who enforce the Code, and are not within the remit of the IESBA.</p> <p>Both an ‘inadvertent’ provision in the current Code or a ‘did not know’ provision in the SEC rules describe the situation where independence is deemed not to be compromised, assuming that objectivity of mind is maintained and independence of mind is not impaired. Such provisions seem to be a specific guidance for an interpretation and application of the Code, therefore, we believe that they should be included in the Code.</p>	KICPA	<p>The majority of responses agree with the view of the IESBA that the consequences of the breach need to be addressed – irrespective of whether the breach was inadvertent or not.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>The current provisions on an inadvertent breach in related to a financial interest or employment relationship are consistent with the principle-based approach in the Code. However, in case of the purchase of a financial interest, it is difficult to determine whether the breach is inadvertent or advertent. Therefore, we recommend that the related current paragraphs(290.117 and 291.112) should be revised as below;</p> <ul style="list-style-type: none"> <li>- (a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the gift, inheritance, M&amp;A or other inadvertent acquisition of a financial interest in the audit client;</li> </ul> <p>It is difficult to determine whether a breach of a requirement in the partner rotation system or non-audit services is inadvertent. In considering a firm's oversight duty on independence, the breach related to the partner rotation or non-audit services is deemed to be non-fulfillment of its oversight duty rather than an inadvertent breach. Therefore, we suggest that such provisions should be revised.</p>		
79.	1	<p>The ICJCE is of the opinion that although addressing the situation where a professional accountant incurs in a breach of the IESBA Code is useful since this is something that could happen, the approach in the exposure draft does not reflect the overall approach of the IESBA Code which is the application of safeguards when a threat to the independence of the auditor is detected.</p> <p>In our view, although we can understand the concerns expressed by some stakeholders, we do not agree with them, since they are actually considering that the Code invites the professionals to commit breaches to the requirements which is not the fact. The IESBA Code is addressed to help accountants to perform their activity in an objective and independent manner and therefore its application enables auditors to address any conflict regarding their compliance with the requirements included in the Code applying the appropriate safeguards.</p>	ICJCE	Supportive comment
80.	1	<p>We do not see that the Code needs to include such provisions, as it should primarily address what ethical behaviour comprises, with professional bodies' or other regulators' conduct operations dealing with the consequences of a breach. However, if such measures are thought to be helpful by some jurisdictions, we do not object to their inclusion.</p>	ICAEW	Majority of respondents support IESBA view that the Code should address such matters

X ref	Par Ref	Comment	Respondent	Proposed Resolution
81.	1	We also do not believe that it is absolutely warranted by the facts either - and thus we would like to immediately respond to Question 1 (Do respondents agree that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code? If not why not?) – to create new provisions concerning the legal consequences of breaches of independence requirements in the CoE itself. To the extent that clarifying annotations are considered useful, these could possibly occur in the form of a special guidance paper.	WPK	Majority of respondents support IESBA view that the Code should address such matters
Q2. Do respondents agree with the overall approach proposed to deal with a breach of an independence requirement, including the proposal that the firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and such action is taken?				
82.	2	Yes	ICAEW	Supportive comment
83.	2	We agree	ICPAR	Supportive comment
84.	2	We agree with the proposed approach to deal with a breach of independence requirement.	CNCC-OEC	Supportive comment
85.	2	APESB supports the overall approach of the proposed changes to the Code in dealing with a breach of an independence requirement. APESB further agrees that the decision to continue an audit engagement should rest with those charged with governance taking into consideration whether the breach has been appropriately remedied.	APESB	Supportive comment
86.	2	The FAOA agrees with the relevant statements on page 7 of the Draft. In particular, it welcomes the clear requirement to withdraw from an engagement if a breach of independence is too serious to rectify (Draft 290.45 ff.).	FAOA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
87.	2	We agree with the proposed approach including the proposal that the firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and such action is taken.	HKICPA	Supportive comment
88.	2	Yes, we agree with the overall approach. The proposed revised provisions are much more rigorous and precise than the existing ones and professional accountants will appreciate the clear guidance given. Having those charged with governance concur that action can be taken to satisfactorily address the consequences of the breach adds to the credibility and objectivity of the action taken. Furthermore, those charged with governance also have the duty and responsibility to ensure that appropriate action is taken by the firm to rectify any breach identified.	ICPAS	Supportive comment
89.	2	We agree with the overall proposed approach to deal with a breach of an independence requirement. There is a strong benefit for the public interest to have a clear and transparent procedure. It would help professional accountants to formalize and document what is already performed.	Mazars	Supportive comment
90.	2	We concur with the underlying assumption that the public is not well served if the automatic response to any violation of an independence requirement is that the firm must resign, regardless of the magnitude of the violation and its impact on the firm's objectivity.	NASBA	Supportive comment
91.	2	Yes, the NZAuSB supports the overall approach proposed. We believe that agreement by those charged with governance is a necessary step in order to appropriately address and explore the consequences of any breach that has occurred.	NZAuSB	Supportive comment
92.	2	We support the overall approach put forward by IESBA. Detailed comments are as follows:	CICPA	Supportive comment
93.	2	We agree with the approach proposed,	CARB	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
94.	2	We generally agree with the proposed changes with respect to independence violations and support the approach that the continuance with the audit engagement, after an independence breach has been reported, should only be with the active agreement of those charged with governance. We believe it is an inherent responsibility for those charged with governance to be involved in the assessment of independence breaches and support the extra rigor attached to the requirement that the audit engagement only proceed with the agreement of client.	E&Y	Supportive comment
95.	2	In general terms, the ICJCE considers that the overall approach to deal with a breach of an independence requirement consisting in applying the appropriate safeguards is adequate although we consider that not all breaches would need the same treatment and the significance of the breach should be taken into account.	ICJCE	Supportive comment - drafting changed to provide some flexibility on timing of reporting breaches
96.	2	<p>We agree to the proposed approach. If the continuation of an audit engagement is reviewed and approved by those charged with governance, it implies an endorsement of continuation from a highly objective standpoint, which can be expected to serve the public interest.</p> <p>As to the amendment, replacing the current limited applicability to an inadvertent violation with a general applicability to a breach of an independence requirement; since it is a breach that gives rise to the issue regardless of its nature, i.e. intentional or inadvertent, consistency in the procedures to address a breach is desirable. Moreover, professional accountants' judgment and proof on whether the breach is intentional or inadvertent would likely be, in large part, subjective, and pose considerable difficulty. We, therefore, agree to the proposed approach.</p>	JICPA	Supportive comment
97.	2	We agree with the proposal that the firm may continue with the audit engagement, when those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach, provided the firm's own risk management procedures are in place and compliance thereof will be subject to the relevant regulatory bodies' oversight. We suggest that those charged with governance would be responsible for action taken by the firm when addressing the consequence of the breach.	MIA	Supportive comment
98.	2	We support the overall approach and agree that it is important that those charged with governance agree to the course of action, based on the analysis of the facts and circumstances provided by the firm. We do, however, have some detailed comments as follows.	PWC	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
99.	2	<p>Yes, we agree with the overall approach. The code refers to the fact that the removal of the auditor in all instances where independence is breached is not in the public interest. This is important, and we agree that the practicality of enforcing such a provision will indeed not be wise.</p> <p>Instead, we support the view that actions should be taken to address the breach, and that those charged with governance should be satisfied with the actions taken to address the breach.</p>	SAICA	Supportive comment
100.	2	Yes, I think that this point must be wait after concluded the comments about Engagement Team, can occur others considerations that will used for IESBA/IFAC in this discussion.	DSFJ	Supportive comment
101.	2	Grant Thornton agrees with the overall approach to deal with a breach of an independence requirement, including the proposal that the firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and such actions are taken. We also believe that greater transparency by professional accountants is a necessary component to ensure confidence in the audit process.	GTI	Supportive comment
102.	2	We agree with the approach proposed to deal with a breach of an independence requirement, other than as noted in comments on the requirement to report all breaches and the use of the reasonable and informed third party test discussed in nos. 3 and 4 below.	AICPA	Supportive comment – other than questions addressed below
103.	2	<p>Subject to the comments below, we concur with the overall approach of the proposed provisions and, in particular, with the proposal that the firm may continue with the audit engagement only with the agreement of those charged with governance. Obtaining such agreement is consistent with the role that those charged with governance have in monitoring auditor independence and provides increased transparency in the process.</p> <p>ISA 260 <i>Communication with Those Charged with Governance</i> contains specific provisions on such communications including matters that relate to independence (see paragraphs 17, 20, A21-23 and A40). In particular, paragraph A22 addresses inadvertent violations and paragraph A40 deals with the timing of the communication (as discussed below). Conforming changes will be required to ISA 260 once the provisions</p>	ASSIREVI	<p>Supportive comment</p> <p>Separate project initiated to provide additional guidance in the Code on those charged with governance, to recognize</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		of the Code are finalized. However, we note that ISA 260 takes a different approach from the proposed provisions of the IESBA as to timing and the use of auditor's judgment in the matters to be communicated. In addition, ISA 260 recognizes that governance structures vary widely from one jurisdiction to another and judgment is also required in determining, in these differing jurisdictions, how and with whom the communications required under ISA 260 are undertaken. For example, those charged with oversight of auditor independence may have no responsibility with respect to financial reporting and, accordingly, not all relevant factors may be properly considered by such individuals when evaluating the determination made by the auditor under 290.46. Accordingly, we recommend that the Board take into consideration the guidance that already exists in ISA 260.		that governance structures vary from jurisdiction to jurisdiction and to align with ISA 260.  Change made to provide some flexibility in the timing of reporting of
104.	2	<p><b><i>Context for the Project: Regulatory Building Blocks</i></b></p> <p>As securities regulators, we believe investors should have access to relevant and accurate information that is cost effective and meaningful to an investment decision. We believe that a breach of an independence provision creates a risk that the auditor's objectivity was impaired, a risk that generally should be made transparent to investors—via reporting to their corporate governance representatives or to their regulatory advocates or to the investors themselves—in some manner. Such transparency may provide additional incentives for audit firms to implement and maintain good quality control systems that limit the occurrence of independence breaches. Transparency via reporting to investors themselves could further encourage auditors and those charged with governance to make the appropriate decisions with respect to resigning or continuing with the audit engagement, as the auditor's reasoning and conclusion would be subject to public scrutiny.</p> <p>We believe that a securities regulatory model setting forth requirements to address a breach of an auditor independence provision would involve the following building blocks:</p> <ol style="list-style-type: none"> <li>1. The external auditor promptly identifying the breach and assessing it against the applicable securities laws and regulations. Assessment of the breach and the resolution thereof would be elevated within the firm to, for example, the firm's quality control function and/or firm leadership.</li> <li>2. The external auditor terminating the audit engagement if objectivity has been compromised. This includes, but is not limited to, those situations in which the very nature of the breach is such that it is likely not credible to conclude that the firm's objectivity was not impaired.</li> <li>3. The external auditor communicating to those charged with governance of the issuer the</li> </ol>	IOSCO	<p>The approach taken establishes a robust mechanism where all breaches are to be communicated to those charged with governance and the firm is to determine whether reporting to regulator is appropriate. In addition, the documentation requirements will provide an appropriate level of transparency and scrutiny as they provide a record for those who inspect the audit engagement, such as regulators.</p> <p>The Task Force considered whether reporting to investors would be appropriate. The Task Force concluded that requiring such reporting would not be appropriate. The auditor will resign unless the actions</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>occurrence and nature of the breach and the auditor's conclusion of the effect on the auditor's objectivity with respect to the audit of the issuer's financial statements.</p> <ol style="list-style-type: none"> <li>4. Those charged with governance of the issuer evaluating and concluding on the auditor retention based on communications with the external auditor and consideration of the specific facts and circumstances and applicable laws and regulations governing the breach.</li> <li>5. The issuer and/or external auditor promptly reporting the breach and the resolution thereof to the regulator in jurisdictions where such reporting is either required or encouraged under the capital markets regulatory regime.</li> <li>6. Where objectivity was deemed not to be compromised, the issuer and/or external auditor reporting to investors via proxy, auditor's report or other public document, as appropriate, the occurrence and nature of the breach and the impact on the auditor's objectivity in jurisdictions where such reporting is either required or encouraged under the capital markets regulatory regime.</li> <li>7. Administration of sanctions, enforcement actions and other remedial actions based on the severity of the breach.</li> </ol> <p>We recognize that writing requirements to fulfill a mandate of establishing and enforcing securities laws is not the goal of the Board as that mandate rests with regulators. In contrast, improving the Board's Code of Conduct is to promote and guide appropriate behavior and best practices among practitioners in IFAC member bodies, especially among those who may be subject only to self-regulation. We see the objectives for the Code of Conduct as overlapping with, yet somewhat different from, a regulator establishing requirements as part of a regulatory regime to foster fair and orderly capital markets and to promote investor protection. Nonetheless, we believe that the regulatory building blocks presented above can serve the Board as it considers improvements to its Code taking into consideration the purpose of the Code and the boundaries of the Board's remit.</p>		<p>taken satisfactorily address the consequences of the breach. Communicating breaches to investors when it has been agreed that action can be taken to satisfactorily address the consequences of the breach would undermine confidence in the audit report and would not be in the public interest because it would, in turn, undermine confidence in financial reporting.</p> <p>The approach taken follows the building blocks to the extent that it is within the remit of the IESBA.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
105.	2	We agree with the IESBA's proposal. We believe that those charged with governance, provided there is an independent oversight function, have an important role in the oversight of the audit process and should be appropriately informed so they can discharge their responsibilities. As such, it is important that those charged with governance are satisfied with actions taken by the firm to address any breaches. However, this model relies on a robust and independent governance regime which may vary significantly from country to country.	CPAB	Supportive comment  IESBA cannot influence governance structures. The documentation requirements will provide a record for those who inspect the audit engagement, such as regulators.
106.	2	Subject to our comments on the matter addressed in Question 3, we agree with the overall approach proposed to deal with a breach of an independence requirement.	FEE	Supportive comment
107.	2	<p>The proposed IESBA provisions require that the firm communicate with those charged with governance the existence of a breach and the actions to be taken "as soon as possible". While we concur that action should be taken swiftly, we believe that the proposed provisions need to balance a rigorous approach with practical considerations. A requirement to report <i>all breaches as soon as possible</i> appears to be disproportionate for those independence breaches that may be deemed trivial and inconsequential. Paragraph 21 of ISA 260 requires the auditor to communicate with those charged with governance "on a timely basis" and paragraph A40-41 provides guidance on timing including the following:</p> <p style="padding-left: 40px;">"The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged with governance."</p> <p>We believe that the proposed provisions should provide some flexibility in the timing of communications based on the significance of the breach similar to the guidance contained in ISA 260 and that communication should be "timely" rather than "as soon as possible". Also it is important that the IESBA provisions regarding the communication of independence breaches be consistent with the requirements regarding communication of other matters under ISA 260 so as not to create a diversity of treatment.</p>	ASSIREV	Supportive comment. Drafting changed to provide some flexibility on timing of reporting

X ref	Par Ref	Comment	Respondent	Proposed Resolution
108.	2	However it is important to consider practical issues such as the timing of the reporting of the matter to those charged with governance. Certain matters may wait until the next meeting of the Audit Committee other issues may be of a more urgent nature and require reporting to the Chairman immediately. Audit Committees may require further advice in this area.	CARB	Supportive comment. Drafting changed to provide some flexibility on timing of reporting
109.	2	<p>We agree with the overall approach, and particularly support the link between disclosing breaches to those charged with governance, taking appropriate action, and continuing (or terminating) the audit engagement.</p> <p>However, we believe that the provisions could be improved with regard to safeguarding <i>future</i> independence on discovery of a breach. Section 290.47 states that the firm may continue to act if those charged with governance agree that 'action can be taken to satisfactorily address the consequences of the breach'. We suggest the addition of the words 'and safeguard future independence'. Similar references to future independence are recommended in proposed sections 290.48, 290.50 and 291.35.</p> <p>We support the inclusion of the requirement in proposed section 100.10 that any appropriate actions available to the professional accountant who identifies a breach shall be taken 'as soon as possible'.</p>	ACCA	<p>Supportive comment</p> <p>ISQC1 requires the firm to establish policies and procedures to provide reasonable assurance that independence is maintained. ISQC1 also required a monitoring process to provide reasonable assurance that the system of quality control is operating effectively.</p>
110.	2	We agree with the overall approach. Whilst we agree with the proposal that the firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and such action is taken, we feel it is important to note that, in the first instance, the decision to resign where satisfactory actions cannot be taken remains that of the firm not those charged with governance of the entity. To clarify this position, we have suggested some amendments to proposed paragraphs 290.45 and 290.48 as follows (additions are shown in bold italics and deletions in strikethrough text):	BDO	Supportive comment – edits suggested against 290.45 and 290.48 below.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
111.	2	<p>We support the discontinuation of the terms 'inadvertent' and 'violation' and the proposed use of the word 'breach'.</p> <p>We support the IESBA's view that the provision currently contained in paragraph 100.10 should be replaced with a requirement that a professional accountant take whatever actions that might be available as soon as possible to satisfactorily address the consequences of a breach of a provision of the Code and that the provision should also require the accountant to determine whether to report the breach to those who may have been affected by the breach.</p>	ICAS	Supportive comment
112.	2	CNDCEC agrees that the continuance of the engagement should be subject to the condition that those charged with governance, being informed of the breach, agree on the action to be taken to address the violation. This rule would also help avoiding any conflicts.	CND-CEC	Supportive comment
113.	2	We agree that those charged with governance must consider the facts and circumstances of the breach, determine if action can be taken to satisfactorily address the consequences of the breach and be satisfied that such action has taken place. However, we believe that such decisions can be delegated to the Chair of the Audit Committee in those situations where the breach is considered to be insignificant with a full reporting to the Audit Committee or those charged with governance at the first available opportunity.	CICA	Separate project initiated to provide additional guidance in the Code on those charged with governance, to recognize that governance structures vary from jurisdiction to jurisdiction and to align with ISA 260.
114.	2	Yes, overall we agree; however, we do have some concerns with certain of the provisions (See response to Question 3). The measures that a firm is required to undertake, as detailed on page 6 of the ED, are reasonable and concise, and should not typically represent an onerous burden to the firm, in the circumstance of an identified breach that it deemed to be significant.	CGA Canada	Supportive comment with some concern on question 3 as discussed further below.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
115.	2	<p>CPA Australia agrees with the overall approach in relation to how the firm should satisfactorily address and communicate a breach of an independence requirement. However, we are of the opinion that the implications of the provisions in paragraph 290.46 and 290.47 need to be evaluated. We believe that the professional accountant ought to be independent of the client in the provision of auditing and assurance services. We consider the determination by the firm that objectivity has not been compromised and that action can be taken to satisfactorily address the breach are sufficient to ensure that the firm can continue with the engagement. In making the determination the firm is required to consider a reasonable and informed third party (paragraph 290.43). We cannot envisage possible circumstances that would then result in those charged with governance disagreeing that such action can be taken to satisfactorily address the consequences of the breach. We think that if an informed third party would be likely to conclude that the firm's objectivity has not been compromised then those charged with governance would be expected to reach the same conclusion.</p> <p>We do not think the professional judgement and determination of the firm should be challenged by those charged with governance, as this is not only unnecessary but it may also give the impression that the firm's determinations can be questioned in other matters. In addition the client is able to terminate an audit engagement without the necessity of the proposed paragraphs.</p> <p>The professional accountant who provides auditing or assurance services must be independent of the client and we think it is inappropriate that the client is the final arbiter of the professional accountant's independence.</p> <p>For these reasons we think that paragraphs 290.47 and 290.48 should be removed from the proposed changes to the Code.</p>	CPA Australia	Majority view to obtain the agreement of those charged with governance
116.	2	<p>Far agrees with the overall approach proposed to deal with a breach of an independence requirement, i.e. that the firm may continue with the audit engagement only if action can be taken to satisfactorily address the consequences of the breach and such action is taken.</p> <p>However, Far considers that the requirement of agreement from those charged with governance on this issue poses some problems, see more under Far's comments to question 3 and 5, below.</p>	FAR	Supportive comment with additional detail provided below

X ref	Par Ref	Comment	Respondent	Proposed Resolution
117.	2	It is recommended to consider each jurisdiction's diverse situation where: 1) those charged with governance are ineffectively operated and do not meet the role the IESBA expects, or 2) only a regulatory body determines whether to terminate audit engagements. Therefore, we suggest that those who we communicate with when an inadvertent breach of an independence requirement is occurred should be revised to "those charged with governance, regulatory bodies or professional bodies."	KICPA	Majority view not to require reporting to regulators. ¶290.41 changed to state firm may determine that consultation with a member body, relevant regulator or oversight authority is appropriate.
118.	2	While we agree that breaches of independence should be evaluated and remedial action taken to address them, we believe that the drafting should make it clear that reporting to those charged with governance should take place only once the significance of the breach has been evaluated and its impact on the firm's objectivity has been established such that a meaningful discussion can take place. The reference to communicating with those charged with governance in paragraph 290.40 of the draft might suggest that that this communication should take place as soon as a breach has been identified. This might also have an adverse effect on the timeliness of addressing the independence breach. For example, if a member of an audit team were to discover that a member of their immediate family held a financial interest in the audit client, the firm should act immediately to address the breach, e.g. by removing that individual from the audit team. The firm could then discuss the matter with those charged with governance who, if they are satisfied that the action (together with further action as considered necessary) addresses the consequences of the breach, may confirm that the audit engagement should continue.	KPMG	¶290.40 changed to require the firm, when a breach is identified to terminate, suspend or eliminate the breach and to address the consequences of the breach
119.		We believe that the views of audit committees will be particularly relevant to the IESBA's further consideration of the proposal to require the firm to obtain the agreement of those charged with governance before the firm may continue with the audit.	KPMG	Survey issued to solicit input from audit committee members and directors.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
120.		We imagine that in some cases those charged with governance, particularly in smaller entities where there is no formal audit committee, may require guidance as to the steps that they might take to determine whether they agree that the action proposed to be taken by the firm satisfactorily addresses the consequences of the breach.	KPMG	Final standard will be accompanied by an “At a Glance” document providing an overview of the changes to the Code and the implications of the changes
121.	2	<p>AAT members do not undertake audit, although they utilise sections 290 and 291 of the Code of Ethics in the context of review and assurance engagements as undertaken by a number of Members in Practice working with organisations below the audit threshold.</p> <p>AAT will go as far as to say that a firm cannot continue with an audit arrangement where those charged with governance do not agree that action can be taken to satisfactorily address the consequences of the breach and such action is taken. However, we are concerned that the proposal put forward would result in a residual risk remaining that by taking such a decision out of the hands of a practitioner or firm, it could be seen to be devolving ethical decision-making to a third party who cannot and should not reasonably be expected to have an in-depth knowledge and/or understanding of the Code of Ethics in the same way that the practitioner should. This may then inadvertently create a defence in that “those charged with governance approved the action”, when possibly the action is insufficient to mitigate the breach of independence unbeknownst to those charged with governance. In turn, this creates more vulnerabilities than would exist were this provision not in place, and the onus falls upon the practitioner to make this determination of their own volition.</p> <p>AAT has a concern that by inviting those charged with governance of the entity to agree with a proposed course of action, there is a risk of complicity where a self-interest risk might exist on the part of the employing organisation. This does not mitigate against the observations put forward by the IOSCO, and indeed could be seen to create additional vulnerabilities on the basis that there is a third party responsibility in ethical decision-making. Professional bodies can take action against members and firms. However, jurisdiction would not extend to those charged with governance, despite the significance of their contribution to the decision taken. This therefore creates an additional defence, which is arguably far more robust than the inadvertent breach defence when considered in conjunction with local regulations members are required to abide by in order to maintain standards.</p>	AAT	<p>The proposals would require the firm to discuss the significance of the breach including its nature and duration which would provide sufficient information for those charged with governance to understand the circumstances.</p> <p>The documentation requirements will provide a record for those who inspect the audit engagement, such as regulators.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		Given these concerns, AAT does not agree with the proposed approach.		
122.	2	<p>The AIA supports the requirement that an auditor should rectify such a situation. In the event that the audit firm wishes to continue with the audit then it may be appropriate to make full disclosure of the breach and of the action that has been taken to resolve it, but that disclosure may not necessarily be made to those charged with governance.</p> <p>It should be borne in mind that the fundamental purpose of an audit is to reassure the users of audited financial statements. If there is a possibility that the auditor's professionalism could be viewed as compromised then it should really be a matter for the shareholders (or other users) to determine whether it would be appropriate for the auditor to continue. Under those circumstances it is debatable whether the auditor should continue in any case, but it would be clearly inappropriate for the board to sanction such a decision.</p> <p>Furthermore, there could be cases where advising the client company management of the circumstances could leave the audit firm more open to influence than was already the case. For example, in the hypothetical case of an audit firm losing a number of major clients and becoming temporarily dependent upon the remaining clients while replacement business was being sought, it could be argued that informing those remaining clients of that vulnerability would simply make the firm less independent.</p> <p>The AIA believes that there may be a rebuttable assumption that any breach that is sufficiently serious to warrant disclosure may not be reparable and that the auditor may be forced to step down. Conversely, those breaches that can be remedied properly may not warrant disclosure.</p> <p>The AIA believes that there is a risk that informing those responsible for governance could sometimes be viewed as an alternative to stepping down. It may be that management would prefer the auditor to continue for the sake of avoiding the disruption of appointing a replacement late in the reporting cycle.</p>	AIA	Majority view is that agreement from those charged with governance is required

X ref	Par Ref	Comment	Respondent	Proposed Resolution
123.	2	<p>We agree that the assurance provider should consult with those charged with governance when a breach has been identified. However, for the reasons set out in our covering letter, we do not agree that the final decision as to the appropriate resolution of the breach should be made by those charged with governance. The final decision on the resolution of the breach must remain with the assurance provider.</p> <p>Furthermore, it is our view that any breach and the manner of resolving it, other than those breaches that would be regarded as trivial or inconsequential, should be publicly reported in the assurance provider's report. Public reporting introduces transparency, in an area where there has traditionally been no transparency.</p> <p>Covering letter: Whilst we agree that the Code of Ethics (the Code) should provide guidance to assurance providers on how to address a breach of the Code, we are concerned with the approach in the Exposure Draft that implies the final decision for resolving certain breaches rests with those charged with governance. Such an implication is strongly suggested by the use of the following wording in the Exposure Draft:</p> <ul style="list-style-type: none"> <li>• "If those charged with governance agree ..." (paragraph 290.47);</li> <li>• "If those charged with governance do not agree ..." (paragraph 290.48);</li> <li>• "If they agree..." (paragraph 291.35); and</li> <li>• "If the party ... do not agree..." (paragraph 291.36).</li> </ul> <p>In our opinion, those charged with governance are primarily required to make decisions in the best interests of the organisation. From our observations such decisions may not necessarily reflect the public interest. For example, in New Zealand those charged with the governance of companies (the directors) are required by legislation to act in "the best interests of the company". In our opinion, "the best interests of the company" do not necessarily align with the public interest.</p> <p>For this reason we believe that the decision on resolving a breach of the Code must remain with the assurance provider, who is responsible for acting in the public interest. In reaching their decision, the assurance provider should necessarily consult with those charged with governance.</p>	AGNZ	<p>The Task Force considered whether reporting to investors would be appropriate. The Task Force concluded that such reporting would not be appropriate. The auditor will resign unless the actions taken satisfactorily address the consequences of the breach. Communicating breaches to investors would undermine confidence in the audit report and would not be in the public interest because it would, in turn, undermine confidence in financial reporting.</p> <p>Majority view that approval of those charged with governance is appropriate.</p>
124.	2	<p>We believe that compliance with the independence requirements in the Code is essential to audit quality and consequently, appropriate actions need to be taken when there are breaches of such requirements.</p>	DTT	<p>Overall comment – discussed in more detail below</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>However, we do not support the overall approach proposed to deal with breaches of the independence requirements in Section 290 of the Code as set forth in the ED.</p> <p>As explained more fully below, in our view, the proposal (1) ignores the existing standard covering communications with those charged with governance; (2) is inconsistent with the IESBA's objective to achieve convergence; and (3) is overly prescriptive in the actions required to be taken. As a result, we believe the proposed changes to Section 290 are flawed in several significant respects.</p>		
125.	2	<p><i>Inconsistencies between the Proposed Approach and ISA 260, "Communication with Those Charged with Governance"</i></p> <p>When considering the proposed approach in light of ISA 260, <i>Communication with Those Charged with Governance</i>, we believe the proposed approach is problematic in two key respects: the "when" of the required communication regarding breaches and the "to whom" such matters should be communicated.</p> <p>The proposal requires the firm to discuss with those charged with governance all breaches and the action it proposes to take "as soon as possible." The ED neither explains why the Board concluded to require such discussions as soon as possible nor provides any guidance as to what it intended.<sup>2</sup> Regardless of the meaning, the proposed standard makes it clear that the firm is prohibited from continuing with the audit engagement until the breach has been discussed with those charged with governance and they are in agreement with the actions taken or to be taken by the firm.</p> <p>It is important, in our view, to look at the ISAs that require communication with those charged with governance. ISA 260, in particular, includes the requirement, in the case of listed entities, that the auditor communicate with those charged with governance regarding independence matters, which as noted in the application material, may include inadvertent violations.<sup>3</sup> Such communications are required to occur "on a timely basis."<sup>4</sup> Notably, the ISA explains that "communications regarding independence may be appropriate</p>	DTT	<p>Change made to provide some flexibility on the timing of communicating a breach to those charged with governance</p> <p>¶290.47 changed to remove impression that the audit must be immediately suspended until the agreement of those charged with governance is obtained.</p>

<sup>2</sup> The only reference to "as soon as possible" in the Code is in paragraph 290.116(c), which requires individuals who are not members of the audit team to dispose of prohibited financial interests as soon as possible. Presumably, as soon as possible is distinguishable from "immediately", the term used in paragraph 290.116(b) when referring to similar financial interests held by members of the audit team.

<sup>3</sup> ISA 260, *Communication with Those Charged with Governance*, paragraphs 17 and A22.

<sup>4</sup> *Id.* at paragraph 21.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>whenever <u>significant</u> judgments are made about threats to independence and related safeguards.”<sup>5</sup> (Emphasis supplied.)</p> <p>Appendix 1 to ISA 260 identifies the paragraphs in ISQC 1 and other ISAs that require communication on specific matters with those charged with governance. We have created a matrix, attached hereto as Exhibit 1, which includes the content of such paragraphs, noting in particular the circumstances giving rise to the requirement to communicate with those charged with governance and the timing of such requirement. Most of the requirements do not specify the timing when such communications are to occur. When the ISA requires the communication to occur in a timely manner or as soon as practicable, the circumstance giving rise to the need to discuss the matter with those charged with governance is quite serious: fraud resulting in <u>material</u> misstatements; <u>significant</u> deficiencies in internal control; non-compliance with laws and regulations believed to be <u>intentional and material</u>.</p> <p>What is evident from the review of these ISAs is that reliance is placed on the auditor’s judgment for determining when communications should occur, which is based on the auditor’s judgment regarding the circumstances giving rise to the need to communicate.<sup>6</sup> In our view, the auditor should exercise judgment in determining whether a breach is significant and then communicate with those charged with governance as soon as is practicable.</p>		
126.		<p>Another concern we have with the proposal is the requirement to communicate breaches to those charged with governance.<sup>7</sup> The proposal requires discussions with “those charged with governance”, a term that is defined in both the Code and in ISA 260. Not only are there differences in the definition, the ISA provides significant elaboration on the requirements to communicate with those charged with governance and</p>	DTT	Additional guidance developed to discuss the diversity of governance structures and fact that auditor may choose to

<sup>5</sup> *Id.* at paragraph A40. If the Board were to argue that this is distinguishable because breaches are different than threats and safeguards, we would respectfully disagree. The reason the Code contains rules and prohibitions is directly related to the judgment made regarding the threat to independence created by a particular relationship or circumstance.

<sup>6</sup> We would also suggest that the Board review the PCAOB requirements in Rule 3526, *Communication with Audit Committees Concerning Independence*. The PCAOB noted in its Release on Rule 3526 that the rule “allows firms significant flexibility to determine how to comply with the requirements to describe a covered relationship and discuss the potential effects of that relationship on the firm’s independence. . . . auditors will need to apply judgment to determine whether a relationship may reasonably be thought to bear on independence.” PCAOB Release 2008-003, April 22, 2008, p. 10.

<sup>7</sup> We realize that the Code contains a number of provisions where the firm or auditor is required to communicate with those charged with governance. We suggest that the IESBA consider the need to revise the Code to address the issue of inconsistencies with ISA 260 raised in this letter.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>application material not included in the Code.</p> <p>“Those charged with governance” is defined in the Code as: The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.</p> <p>The definition of those charged with governance in ISA 260 is similar but adds to the above the following: For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1-A8.<sup>8</sup></p> <p>As referenced in the definition in ISA 260, there is extensive application material on the diversity of governance structures. Such material recognizes the variance in governance structures by jurisdiction and by entity, noting that “it is not possible for this ISA to specify for all audits the person(s) with whom the auditor is to communicate particular matters.”<sup>9</sup> However, the ED fails to recognize the variance in governance structures by proposing in all instances that the firm discuss the breach with those charged with governance.</p>		communicate to a sub-set of those charged with governance
127.	2	<p>The ED also neglects to contemplate that sub-groups of those charged with governance (e.g., audit committees) may have responsibility for dealing with matters related to auditor independence. ISA 260 notes that audit committees, or similar subgroups, have become a critical element of the auditor’s communication with those charged with governance.<sup>10</sup> Moreover, some audit committees delegate certain matters to one or more members. The ISA leaves it up to the auditor’s judgment whether a communication to a subgroup of those charged with governance, or an individual, would satisfy the need to communicate with the governing body.<sup>11</sup> Such judgment is permissible in the case of all matters covered by the many</p>	DTT	Additional guidance developed to discuss the diversity of governance structures and fact that auditor may choose to communicate to a sub-set of those charged with governance

<sup>8</sup> ISA 260, *Communication with Those Charged with Governance*, paragraph 10(a).

<sup>9</sup> *Id.* at paragraph A3.

<sup>10</sup> *Id.* at paragraph A7.

<sup>11</sup> *Id.* at paragraph 12.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>ISAs that require communications with those charged with governance<sup>12</sup>, yet is not allowable under the proposed approach.</p> <p>Based on the ED, it would seem that the IESBA intended for all discussions on all breaches to occur with the entire governing body, such as the board of directors. This may not only be impracticable, it may be next to impossible, considering not only how often boards typically meet but also when viewed in the context of the other requirements of the proposed approach, particularly the requirement to communicate all breaches as soon as possible.</p> <p>In our view, the standards promulgated by the IESBA should be consistent with those promulgated by the IAASB. Moreover, the two IFAC standard-setting bodies should reach an agreement on the contents of standards where there are overlapping interests. There exists ISA 260, which already covers communications on independence matters with those charged with governance in the case of listed entities, and the proposed changes to Section 290 of the Code create inconsistencies with the existing ISA. We would urge the IESBA to consider its proposal in view of the framework for communications with those charged with governance already established by the IAASB and in effect.</p>		
128.	2	<p><b><i>The Proposed Approach is Inconsistent with the Board's Objective of Achieving Convergence</i></b></p> <p>The IESBA has stated its objective in its "Terms of Reference" as follows:</p> <p style="padding-left: 40px;">"The objective of the IESBA is to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics."</p> <p>Notwithstanding the objective of convergence, no evidence is presented to support an argument that the proposed approach will help achieve this goal. A review of the existing standards and regulations on breaches was not included in the ED.</p> <p>To the best of our knowledge, there is no jurisdiction (professional body or regulator) that has adopted a rule or regulation for dealing with breaches along the lines of the proposed approach. In fact, the regulator with arguably the most stringent independence rules (the US SEC/PCAOB), has not adopted this approach.</p>	DTT	Majority view that all breaches should be reported. Change made to provide some flexibility on the timing of reporting.

<sup>12</sup> *Id.* at Appendix 1.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>The US SEC recognizes that the firm's independence should not be deemed impaired as a result of inadvertent violations of the SEC's independence rules if the firm maintains certain quality controls and satisfies other conditions.<sup>13</sup> The PCAOB requires the auditor to communicate with the audit committee at least annually all relationships between the firm and the audit client, or persons in financial reporting oversight roles, that may reasonably be thought to bear on independence.<sup>14</sup> The auditor is required to use judgment in determining whether to disclose a relationship to the audit committee, considering how a third party would view the relationship.<sup>15</sup> With respect to the timing of the communication, the PCAOB did not specify when the annual communication should take place, noting that the rule "will allow the auditor and audit committee to determine the timing that is most appropriate in the circumstances to the particular engagement."<sup>16</sup></p> <p>We agree with the US SEC and PCAOB approaches, which recognize (1) the importance of having robust quality controls over independence in place; (2) the judgments that need to be made by the auditor; and (3) the input the audit committee should have in determining the scope and timing of communications with the auditor.</p>		
129.	2	<p><i>The Overly Prescriptive Nature of the Proposed Approach is Unnecessary</i></p> <p>It would seem that the IESBA is of the view that (1) any breach of an independence requirement in the Code is of such significance that communication with those charged with governance must occur as soon as possible, and the audit engagement may not be continued until those charged with governance review the judgments and actions taken or to be taken by the firm; (2) only one course of action is appropriate when there has been a breach of an independence requirement, regardless of the threat to the auditor's objectivity created by such breach; (3) the auditor cannot be trusted to reach appropriate and reasonable judgments regarding the timing or content of such communications; and (4) those charged with governance should be given no discretion to determine what matters involving breaches they want communicated, to whom the communications should be made and when such communications should occur. We disagree with these views.</p>	DTT	Summary of view – each matter addressed individually above

<sup>13</sup> 17 C.F.R. § 210.2-01(d)

<sup>14</sup> PCAOB Release 2008-003 at p. A2-2-Rule.

<sup>15</sup> *Id.*, at p. 11.

<sup>16</sup> *Id.*, at p. 14.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>The greatest potential for minor breaches of the independence requirements is with respect to the proscription on financial interests held by certain individuals and their immediate family members.<sup>17</sup> The reason for this is that no materiality exception exists and financial interests that are prohibited cannot be held for even one day. Consider, for example, the situation where the spouse of a partner in the office of the audit engagement partner purchased shares of an audit client, not realizing that the company was an audit client. Upon learning the purchase was not permitted, the partner's spouse immediately sold the shares. Moreover, the partner recorded the purchase and sale of the stock in the firm's tracking and monitoring system. The stock was held for several days.</p>		
130.	2	<p>ISA 260 requires the auditor, in the case of listed entities, to provide a statement to those charged with governance confirming compliance with relevant independence requirements.<sup>18</sup> The Code currently provides in paragraph 290.117 that an inadvertent violation such as the one presented in the above example would not compromise independence if certain conditions are satisfied. Assuming the firm satisfied the conditions, the firm would then be in the position to meet its obligations under ISA 260 because the inadvertent violation is not considered to compromise independence. If the proposal is adopted, the firm would not be able to provide those charged with governance with the statement required in ISA 260 unless the ISA is revised.</p> <p>It is also important to consider that large networks invest millions on independence quality controls, which includes a global restricted entity list, a financial interest tracking system required to be used by partners and managers, mandatory training courses, an extensive consultation network, and a monitoring system that includes a review of compliance by network firms with such quality controls that is conducted by persons from other firms within the network. Notwithstanding such investments, minor breaches, such as described in the example, do occur and are likely to continue to occur.</p>	DTT	<p>The Code provides a framework for the action to be taken once a breach has been identified, if a professional accountant follows the requirements in the Code under such circumstances, the accountant would be able to assert compliance with the Code.</p> <p>IAASB staff has been alerted to the proposed changes to the Code to make the determination as to whether any change to ISA 260 might be appropriate.</p>

<sup>17</sup> Breaches of family relationship rules may also unwittingly arise when, for example, an immediate or close family member is promoted or such a family member is in a prohibited position at the time an entity becomes an audit client. Under the Code, these breaches may be resolved expeditiously and provided the conditions of paragraph 290.133 are satisfied, independence is not deemed to be compromised.

<sup>18</sup> ISA 260, *Communication with Those Charged with Governance*, paragraph 17(a).

X ref	Par Ref	Comment	Respondent	Proposed Resolution
131.	2	<p>In our view, this case illustrates that the proposed approach may be overly burdensome to both the firm and more importantly, those charged with governance. Should a matter such as this necessitate what would likely be a specially arranged meeting between the firm and those charged with governance to address the breach? When the breach is clearly insignificant, the actions required cannot, in our view, be justified using a cost-benefit analysis.</p> <p>The ED notes that “the IESBA also considered whether those charged with governance should determine which breaches should be communicated by the firm.” However, the ED fails to explain why this was rejected. Audit committees of public interest entities have, over the past decade, played an increasingly active role in overseeing the audit and in many jurisdictions, are responsible for such oversight, which includes auditor independence matters. As their role has expanded, so has their view on how to appropriately discharge their responsibilities. The proposal does not contemplate that those charged with governance may either not want to be told of minor violations or would prefer disclosure of such minor breaches at the time of the auditor’s annual communication. We would suggest that the IESBA preferably reach out to audit committee chairs of large multinational companies for input on this proposal, or alternatively, to audit engagement partners on such clients, to better assess the impact of this proposal.</p>	DTT	<p>Change made to provide some flexibility on the timing of reporting of the breach.</p> <p>IESBA survey developed to obtain input of audit committee chairs</p>
132.	2	<p>Another issue we have with the proposed approach is that it provides that “the firm may continue with the audit engagement” only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach. Does this require the firm to stop any current audit work until such time as those charged with governance have had an opportunity to consider the breach? Read literally, the proposed standard would require all audit work to be stopped at the time the breach is identified and not started again until those charged with governance have approved the actions to be taken. Assume, for example, that the above breach occurs during the audit busy season and the audit client’s financial statements are required to be filed with a regulator by a certain date. If the required discussion with those charged with governance could not be arranged within a very short period of time, there could be significant consequences to the audit client if the firm had to discontinue its audit work for failure to obtain the agreement of those charged with governance. We believe this outcome would not be in the public interest. For the reasons stated above, we do not support the proposed approach. As noted in our response to question 1, we do believe that the Code should address breaches and our specific suggestions for changes in the proposed provision, along with additional comments on the wording in the provision, are included at</p>	DTT	<p>Paragraph 290.47 re-drafted to require the auditor to obtain concurrence of those charged with governance. Reference to “the firm may continue with the audit engagement” deleted to avoid inference that the firm is required to suspend all audit work until the matter has been resolved.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		Exhibit 2.		
133.	2	<p>The Institute does not agree with the proposal that the firm may continue with the engagement only if that those charged with governance agree that action can be taken to satisfactorily address the consequences of a breach and such action is taken. The thrust of the independence provisions in the Code is to establish and preserve the independence of the audit practitioner from the client. In our view it cannot therefore be appropriate to provide the client with what is effectively a veto power as against the practitioner where the professional accountant has assessed their independence and determined that they are able to continue with an engagement.</p> <p>By way of contrast to this proposal, if the firm determined that the consequence of a breach was that the engagement would need to be terminated, it is not proposed to give the client a veto power in that circumstance. The firm's professional judgement is effectively unfettered where the conclusion is to terminate the engagement. In our view it would also be appropriate and consistent for the firm's professional judgement to be unfettered where the conclusion is that the engagement can continue. It would seem to be contrary to the fundamental principles to require an audit client to ratify the professional accountant's assessment of the exercise of their professional judgement.</p> <p>We recognise that the client always has an ultimate ability to appoint or remove an auditor, and we consider that because this ultimate ability operates in the context of the engagement overall, this proposed agreement operating in a limited context is not required. Notwithstanding these comments, we would of course at all times expect and encourage an open, transparent and informed dialogue between the firm and those charged with governance, which will be achieved by the provisions of proposed section 290.46.</p>	ICAA	<p>Wording revised to require "concurrence" of those charged with governance</p> <p>Paragraph 290.45 revised to require firm to "inform" those charged with governance if firm concludes that action cannot be take to satisfactorily address the consequences of the breach. This revision is to prevent any inference that those charged with governance could override the auditor's view that the engagement would need to be terminated.</p>
134.	2	<p>We note also that for <i>some</i> audits in the Australian context, regulator approval is required before an audit engagement can be terminated. In such cases it is not clear how compliance with the Code could be achieved if the auditor and the client agree to terminate the engagement, but the regulator does not permit this. Although the wording of proposed section 290.45 recognises applicable legal or regulatory requirements relevant to terminating the audit engagement, it does not <i>explicitly</i> address the consequences if those requirements do not permit termination. In the event that the proposal to require client consent to continue with an engagement was adopted, we believe that the Code should address this consequence.</p>	DTT	<p>¶290.41 requires compliance with any legal or regulatory requirements. ¶290.47 changes to require the concurrence of those charged with governance.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
135.	2	<p><b>Response: No</b></p> <p>We do not agree that the firm may continue with the audit once those charged with governance are satisfied with the auditor's actions to address the breach – the decision must be made by the auditor. Any breach of the Code should be considered by the audit firm in accordance with its established quality control processes and the firm's policies and procedures, regard being had to any regulatory requirements for the client, to determine the extent to which the firm's objectivity and ability to provide the audit report has been compromised, or may be perceived to be compromised.</p> <p>What can be required in the proposed paragraph 290.42 is for the firm's processes in respect of every significant breach to require consultation within the firm, in accordance with both ISQC 1 and the provisions of the Code, and to be escalated, initially to the engagement quality control partner responsible for the engagement, and then to regional or senior national partners, to determine whether or not safeguards can be implemented to address the breach, given the consequences, or whether or not the firm should resign from the audit. Consultation within the audit firm regarding the breach is also very important from the perspective that the breach may disclose unacceptable trends within the firm indicating other circumstances where the firm's objectivity may be, or may be perceived to be, compromised, threatening the credibility of other audit reports issued by the firm. Such circumstances must be addressed by the leadership of the firm and the firm's policies and procedures, in addition to the firm's response in the particular engagement where the breach has been identified. We suggest that this be incorporated as a requirement into the proposed paragraph 290.42.</p> <p>Clearly the circumstances of a breach that compromises the objectivity of the audit firm should be communicated to those charged with governance responsible for the appointment or removal of the auditor or approval of non-audit services to the client. We also expect that the circumstances and the decision taken by the firm regarding safeguards to terminate, suspend or eliminate the interest that gave rise to the breach are sufficient to address the breach, or the decision of the firm to resign, as no safeguards are sufficient, are documented in the audit working papers.</p> <p>We question whether the Code can impose responsibilities on those charged with governance other than those who are themselves professional accountants and members of member bodies of IFAC bound by the Code. Those charged with governance may not necessarily understand fully either the context, or the implications of a breach of the Code by the audit team or audit firm.</p>	IRBA	<p>ISQC1p23 requires the firm to establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for: Personnel to promptly notify the firm of independence breaches of which they become aware;"</p> <p>ISA 220.10 states "If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action."</p> <p>Not necessary to include a</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
				requirement in the Code to escalate a breach of independence.
136.	2	<p>Where the firm's objectivity was deemed not to be compromised, the breach and resolution thereof may be reported to the relevant regulator, for example reporting to the securities exchange regulator responsible for issuer services for listed companies, and disclosed by the audit committee, when reporting in the annual financial statements on steps taken by them to ensure the auditor's independence. In South Africa, for example, the Listing Requirements of the JSE Limited Securities Exchange (JSE) require the auditor of an issuer to <i>"report all significant matters affecting the particular issuer, to agree to discharge its responsibilities in terms of the Listings Requirements and to assist the JSE in upholding the integrity of the markets operated by the JSE; and will not intentionally or recklessly bring the integrity of the markets operated by the JSE into disrepute."</i> The Listing Requirements also require issuers to comply with the King III Code on Corporate Governance that provide a further comprehensive framework for a registered auditor in South Africa when evaluating the consequences of a breach of the Code and how such breach might be perceived by the investor public.</p> <p>Where an audit regulator or other regulators, such as the securities exchange regulator has processes to deal with such breaches and the authority to provide rulings or advice, the Code may require breaches that compromise the firms objectivity and its ability to issue an audit report to be reported to the relevant regulator (refer paragraph 100.21 and proposed paragraph 290.41), provided such regulator has appropriate processes in place, in addition to those charged with governance,</p> <p>An audit regulator ordinarily has the authority to pursue disciplinary action against an auditor for a breach of the Code or the prescribed auditing, review or other assurance standards, whether on the basis of a complaint received or arising from an inspection of the firm or engagement file where a breach resulting in the firm's objectivity being compromised is identified.</p>	IRBA	Change made to state that in the absence of any requirement to report to a regulator, the firm may determine such reporting is appropriate.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
137.	2	<p>No, as noted in the accompanying letter, we believe that differentiation needs to be made as between significant breaches and other breaches.</p> <p>We also express concerns at the proposals to require those charged with governance to essentially vet audit firms' continuance of an audit engagement. We are concerned that overly stringent regulation detracts from the purpose it is meant to serve, i.e., to ensure that firms are independent and thus the relative significance of any breach is the issue rather than breaches irrespective of their magnitude and impact.</p> <p><i>Impact on Auditor Withdrawal</i></p> <p>We would question whether it is appropriate for the IESBA to determine the role of those charged with governance in the manner it is proposing.</p> <p>In our opinion, permitting auditors in the case of any identified breach – as opposed to a significant breach – to continue with an audit engagement only with the agreement of those charged with governance about possible action to satisfactorily address the breach and taking such action is highly problematical. Firstly, such a proposal places responsibilities on those charged with governance that they may be reluctant to accept. Such a measure might lead to their adopting overly cautious stances as they will seek to avoid the risks to themselves of being accused of having made wrong decisions, potentially leading to ill- or unfounded auditor withdrawals, and resultant disruption for audit clients and firms alike. Secondly, in many jurisdictions auditor withdrawal is governed by law and may – for good reasons – be restricted to certain limited circumstances.</p> <p>The role of those charged with governance is a matter for corporate governance, which is in many jurisdictions established in company law or equivalent.</p>	IDW	Change made to provide some flexibility on the timing of communicating to those charged with governance

X ref	Par Ref	Comment	Respondent	Proposed Resolution
138.	2	<p>For statutory audits, it should first of all be considered that in the EU, and thus also in Germany, switching auditors is not allowed to be left to the discretion of the auditor and/or the company audited (comp. Art. 38 Sect. 1 of the EU Audit Directive of 17 May 2006 (2006/43/EC), § 318 Sect. 3 HGB - German Commercial Code). A provision that would enable, or at least make it easier for, the audited company to "get rid of" an unwelcome auditor would be in violation of European and German law. Given this background, for the realm of <i>statutory</i> audits, the CoE should not contain provisions that, in case of possible independence concerns, the audit cannot be continued without the consent of those charged with governance. We are unable to determine conclusively whether this could be superfluous because Section 290.41 contains a subsidiary provision which exempts such cases from the regulatory scope of the new rules. Should this indeed be the case, however, we would embrace a clearer regulatory directive in Section 290.41.</p> <p>The decision as to the continuation of the audit could thus only be made dependent upon those charged with governance in the case of <i>voluntary</i> audits. However, in this area, in Germany at least, it is already possible for both sides to mutually terminate the engagement at any time.</p> <p>Independent of this, it should be emphasized that those charged with governance, as specified in the definitions of the CoE, can only be the supervisory bodies of the company, and not the management. In Germany, for example, an auditor is required to confer with the <b>Supervisory Board or Auditing Committee</b>, not with the management, concerning potential threats to independence (§ 171 Sect. 1 Sentence 3 AktG - German Stock Companies Act), without hereby in the case of statutory audits being able – as described above – to make a definitive decision as to the continuation or discontinuation of the engagement.</p>	WPK	<p>Paragraphs 290. 45 and 47 refer to taking the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory development.</p> <p>Additional guidance developed, consistent with ISA 260, to recognize differing governance regimes.</p>
139.		Yes agreed. Auditors should be independents in principle and their appearance. However, those breaches which seriously affect the independence requirements should not be reported	ICAP	Minority view
Q3. Do respondents agree that a firm should be required to communicate all breaches of an independence requirement to those charged with governance? If not, why not and what should be the threshold for reporting?				
140.	3	AAT agrees that the requirement for communication of all breaches avoids the issues identified by IESBA in considering this matter.	AAT	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
141.	3	<p>We concur with the proposed approach that the Code address all breaches to independence and not simply those which have occurred inadvertently. While the consequences to the professional accountant may differ based on whether or not the breach was inadvertent, the firm's ability to continue with the engagement and render an objective opinion should not be impacted by whether the breach was inadvertent or intentional.</p> <p>Once again, we agree that a firm should be required to communicate all breaches of an independence requirement to those charged with governance. However, we believe that in situations where the breach is considered insignificant, such reporting can be made to the Chair of the Audit Committee who would ultimately report to the full Audit Committee at the first available opportunity. We note that if audit services are being provided on a very tight timeline, any delays associated with the convening of a full Audit Committee meeting to consider insignificant breaches may create practical difficulties. Finally, many firms currently follow the practice of reporting all breaches to those charged with governance and the Audit Committee often questions, when the matter is insignificant, why it is necessary to report insignificant matters.</p>	CICA	Supportive comment with flexibility to whom the matter is reported
142.	3	Generally, in view of public interest, firms should communicate all breaches of an independence requirement to those charged with governance, to maintain transparency and coherence.	CICPA	Supportive comment
143.	3	<p>We agree that a firm should communicate with those charged with governance all breaches of an independence requirement. While we do not think that a threshold for reporting should be specified, we think it is important that the Code retains its current approach whereby trivial and inconsequential threats are not considered breaches and thus not addressed under the proposed provisions. For example paragraph 290.230 states: <i>'Accepting gifts or hospitality from an Audit Client may create self-interest and familiarity threats. If a Firm or a member of the Audit Team accepts gifts or hospitality, unless the value is trivial and inconsequential, the threats created would be so significant that no safeguards could reduce the threats to an Acceptable Level.'</i> As a consequence, in circumstances where the issue is trivial and inconsequential no threat that is above an Acceptable Level is created and therefore no breach exists.</p>	CPA Australia	No change – if a threat is at an acceptable level there is no breach

X ref	Par Ref	Comment	Respondent	Proposed Resolution
144.	3	<p>Generally, we agree that a firm should be required to communicate all breaches of an independence requirement to those charged with governance.</p> <p>The timing of the reporting under proposed changes (i.e. as soon as possible) appears to differ from that of ISA 260 – Communications with those charged with governance. Paragraph 21 of ISA 260 states that “The auditor shall communication with those charged with governance on a <u>timely basis</u>”. Paragraph A40 further explains that “the appropriate timing for the communications will vary with the circumstances” and paragraph A41 explains factors that may be relevant to the timing.</p> <p>As auditor independence is also addressed in ISA 260, we would recommend that there should also be a need to update ISA 260 as well for completeness.</p>	HKICPA	All breaches to be communicated with some flexibility on the timing of the communication
145.	3	We are supportive of the view that all such breaches should be communicated to those charged with governance.	ICAS	Supportive comment
146.	3	Yes, we agree. Requiring all breaches of the independence requirements to be communicated to those charged with governance would reduce the subjectivity and inconsistency in determining whether a breach was significant to be reported. The more rigorous process translates to greater transparency and accountability of the firm to its clients and their investors.	ICPAS	Supportive comment
147.	3	We agree. A firm’s breach of an independence requirement, irrespective of magnitude, will likely be of interest to those charged with governance. Moreover, since the setting of reporting thresholds based on certain standard criteria would present audit firms with much difficulty to render judgment, in which subjectivity is a major factor, consistency in the outcome is unlikely to be achieved.	JICPA	Supportive comment
148.	3	The Institute agrees with the requirement. Providing complete information in relation to breaches will place those charged with governance in a better position to evaluate whether to what extent the identified breaches will impair the firm’s objectivity and ability to issue an assurance report. This enhances the discharge of governance responsibility on behalf of the board of directors.	MIA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
149.	3	<p>Yes, we agree. The code makes reference (and rightfully so) to independence as being an “advertent violation”. As such, we are of the opinion that any breach of independence, irrelevant of the materiality or significance thereof, should be brought to the attention of those charged with governance.</p> <p>If the code were to have a de minimis test, it would allow for too much subjectivity.</p>	SAICA	Supportive comment
150.	3	CNDCEC maintains that all breaches of a requirement should be communicated to those charged with governance. Establishing an exemption threshold for reporting would be an arbitrary decision, since it would imply evaluating the significance of the violation, which instead cannot be done without referring to those charged with governance.	CND-CEC	Supportive comment
151.	3	In some cases an audit firm may wish to communicate with a regulator regarding a breach, or a possible breach of independence rules, and the firm may seek the views of a regulator regarding whether appropriate actions can be taken to ensure that the firm’s objectivity has not been compromised. If the audit firm has communicated with a regulator, regarding a breach, or a possible breach of independence requirements, this should also be communicated to those charged with governance as part of the requirements of paragraph 290.46.	NASBA	¶290.41 changed to indicate that the firm may determine that consultation with a member body, relevant regulator or oversight authority is appropriate.
152.	3	<p>We have a concern about the practical consequences of requiring all breaches to be reported, along with an implication that in order to fulfil the detailed requirements, communication needs to be on a real time basis. There might be numerous minor breaches on a large international audit, for example, and frequent reporting of such matters to the audit committee would be likely to divert attention from important breaches.</p> <p>We suggest that the auditor should be able to determine if breaches clearly have no significant effect and report these on a combined basis at a later point in the audit.</p>	ICAEW	All breaches to be communicated with some flexibility on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
153.	3	We agree that there should be communication with those charged with governance concerning all breaches of an independence requirement, whereby – as spelled out under Question 2 – we understand this to mean the company's supervisory bodies, to the extent that they exist. In addition, however, when in doubt, as according to ISQC1 in the area of quality assurance, there ought to also be communication in the form of a duty of information and consultation concerning internal and/or external third parties (professional colleagues, professional associations), which in case of doubt may also include the auditor's oversight authority.	WPK	¶290.41 changed to indicate that the firm may determine that consultation with a member body, relevant regulator or oversight authority is appropriate.
154.	3	<p>We agree, in general, that breaches should be reported and that this should not be onerous given the low level of breaches that occur in practice. This is in the public interest. To do otherwise, would lead to a firm making potentially inappropriate judgements about what to report or not and to loss of transparency and consistency.</p> <p>However, as noted above, in our experience those charged with governance generally want to be able to determine the timing and content of reporting. Accordingly we would favour the Code allowing those charged with governance also being able to determine whether certain types of minor violations do not need to be reported; this would be consistent, for example, with the requirements of the US SEC which allows under its “safe harbour” rules that, provided certain conditions are met, certain violations do not need to be reported.</p>	PWC	All breaches to be communicated with some flexibility on the timing of the communication
155.	3	We would not expect breaches to be commonplace and therefore the requirement to communicate all breaches that have been identified to those charged with governance would not be too onerous. However, should there be situations where multiple breaches do occur, there is no mechanism for those charged with governance to set limits as to which they might consider to be insignificant and perhaps where periodic aggregated reporting might be appropriate. If the proposed changes to the code were refined in order to allow for such an approach then it should provide a mechanism for those charged with governance to control the flow of information whilst at the same time highlighting the more significant breaches immediately.	BDO	All breaches to be communicated with some flexibility on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
156.	3	<p>We fully support improvements designed to enhance open and transparent communications with those charged with governance on all matters that may be viewed to have a bearing on an auditor's independence. We believe an auditor's communications to those charged with governance is a key activity in the discharge of both the auditor and those charged with governance's responsibilities in the audit process. The International Standards on Auditing (ISA's) promulgated by the IAASB contain a relevant and useful model which informs how instances of breaches of the Code related to Independence might be handled. We strongly urge looking to and using the ISA 260 framework for communicating independence breaches since it is familiar to those charged with governance and embedded in their current processes. ISA 260 requires matters to be communicated "timely" and we believe this allows those charged with governance the necessary flexibility in determining protocols appropriate for such communications. For this reason, we urge the Board to reconsider the requirement that independence breaches be communicated "as soon as possible". A relationship between the significance of a matter and the speed at which the matter is communicated to those charged with governance is recognized in ISA 260 (e.g. more serious matters should be communicated more quickly) and we suggest a similar approach be adopted for the Code to avoid unduly burdening companies' governance bodies with too frequent communications.</p> <p>We support the concept that all Independence related breaches be communicated to those charged with governance, however, we strongly believe those charged with governance should be the key decision makers with respect to the manner in which such breaches are communicated and timing of the communication. This allows the communication to fit into the governance bodies' protocols and pattern of communications.</p>	E&Y	All breaches to be communicated with some flexibility on the timing of the communication
157.	3	<p>However, we have concerns related to the proposed timing of communications regarding breaches of the Code and the requirement to report such breaches "as soon as possible." This appears to be in contrast with existing guidance contained in ISA 260 <i>Communication with Those Charged with Governance</i> which calls for "timely" communication and permits the auditor and the audit client to exercise some degree of judgment as to the protocols surrounding matters to be communicated, including matters relating to independence. As conforming changes to ISA 260 will be required once the IESBA provisions are finalized, we do not believe it advisable to establish a provision regarding the timing of the communication of independence breaches which is different from the timing of other required communications under ISA 260.</p>	E&Y	All breaches to be communicated with some flexibility on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
158.	3	<p>While we are broadly supportive of the overall approach, we are concerned that the Exposure Draft requires all breaches, whatever their significance, to be communicated to those charged with governance <i>as soon as possible</i>. We note that the IESBA considered whether, consistent with the reporting requirements or practice in some jurisdictions, there should be a <i>de minimis</i> test whereby insignificant breaches are not disclosed to those charged with governance, but that it concluded that such an approach would entail too much subjectivity. We believe that the firm should be permitted to exercise judgment as to whether a breach is of such significance that it should be disclosed to the audit committee as soon as possible. Compliance with the Code of Ethics and, in particular, its conceptual framework requires the exercise of professional judgment at every stage and the requirement of ISA 260, in the case of listed entities, is to report to those charged with governance all relationships and other matters that, in the auditor's professional judgment, may reasonably be thought to bear on independence. While we do not agree, therefore, that the perceived self-interest that a firm has not to report a breach is too great to permit the firm to exercise such judgment, we would support an approach which permits those charged with governance to determine on what basis breaches should be communicated by the firm. We would consider that an appropriate policy, for example, might be that those breaches that the firm considers may reasonably bear on independence are reported to those charged with governance as soon as possible in line with the requirements of the Exposure Draft whilst other matters (which might include, for example, breaches of a trivial nature involving the personal independence of individuals who are not members of the audit team) are reported on a timely basis, at the time of the audit or periodically during the year (for example quarterly or semi-annually) together with the action taken. This would allow those charged with governance to consider the less significant breaches and the remedial action taken together in accordance with their normal schedule of meetings and make further enquiries of the auditor as they consider necessary. Such enquiries could include requests for additional remedial actions or clarification of matters which those charged with governance would expect to be communicated to them immediately. We also consider that provision should be made for communication with a representative of those charged with governance (such as the chairman of the board of directors or of the audit committee where applicable), in order to facilitate timely communication.</p>	KPMG	All breaches to be communicated with some flexibility on the timing of the communication
159.	3	<p>We agree with the IESBA's view and believe this will enhance the transparency of the firm's analysis and judgments. As stated earlier, those charged with governance need to be informed so as to provide effective oversight of the audit process and discharge their responsibilities.</p>	CPAB	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
160.	3	<p>We agree such breaches should be reported. As discussed above, the timing of the report may depend on the nature of the breach. If a major breach this should be brought to the attention of the Chairman of the Audit Committee immediately for consideration.</p> <p>If all breaches of an independence requirement are to be reported to those charged with governance, this may involve a significant amount of documentation, particularly for the larger audits. A practical solution would be to submit reports categorising matters as opposed to listing all specific matters.</p> <p>In addition a form of threshold has already been provided by IESBA in the use of materiality in certain provisions within the Code (for example para 290.211) which allows some discretion but this does not exist in all circumstances.</p>	CARB	<p>All breaches to be communicated with some flexibility on the timing of the communication.</p> <p>Additional guidance provided on those charged with governance including the statement that the auditor may determine to communicate with a subset thereof</p>
161.	3	<p><i>Overall Tone of the Code's Provisions</i></p> <p>We believe that all breaches of an independence provision should be regarded with utmost severity such that the auditor's first inclination is that its objectivity has been affected, there are no actions that can restore that objectivity, and thus the appropriate action is to resign from the audit engagement. We believe that such a mental attitude can promote compliance with auditor independence requirements, not just in the letter of the law but in the spirit of the rules. We suggest that the tone of paragraph 290.39 reflect such a termination-first mindset and within our comments we include related suggestions that would apply to paragraph 290.43.</p> <p>We further note that the firm/professional accountant would be utilizing this section of the Code in circumstances involving heightened pressures because there is an actual or potential breach. As a result, we have concerns that those for whom the Code is intended may be incentivized to have a self-interest bias which may be at odds with the public interest. Under such pressures the effectiveness of the Code may depend on:</p> <ol style="list-style-type: none"> <li>1. the effectiveness of the audit firm's quality control system which includes setting the right tone at the top together with tangible, self imposed disciplinary mechanisms;</li> <li>2. the competence and engagement of those charged with issuer governance in providing an additional voice with respect to the audit firm's conclusions;</li> <li>3. the development of the corporate governance structure in the jurisdiction which can provide</li> </ol>	IOSCO	<p>Tone of draft reviewed to make it clear that breaches are to be treated with the utmost severity, and this will be emphasized in the basis for conclusions which will accompany the final standard.</p> <p>The majority of breaches, however, relate to financial interests. The Code has no de minimis threshold for prohibited direct financial interests. The public interest would not be well served if the automatic consequence of such a breach was resignation. The proposals provide a robust framework which includes disclosure of all breaches to those charged with governance and strong</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>context to, or shape the mindset of, those charged with governance; and</p> <p>4. the possibility of any disciplinary measures by accounting bodies or regulatory review by securities regulators and/or audit oversight bodies.</p> <p>We offer some comments on these matters in the remainder of our letter, but also suggest the Board discuss these matters in finalizing the Code.</p>		documentation requirements which will provide a record for those who inspect the audit engagement, such as regulators.
162.	3	<p><i>The Audit Firm's Assessment of the Effects of a Breach</i></p> <p><u>Who is Involved in the Assessment</u></p> <p>When a breach of an independence provision is uncovered we believe that the firm's assessment and determination of the outcome of the breach should be elevated within the firm to, for example, the firm's quality control function and/or firm leadership, thus not left solely to members of the audit engagement team or local office management. This approach can provide a fresh perspective on the issue at hand, promote consistency of application and can help minimize what may be the engagement team's bias for continuing the audit engagement. We suggest that such a consultation requirement be included in the Code.</p> <p><u>Nature of the Analysis</u></p> <p>Paragraph 290.42 states that "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." We agree with the focus on objectivity, however, we believe the sentence should be strengthened and clarified by rephrasing it to state "...the firm shall evaluate the nature and severity of the breach in the context of the firm's objectivity." This will help make clear that there is a single focus on objectivity and, further, that "insignificance" of a breach does not lead to a different approach for handling it.</p>	IOSCO	<p>It was not considered necessary or appropriate to include this in the Code because it is already addressed in detail in ISQC1 which requires</p> <p>"Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken;" 22(b)</p> <p>"The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations." 23</p> <p>"At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
				<p>independent by relevant ethical requirements.” 24</p> <p>The current construction is consistent with the remainder of the Code, for example, to evaluate the significance of a threat. Breaches that are evaluated as being “insignificant” must still be handled in the same way under the provisions, however the significance of the breach must be evaluated in order to determine whether objectivity has been compromised and whether actions can be taken to address the consequences of the breach.</p>
163.		<p><u>Factors to Consider</u></p> <p>We believe that if the audit firm has established a culture of compliance together with effective quality control policies and procedures, then breaches of auditor independence provisions should be the exception to the norm. However, we suggest the factors listed in paragraph 290.42 also include consideration of the audit firm’s quality control processes, particularly the frequency with which similar breaches have or have not occurred within the firm. A breach may be evaluated differently if the occurrence of such a breach is common within the audit firm because of the risk that the known incident is not the only one affecting the engagement. Also, when the auditor considers and communicates information regarding the frequency of such breaches within the audit firm it provides transparency and context to those charged with governance in evaluating the auditor’s conclusion.</p>		<p>Paragraph 290.42 focuses on the assessment of the impact of a breach on the particular audit. Consideration, therefore, is given to any other breaches that impact that engagement.</p> <p>ISCQ1 requires a firm to have policies and procedures designed to provide</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		One additional factor mentioned in paragraph 290.42 in evaluating a breach is “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.” While we agree that a breach that has a direct effect on the accounting records or amounts recorded in the financial statements can factor into the effect of the breach on the audit firm’s objectivity, those breaches that may have a less direct effect on the financial statements should not be regarded as unimportant with respect to their impact on the firm’s objectivity. Certain non-assurance services that may not have a direct effect on the financial statements can still create significant threats of self-interest, advocacy, familiarity and intimidation. As such, we believe that in evaluating the significance of a breach the last bullet point in paragraph 290.42 should be amended to include the threat of non-assurance services that may have these other effects.		reasonable assurance that firm maintain independence. ISQC1 also requires monitoring and remedial action of the firm’s policies and procedures.  See proposed changes to 290.42
164.		<p><u>Reaching a Conclusion</u></p> <p>We believe the Code should make clear that there are those situations in which the nature of the breach is such that it is likely not credible to conclude that the firm’s objectivity was not impaired. Those situations that come to mind include instances of breaches of independence requirements in which the nature of those involved included a key audit partner and/or an individual within the firm who can directly influence the outcome of the audit engagement, and if the breach was intentional. However, the Board should also emphasize that the aforementioned should not be interpreted in a manner that suggests other breaches do not result in impairment of objectivity as well.</p>		<p>The reasonable and informed third party test would address those situations where it was not credible to conclude that objectivity was not impaired.</p> <p>It is not possible to identify all the facts and circumstances that would lead to the conclusion that no action could be taken that would satisfactorily address the consequences of the breach. Professional judgment is be needed.</p> <p>The documentation requirements add a rigor to the process and an “audit trail” such that those who inspect</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
165.	3	<p><i>The Audit Firm's Actions to Address the Consequences of a Breach</i></p> <p>Paragraph 290.43 makes the provision that, depending upon the significance of the breach, it may be possible for the audit firm to satisfactorily address the consequences of the breach by taking action that is short of terminating the audit engagement. We believe that situations in which a breach of an independence requirement causes the firm's objectivity to be compromised means that there are no safeguards or actions that can be instituted to resolve the matter or provide an opportunity for the auditor to continue the audit engagement. We believe the Code should be explicit in stating that in such circumstances the audit firm will not be able to issue an independent auditor's report that is consistent with section 120 of the Code. Other terminology in the Code should support this statement. For example, the phrase in paragraph 290.43 which states that "...objectivity would be compromised such that the firm is unable to issue an audit report" would be strengthened by replacing the term "such that" with "therefore."</p> <p>Alternatively, in situations in which the audit firm concluded that objectivity was not compromised the audit firm would take steps to satisfactorily address the violation of the underlying independence requirement. Examples of these steps may be as outlined in paragraph 290.44. However, if the audit firm finds that actions cannot be taken to satisfactorily address the violation of the independence provision, then we believe this should result in reconsideration of the conclusion relative to the effect on the firm's objectivity. This reconsideration may lead to the conclusion that objectivity was indeed compromised and thus the need for resignation of the audit firm. The Board would need to revise paragraph 290.43 to reflect the approach as we have suggested above.</p> <p>Notwithstanding the overall approach we have described above, we observe that in certain jurisdictions the laws or regulations would not permit the audit firm to terminate the audit engagement. As such, paragraphs 290.45 and 290.48 should state "...terminate the audit engagement, where legally possible, in compliance with...." Further, we encourage the Board to explore options to address steps to be taken by the audit firm when termination is not permitted by law or regulation in the situations in which objectivity has been impaired. As the Board explores such options, we believe an important consideration is transparency to investors in some manner of information that is accurate, complete and accessible.</p>	IOSCO	<p>290.43 – "such" changed to "and therefore"</p> <p>If action cannot be taken to satisfactorily address the consequences of the breach resignation is required. It is not necessary need to reconsider whether or not objectivity had in fact been compromised because the outcome (being resignation) is the only possible result in this case.</p> <p>¶290.45 and 47 words "where possible" added</p> <p>"Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements." Added to</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
				¶290.45 and 47
166.	3	<p><i><u>The Audit Firm's Reporting to Those Charged with Governance of the Issuer Reporting of Breaches</u></i></p> <p>We believe that requiring the firm to communicate a breach of an auditor independence provision to those charged with governance increases the transparency surrounding compliance with the independence rules. It provides an opportunity for those charged with governance to understand factors that may affect the audit firm's ability to complete the audit and, if it can be completed, to understand factors that may cast a negative shadow on the quality of the audit. Conversely, we do not believe that simply reporting a breach to those charged with governance should be a substitute to withdrawal from the audit engagement nor does it provide any safeguard that absolves the auditor independence issue or the consequences thereof.</p> <p>More specifically, we support the Board's direction as contained in paragraphs 290.45 and 290.46 of requiring the firm to communicate its conclusions regarding a breach of an auditor independence provision with those charged with governance so that in the interest of investors those charged with governance can have the opportunity to consider, based on the applicable auditor independence requirements and the facts and circumstances associated with the breach, whether they agree with the audit firm's conclusion. We believe this check and balance and transparency can add rigor to the audit firm's assessment process. However, in terms of timing, we believe that the Board should make clear that breaches should be initially reported to those charged with governance as soon as possible upon the auditor concluding that a breach has occurred.</p>	IOSCO	<p>Proposal requires firm to determine whether action can be taken to satisfactorily address the consequences of the breach and such evaluation may lead to the conclusion that withdrawal from the audit engagement is necessary.</p> <p>All breaches to be communicated with some flexibility to be provided on the timing of the communication</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
167.	3	<p><i>The Audit Firm's Reporting to Regulators and Investors</i></p> <p>Paragraph 290.41 states that "When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements." We agree that the audit firm should consider and comply with any applicable legal and regulatory requirements with respect to addressing a breach. These may involve requirements to report to regulators (or absent a regulator to the professional bodies overseeing the audit profession) and/or to investors. These requirements would be incremental to the Code's provisions for reporting to those charged with governance of the issuer.</p> <p>We believe that the Code should also go one step further in calling for the audit firm to promptly report the breach to regulators (or absent a regulator to the professional bodies overseeing the profession) and/or to investors if such reporting is encouraged in the jurisdiction, even though it is not required. Including this requirement in the Code would make provision for the audit firm to handle the breach in the paramount manner.</p>	IOSCO	290.41 amended to state "in the absence of any such requirements the firm may nevertheless determine that consultation with a member body or a relevant regulator is appropriate."
168.	3	Yes, the NZAuSB agrees that all breaches of an independence requirement should be reported to those charged with governance. Subjectivity would introduce opportunities for abuse. A requirement to report all breaches promotes transparency, which we believe to be appropriate.	NZAuSB	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
169.	3	<p>The FAOA agrees with the relevant statements on pages 6 and 7 of the Draft. It welcomes a clear and easy to apply rule that provides little opportunity to circumvent the planned requirement to discuss breaches of independence with the audited entity's decision-makers. This spares the audit firm from discussions with the audited entity as to whether the breach of independence is material or not. In practice, it is also difficult to differentiate between a material and an immaterial breach (Draft 290.40, 290.45 ff.).</p> <p>Furthermore, the FAOA believes that the audit report should disclose all facts that might lead to a presumption that independence is impaired. In such a case the implemented safeguards would also have to be disclosed. These requirements would demonstrate that an audit firm cannot content itself with a superficial confirmation of its own independence, but rather has to consider all matters that, in the particular circumstances, may appear to a third party to indicate a lack of independence. We therefore suggest a disclosure requirement to the extent not already required by national law.</p>	FAOA	<p>Supportive comment</p> <p>The Task Force considered whether reporting to investors would be appropriate. The Task Force concluded that such reporting would not be appropriate. The auditor will resign unless the actions taken satisfactorily address the consequences of the breach. Communicating breaches to investors would undermine confidence in the audit report and would not be in the public interest because it would, in turn, undermine confidence in financial reporting.</p>
170.	3	<p>Yes.</p> <p>Furthermore, it is our view that any breach and the manner of resolving it, other than those breaches that would be regarded as trivial or inconsequential, should be publicly reported in the assurance provider's report. Public reporting introduces transparency, in an area where there has traditionally been no transparency.</p>	AGNZ	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
171.	3	<p>There may be circumstances where it is appropriate for a firm to not be required to communicate certain breaches to those charged with governance. Those charged with governance at the client and the firm could exercise professional judgment to establish a protocol for the reporting of certain breaches. Those charged with governance may determine that they do not wish to be notified of trivial and inconsequential breaches that have little or no bearing on the firm's objectivity. An example might be where a spouse of a partner in the office of the engagement partner purchases an immaterial amount of shares of a client and disposes of them the next day, which would be a breach of an independence requirement but may not impact the firm's objectivity.</p> <p>Accordingly, we suggest that the IESBA consider revising this requirement such that those charged with governance, in consultation with the firm, have the ability to establish an appropriate policy that sets a threshold for the reporting of certain breaches. The firm can always communicate breaches that fall below an established threshold if in their professional judgment it is in the interest of those charged with governance.</p> <p>The concept recommended in the above paragraph respects two core concepts of the Exposure Draft: 1) that a firm must determine whether termination of an audit engagement is necessary, and 2) whether action can be taken to satisfactorily address the consequences of a breach such that the firm can still issue an audit opinion. The firm would always be required to evaluate the significance of any breach and its impact on the firm's objectivity.</p>	AICPA	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
172.	3	<p>Grant Thornton affirms that discussing breaches of independence with those charged with governance enhances transparency, and that greater transparency is one of the cornerstones to further enhance confidence in the profession.</p> <p>Grant Thornton supports and promotes a robust Code that will increase public confidence in the accounting profession. However, we believe requiring a professional accountant to report all breaches to those charged with governance is a dissent from the principles-based approach of the conceptual framework. Furthermore, many audit committees or those charged with governance set thresholds for what they deem as significant breaches. The proposed provisions impose a requirement for disclosure regardless of the audit committee's disclosure requirements. Accordingly, we recommend the IESBA consider in its proposal allowing the professional accountant to discuss with those charged with governance the significance of the breaches those charged with governance want the professional accountant to disclose. As the decision will remain with those charged with governance, a dialogue between both parties will allow for an understanding of the nature and significance of matters that those charged with governance deem not to compromise independence. However once discovered, the violation must be corrected promptly and any necessary safeguards applied to eliminate any threat or reduce it to an acceptable level.</p> <p>Furthermore, in certain jurisdictions, the regulators have incorporated provisions that set out a mandatory process for dealing with breaches to independence requirements in their standards. In jurisdictions where the regulators have such a regulatory process, we believe it is appropriate to defer to the regulatory process when reporting breaches to those charged with governance. Accordingly, we recommend that the IESBA take this into consideration when finalizing the provisions.</p>	GTI	<p>All breaches to be communicated but some flexibility to be provided on the timing of the communication</p> <p>¶290.41 requires the accountant to comply with legal and regulatory requirement. The accountant would, however, also be required to comply with the requirements of the Code. For example, all breaches would be reported to those charged with governance even if this was not required under the legal or regulatory requirements.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
173.	3	<p>We believe that the firm is able to exercise appropriate judgments regarding matters that need to be communicated to those charged with governance, including matters that bear on independence. In fact, the auditor is required to exercise such judgment to comply with ISA 260. As a result, we do not believe it is necessary to communicate all breaches of an independence requirement to those charged with governance if the auditor, using the reasonable and informed third party test, concludes that the breach is trivial and inconsequential.</p> <p>If the IESBA concludes after considering the responses to the ED that communication of all breaches should be required, we would urge the IESBA to promulgate a standard that is less prescriptive and includes greater flexibility, recognizing that those charged with governance have an important stake in such disclosures and may have a view on when, what and to whom such breaches are communicated.</p>	DTT	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
174.	3	<p>APESB does not agree that all breaches of independence requirements should be communicated to those charged with governance.</p> <p>We believe that there should be some consideration of entity specific factors in determining whether to communicate all breaches to those charged with governance. In line with recent amendments to the Code, IESBA should consider the nature of the entity including whether the entity is a Public Interest Entity (PIE). The Code places more restrictive independence requirements on PIEs and similarly IESBA could consider whether the more restrictive reporting of breaches should be in respect of Public Interest Entities.</p> <p>The other important factor to consider is the role played by those charged with governance in determining the threshold for reporting breaches. There should be some flexibility for those charged with governance to determine the threshold for reporting breaches by their auditor.</p> <p>In respect of financial reporting, those charged with governance determine the threshold for the auditor to report errors and misstatements to them and thus the auditor generally would not report all errors or misstatements identified during the course of an audit.</p> <p>We believe that another reasonable basis for determining the threshold for reporting breaches is the approach adopted in the existing Australian Code to document and communicate with those charged with governance those inadvertent violations that are not <i>trivial and inconsequential</i>.</p> <p>Whilst we note IESBA's concern regarding the subjective nature of this judgment by the auditor, IESBA may consider addressing this concern by incorporating a "<i>reasonable and informed third party test</i>" to be used as a basis for determining whether the matter should be reported to those charged with governance.</p>	APESB	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
175.	3	<p>Many of the provisions of the Code in respect of auditor independence establish a materiality threshold below which a matter is not considered a violation or breach of the Code. For example, a valuation performed for an audit client that is a public interest entity is a breach of the Code only if it has a material effect on the financial statements. Accordingly, it is likely that the reporting of breaches of such provisions would be infrequent. However, with respect to financial interests there is no materiality threshold. Although such matters may not be frequent, it appears disproportionate to report such breaches if they are clearly trivial and inconsequential while, on the other hand, matters relating to the provision of non-audit services may not be reported and discussed with those charged with governance because they are deemed marginally immaterial. Accordingly, we recommend that breaches that relate to matters where there is no materiality threshold need not be communicated to the audit committee when they are clearly trivial and inconsequential in the judgment of the engagement partner. This would be consistent with ISA 260 which requires the auditor to exercise judgment in the matters to be communicated to those charged with governance. Alternatively, the provisions could permit the auditor to agree with those charged with governance the protocols regarding if and when matters relating to personal independence, that are deemed trivial and consequential by the audit engagement partner, are communicated.</p>	ASSIREVI	<p>All breaches to be communicated but some flexibility to be provided on the timing of the communication</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
176.	3	<p>In principle, we agree that there should be a requirement to communicate breaches of an independence requirement to those charged with governance. However, the precise requirement must be considered together with the documentation requirement, in order to avoid consequences that are unreasonably burdensome. Proposed section 290.50 would require documentation of 'all the matters discussed with those charged with governance', and this makes the extent of communication with those charged with governance particularly important.</p> <p>First, we would advocate a modification to the proposed section 290.50, to say that the firm 'shall document <u>as appropriate</u> the action taken and all the matters discussed with those charged with governance'.</p> <p>Further, it may be necessary to consider the significance (or materiality) of breaches that should be communicated to those charged with governance. In respect of some breaches, an assessment of materiality takes place in determining whether or not the situation meets the definition of a breach (eg section 290.211). However, a problem exists in areas of the Code in which prohibited situations have no regard for materiality (eg the direct financial interests of those set out in section 290.104).</p> <p>Therefore, we would strenuously support an addition to the proposed sections concerning communication with those charged with governance, to require an assessment of the significance of a breach before determining the need to communicate.</p>	ACCA	<p>All breaches to be communicated but some flexibility to be provided on the timing of the communication.</p> <p>Documentation requirement will provide a record for those who inspect the audit engagement, such as regulators</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
177.	3	<p>In principle, we agree with the suggested approach to require that all breaches of an independence requirement will be communicated provided the concept of materiality is reorganised in the relevant individual provisions of the Code but we strongly believe that such a requirement should be accompanied by a clear recognition of professional judgment and that the concept of materiality will be reorganised in the Code. This would permit to avoid situations where auditors would be required to communicate immaterial matters to those charged with governance.</p> <p>As an illustrative example, we have a concern regarding the provisions related to financial interest. According to the definition provided by paragraph 290.104 of the current Code having a direct financial interest in an audit client would always be a breach of a requirement of the code without any regard to the materiality concept. This would lead to overly prescriptive and burdensome requirements. For instance, the SEC rule</p> <p>201. 2. 01 provides that a limited exception can be made under certain conditions. We believe that a similar approach should be envisaged in this Code.</p>	CNCC-OEC	All breaches to be communicated but some flexibility to be provided on the timing of the communication
178.	3	<p>We like to emphasize the concerns – expressed by FEE – about the exposure draft not reflecting the materiality concept, which might result in communicating even immaterial breaches of the Code of Ethics to those charged with governance. The lack of differentiation between significant breaches and those that are clearly trivial <i>could</i> create a public perception that the Code of Ethics is often violated. We agree with FEE that the Code should contain or refer to considerations of materiality so that trivial matters are exempted.</p>	FSR	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
179.	3	<p>.....we consider that not all breaches would need the same treatment and the significance of the breach should be taken into account.</p> <p>As members of FEE we have been actively involved in the preparation of the comment letter of this organisation which we endorse. However we would like to stress some of these comments due to the unintended implications that would arise if those proposals are finally approved.</p> <p>In particular our concerns deal with the requirement of documenting all breaches detected independently from its significance due to the amount of work and resources that companies and firms may be required to spend.</p> <p>Following our answer to the previous question, the ICJCE is of the opinion that not all breaches should be treated equally. In this regard the IESBA Code already refers to the concept of materiality in some of its provisions for instance: Section 290.179 and 290.180 regarding the provision of valuation services; Section 290.188 regarding the provision of tax advisory services or Section 290.211 with regard to the auditor acting as legal advisor. In those cases, since the materiality concept is explicitly stated in the Code, we agree that the auditor should communicate all (material) breaches of the independent requirement especially relevant situations for instance those related to financial interests; provision of non-audit services and close personal relationships to those charged with Governance.</p> <p>However the IESBA Code includes also other requirements where the materiality concept is not included, for instance in Section 290.104 regarding having a direct financial interest in audit clients which will always be considered as a breach. In this case the proposed amendment to the IESBA Code, and subsequently the requirements in section 290.50 of the proposed ED<sup>19</sup>, would apply so that it could be unmanageable for audit firms with global clients and audit teams around the world.</p> <p>On the other hand, the communication requirement has a clear justification in the audit of PIEs but it is questionable in Non PIE audits and clearly in the case of the audit of SMEs to which it is difficult to identify those charged with the governance of the entity with an adequate knowledge about independence rules. It is remarkable that in the SME environment it is less common the deep knowledge of the rules and principles of the IESBA Code.</p>	ICJCE	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
180.	3	<p>In relation to those provisions which deal with breaches of the <i>independence</i> provisions, we favour the approach similar to that already embodied in the Australian version of the Code. When the June 2009 IESBA Code was implemented in the Australian context, as issued by the Accounting Professional and Ethical Standards Board (APESB) in December 2010, additional Australian requirements were added to those provisions which dealt with inadvertent violations in the context of auditor independence. Those additional requirements made it mandatory for a firm to document and discuss an inadvertent violation of the independence provisions with those charged with governance, unless the inadvertent violation was trivial and inconsequential.</p> <p>We consider that this variation, which would not require the auditor to report breaches which are trivial and inconsequential, rather than the proposed approach of requiring the reporting of all breaches, is to be preferred. The 'trivial and inconsequential' threshold is set very low – a breach must be <i>both</i> trivial and inconsequential before it can satisfy this threshold. This would mean that any breach which was in fact both trivial and inconsequential could not by definition be worthwhile in reporting to those charged with governance. It follows that requiring such breaches to be reported is likely to be a waste of resources for both the auditor and the client.</p> <p>We recognise that some breaches of the Code already recognise the 'trivial and inconsequential' issue, such that a trivial and inconsequential instance would not constitute a breach of the Code – the Gifts and Hospitality provisions of section 290.230 being an example. However there are other provisions which involve an absolute measure which will always constitute a breach, such as the prohibition against a member of the audit team having a direct financial interest in an audit client in section 290.104. Because of the existence of these absolute prohibitions and the possibility of matters arising which are trivial and inconsequential in this context, we consider that the exception for reporting breaches which are in fact trivial and inconsequential should be allowed.</p> <p>As identified above under General Comments, we consider that a firm should not be required to communicate breaches which are trivial and inconsequential. A requirement to communicate all breaches will inevitably involve auditors and clients dealing with some these types of unimportant matters. We</p>	ICAA	All breaches to be communicated but some flexibility to be provided on the timing of the communication

<sup>19</sup> The firm shall document the action taken and all the matters discussed with those charged with governance and, if applicable, discussions with relevant regulators. When the firm continues with the audit, the matters to be documented shall also include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an audit report

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		consider that firms should be given the ability to determine that a breach is not worth communicating, provided that the threshold is set very low, as it is in the Australian context at 'trivial and inconsequential'.		
181.	3	<p><i>References to "as soon as possible"</i></p> <p>In proposed sections 100.10, 290.46 and 291.35, there are references to taking action "as soon as possible" to address breaches of the Code. We consider that this may not be the optimal wording to use in this context. While we appreciate that the Code should expect breaches to be rectified with as little delay as possible, the words "as soon as possible" suggest an immediacy that may not be warranted by the circumstances. We believe the use of "as soon as practicable" or "without delay" would be preferred.</p>	ICAA	<p>All breaches to be communicated but some flexibility to be provided on the timing of the communication.</p> <p>All breaches to be reported as soon as possible unless those charged with governance have specified an alternative timing for reporting less significant breaches.</p>
182.	3	<p>No, we do not agree. We do not agree that the assessment of whether or not a breach of the independence requirements is significant or insignificant would be too subjective to determine. Professional accountants must regularly, and routinely, use judgement and, as such, this assessment should not prove too complex to appreciate. Accordingly, we believe that a <i>de minimis</i> test should be employed when determining whether or not a breach should be reported to those charged with governance. The requirements to be met when a breach has occurred are quite detailed and will take a certain amount of effort to address. Those matters deemed insignificant should, by their nature, not require the same rigorous application and effort.</p> <p>We do agree that, once a breach has been identified that has been considered significant; the requirement to communicate should be employed. While we realize that communication enhances the transparency of a firm's analysis and judgements, should these communications be required in circumstances which are inconsequential, the end result will produce the opposite of that intended (i.e. the client will see the communication as frivolous if the subject matter is not determined to be of import, thus diminishing the value of future communications where the issue might prove more significant).</p>	CGA Canada	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
183.		<p>No. As noted in the accompanying letter, we believe a de minimis test ought to be introduced to distinguish significant from clearly trivial breaches. This is particularly relevant in the case of those independence requirements that themselves do not provide any flexibility whatsoever (e.g., direct financial interests Section 290.104). Only significant breaches should be covered by the proposed requirement to be discussed with those charged with governance.</p> <p>We would strongly urge the IESBA to introduce a more principles-based approach to addressing breaches in order to ensure that significant breaches are treated with the seriousness they deserve, but that issues of a clearly trivial nature are excluded (introducing de minimis criteria) from time consuming and costly considerations. In our view it would be appropriate for the IESBA to introduce appropriate measures to ensure that insignificant breaches or insignificant matters related to breaches are not discussed with those charged with governance. The relative significance of an identified breach should be a matter for the professional judgement of the individual engagement partner, along similar lines to those adopted by the IAASB in drafting ISA 450.A2.</p>	IDW	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
184.	3	<p><i>Lack of Differentiation of the Relative Significance of Breaches</i></p> <p>We agree with the Statement in the explanatory memorandum that “If the automatic response to any violation of an independence requirement is that the firm must resign, regardless of the magnitude of the violation and its impact on the firm’s objectivity, the IESBA believe the public interest is not well served.” Indeed, in our view, the magnitude and impact of a breach needs to be taken into account not only in determining a firm’s resignation, but also in determining how the breach should best be dealt with.</p> <p>We were therefore concerned at reading, at the bottom of page 6 of the Explanatory Memorandum, that the IESBA has decided to reject a de minimis test and is proposing that the Code make no differentiation whatsoever between significant breaches and those that are clearly trivial in paragraphs 310.10, 290.40 and 291.33. Accordingly, we do not support the proposed requirement for the firm to discuss <u>all</u> breaches with those charged with governance and to document the particular matters listed in 290.50 and 290.37 irrespective of the significance of the breach. In our opinion, this approach will add unnecessary costs for firms and for all those to whom they would be required to report breaches with no real benefit in terms of consequences for ethical behaviour and could also lead both firms and those charged with governance to focus on form over substance and lose sight of the real issues that are significant to ethical behaviour and audit quality.</p> <p>In view of the above, we do not believe there is sufficient justification from a cost: benefit viewpoint for the measures as currently proposed.</p>	IDW	All breaches to be communicated but some flexibility to be provided on the timing of the communication
185.	3	<p>Far is not convinced that a firm should be required to communicate all breaches of an independence requirement to those charged with governance. One reason for disagreeing with this approach is that those charged with governance may not be interested in discussing all breaches made. Another reason is that an insignificant breach of the Code might be taken as a justification to end an engagement prematurely. In Far’s opinion breaches of the Code should be dealt with by the firm, internally, as a rule, and only significant breaches of the Code should lead to discussions with those charged with governance.</p>	FAR	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
186.	3	<p>In principle, we agree with the suggested approach to require that all breaches of an independence requirement when there is a materiality threshold to determine if the relationship is prohibited or not.</p> <p>There are instances where immaterial breaches may be reported to audit committees. To avoid these circumstances, there are places in the Code where materiality thresholds may be appropriate, for example in the area of financial interests. Moreover, we believe there should be a materiality threshold either for disclosure or to determine if a breach has occurred.</p>	Mazars	<p>All breaches to be communicated but some flexibility to be provided on the timing of the communication.</p> <p>Scope of project to address action to be taken if a breach is identified, not whether there should be a materiality threshold for certain provisions</p>
187.	3	<p>Regarding the specific approach proposed, in particular to require the communication of <i>all</i> breaches, we would be concerned that where the IESBA Code does not reflect the materiality concept within the appropriate individual provisions, this may result in addressing immaterial matters.</p> <p>Therefore, we believe that it would be appropriate to differentiate between significant breaches and those that are clearly trivial with the inclusion in the Code of de minimis exceptions.</p> <p>For this, we propose that the threshold of being material to the financial statements be established to ensure that significant breaches are subject to the required communication and documentation but that those that are clearly trivial are not accorded the same treatment.</p> <p>We agree with the general approach to require that breaches of an independence requirement be communicated where the concept of materiality is built into the relevant individual provisions of the Code.</p> <p>For instance, in relation to the provision of non-audit services, the Code includes various prohibitions that apply only if the impact of the relevant service is material to the financial statements of the audited client.</p> <p>As an example, the provision in paragraph 290.211 of the Code stipulates that “acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion would create advocacy and self-review threats so significant that no safeguards could reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit client”.</p>	FEE	<p>All breaches to be communicated but some flexibility to be provided on the timing of the communication</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>In this respect, and provided that trivial matters are discounted, we agree with the proposed requirement to communicate all breaches defined in the IESBA Code as being breaches.</p> <p>However, where the IESBA Code does not reflect the materiality concept within the appropriate individual provisions, we have a concern with the proposal to require the communication of all breaches because this may result in addressing immaterial matters.</p> <p>In particular, we have a concern regarding the individual provisions related to financial interests; for example having a direct financial interest in audit clients would always be considered a breach of a requirement of the Code without any regard to materiality (paragraph 290.104 of the current Code).</p> <p>The SEC independence rules recognise that there may be situations where an accountant's independence becomes impaired unintentionally, such as where a family member makes an investment of which the covered person is not aware (paragraph (d) on Quality controls in the SEC rule 210.2-01) addresses those situations). However, this would not impact the audit firm's independence if certain quality control measures are put in place. We believe that the IESBA Code should contain a similar exception.</p> <p>If the current concept of not providing for safeguards on any financial interests, no matter their significance is maintained, the proposed requirement to discuss with those charged with governance (paragraph 290.46 in the ED) and to document all the matters discussed (paragraph 290.50 in the ED) would be too burdensome. This could be in particular problematic for very large audits with many audit team members around the world.</p> <p>We propose to ask for a threshold to be established to ensure that significant breaches are subject to such discussion and documentation but that those that are clearly trivial are not accorded the same treatment. These are the de minimis exceptions we refer to in paragraph 8 of this letter.</p>		
188.	3	<p>I think that this point is more useful, when the modifications have impact direct with some requirement. I think that is very important verify the quantity of these informations, if not I think that don't need make communicate all breaches of an independence requirement to those charged with governance.</p>	DSFJ	<p>All breaches to be communicated but some flexibility to be provided on the timing of the communication</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
189.	3	We do not agree. The threshold for reporting should be to the relevant regulators.	ICPAR	Paragraph 290.41 requires a firm to comply with any legal or regulatory requirements relevant to the breach and also to determine, in the absence of such requirements, whether communication with a relevant regulator or member body is appropriate.
190.	3	<p>The AIA does not believe that such communication will be necessary in every case, for reasons indicated in response to question 2 above.</p> <p>The AIA's opinion is that the most meaningful test of whether a matter should be brought to the attention of those responsible for governance is whether the shareholders would wish to have such information considered by the board or the audit committee in the making of any recommendations with respect to audit. For example, if the final audit review leaves the audit partner concerned that the firm no longer has the expertise necessary to deal with specific aspects of the audit then it would be important to discuss such concerns with the audit committee before accepting any offer to recommend the audit firm for reappointment.</p>	AIA	All breaches to be communicated but some flexibility to be provided on the timing of the communication
191.	3	<p>In our opinion, communication with those charged with governance in respect to all matters irrespective of the significance of the breach is not consistent with the conceptual framework of independence which requires auditors to evaluate the significance of the threats and apply necessary safeguards to eliminate or reduce the threats to an acceptable level. Whether to communicate or not in respect to the significant matters should be left to the auditors' judgment and it would be more consistent with the principles-based approach of the Code.</p> <p>In practice, communication with those charged with governance requires much time and effort which increase unnecessary work burden for a firm and its client; in addition, there would be high probability of unnecessary complaints or litigation against auditors.</p>	KICPA	All breaches to be communicated but some flexibility to be provided on the timing of the communication

X ref	Par Ref	Comment	Respondent	Proposed Resolution
192.		<p>Not agree that all breaches of an independence requirement should be communicated to those charged with governance.</p> <p>Only those breaches which seriously affect the independence requirements and because of which audit engagement cannot be continued should be reported. The threshold for reporting breaches may include those had it been known at the time of acceptance of engagement, the firm could not accept the audit engagements.</p>	ICAP	All breaches to be communicated but some flexibility to be provided on the timing of the communication
193.		<p><b>Response: Not necessarily</b></p> <p>We agree that all breaches where the audit firm's objectivity is <i>compromised with the consequence that it is unable to issue an audit report</i> should be communicated to those charged with governance, who are responsible for ensuring the auditor's independence and hence the appointment or removal of the auditor, or approval of non-audit services to the client (refer to our response to <i>question 3</i> above and comments on the proposed paragraphs 290.40, 290.41 and 290.42).</p> <p>The threshold for determining which breaches should be reported involves both objective and subjective considerations, addressed in the proposed paragraphs 290.41, 290.42 and 290.43, requiring the breach to be judged in the light of regulatory requirements imposed on the auditor or the client (290.41), the significance of the breach (290.42) and whether actions can be taken that satisfactorily address the consequences of the breach (290.43) and whether it can be concluded that the firm's objectivity would be compromised such that the firm is unable to issue an audit report that is likely to be regarded as credible.</p>	IRBA	All breaches to be communicated but some flexibility to be provided on the timing of the communication
194.		<p>Proposed paragraph 290.42 – bullet point 6, states one of the factors to determine the significance of the breach as <i>"if it is caused by a non-assurance service, the impact of that non-assurance service on the accounting records or amounts recorded in the financial statements"</i>. The non-assurance services may not necessarily impact on accounting records or amounts disclosed, for example assurance provided on non-financial disclosures in sustainability reports, where the audit firm is reporting on both the annual financial statements and the sustainability report, but it may affect the firm's objectivity and ability to issue the audit report on the financial statements. Consequently we do not think the bullet point should be restricted to the impact of non-assurance services on accounting records or amounts or disclosures in the financial statements.</p>	IRBA	Bullet point amended to refer only to impact on the accounting records or financial statements and addition bullet added to reference a non-assurance service that puts the firm in an advocacy role.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
Q4. Do respondents agree that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement? If not, why not and what should the test be?				
195.	4	Yes	ICAEW	Supportive comment
196.	4	We agree	ICPAR	Supportive comment
197.	4	Yes, we agree that this is an appropriate test.	KPMG	Supportive comment
198.	4	We agree that this is an appropriate test to use in such circumstances.	ICAS	Supportive comment
199.	4	We agree that the reasonable and informed third party test is appropriate.	CICA	Supportive comment
200.	4	We concur with this approach; it is consistent with the approach taken in other parts of the Code (such as 290.15).	PWC	Supportive comment
201.	4	We agree with this approach. Professional Accountants are already familiar with the use of this concept within the Code.	CARB	Supportive comment
202.	4	APESB supports the use of the reasonable and informed third party test. An objective test will provide stakeholders with a mechanism to assess whether consequences of a breach have been appropriately addressed.	APESB	Supportive comment
203.	4	We agree that the “reasonable and informed third party” test is an appropriate measure in determining whether an action satisfactorily addresses the consequences of a breach. This is consistent with other sections of the Code where such a test is used to measure the effectiveness of safeguards or the level of a threat.	ASSIREVI	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
204.	4	Yes. It is for this reason that the assurance provider, having consulted with those charged with governance and any other relevant parties (such as a regulator) must make the final decision on the appropriate resolution of the breach.	AGNZ	Supportive comment
205.	4	We agree that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement. This approach is consistent with existing paragraph 290.6(b) and 291.5(b) Independence in Appearance.	BDO	Supportive comment
206.	4	We agree that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach. This test is one that is already employed within the Code and, thus, is one that is familiar to the profession (and to other users of the Code).	CGA Canada	Supportive comment
207.	4	We agree with the new approach stated in this Exposure Draft, which is coincident with the approaches adopted by the other parts of the Code, such as paragraph 290.15.	CICPA	Supportive comment
208.	4	Yes. The reasonable and informed third party test is intended as an objective standard. As such, its application should lead to consistent results. Moreover, we believe it is the appropriate standard to evaluate whether there has been a breach of independence in appearance.	DTT	Supportive comment
209.	4	We agree that the informed third party test is the appropriate standard to use to address consequences of an independence breach. This standard is commonly used in other standards and rules, and is consistent with the general thrust of the Code, which requires an accountant's judgments to take into account the views of a reasonable and informed third party.	E&Y	Supportive comment
210.	4	Far agrees that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement.	FAR	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
211.	4	We agree that the reasonable and informed third party test should be used in this context. While we recognise that the test is not a purely objective measure and is capable of some degree of interpretation, it is a widely used test within the profession (and is therefore reasonably well understood), and we know of no better test to substitute for it.	ICAA	Supportive comment
212.		Yes agree	ICAP	Supportive comment
213.	4	The ICJCE considers that the application of the reasonable and informed third party test is equally applicable to the situation addressed in this exposure draft to determine if an action satisfactorily addresses its consequences. The Test is already well defined in Sections 100.2 and 100.7 and should be applicable in all situations where the professional accountant should put in place safeguards to reduce a threat to an acceptable level that do not compromise his/her compliance with the fundamental principles included in the IESBA Code.	ICJCE	Supportive comment
214.	4	The reasonable and informed third party test is already evident throughout the Code, and we agree that the test is also relevant in respect of the adequacy of actions taken following discovery of a breach of the Code. This test is a useful tool to introduce a level of objectivity to the judgement of a professional accountant. It also focuses the professional accountant on the need to uphold ethical standards in order to maintain the reputation of the professional accountant, his or her professional body, and the profession itself.	ACCA	Supportive comment
215.	4	We agree that the reasonable third party test should be used. The code refers to Independence in mind and appearance and abiding by the Code includes the perception of independence. It therefore makes sense that the reasonable third party test is used.	SAICA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
216.	4	We agree. The provision that determinations should be made by using “the reasonable and informed third party test” attaches to multiple paragraphs of the Code, such as para. 100.2, para. 100.7, and para. 150.1. We believe that for the Code, predicated as it is on a conceptual framework approach, the test constitutes an indispensable standard of judgment to comply with the Code. Depending on an audit firm’s determination as to whether an action implemented or planned is able to satisfactorily address the consequences of a breach of an independence requirement, the conclusion will in certain instances be for an audit firm to resign from the audit engagement. We, therefore, believe it will serve the public interest if determinations are made applying the reasonable and informed third party test. Consequently, the application of this test in the process of deciding as to whether or not an action satisfactorily addresses the consequences of a breach of an independence requirement is consistent with the objectives of the Code, and expected to serve the public interest.	JICPA	Supportive comment
217.	4	AAT supports the use of the reasonable and informed third party test, notwithstanding observations outlined above as to whether this is putting undue pressure onto those charged with governance from the perspective that they are being invited to approve actions as acceptable, but may not be fully aware independence requirements of the firm as articulated in the Code of Ethics.	AAT	Supportive comment
218.	4	We concur with the conclusion that a reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of the breach of an independence requirement. In our view, a reasonable and informed third party should also be an unbiased observer. Further, all breaches of independence should be communicated to those charged with governance and subjected to a reasonable and informed third party test.	NASBA	Supportive comment
219.	4	The third-party test is in our view the adequate criterion for judging whether certain measures are capable of reducing to a reasonable level the compromise to independence. This judgment, however, should occur not only “virtually”, i.e. the person being judged should not be the only one placed in the role of the objective third party, rather in cases of doubt, as elaborated in Question 3, a consultation with internal and/or external third party should actually take place. Only in this way it can be ensured that one can properly do justice to the rationale on which the third-party test is based.	WPK	IESBA Staff Q&A on reasonable and informed third party test

X ref	Par Ref	Comment	Respondent	Proposed Resolution
220.	4	We agree that the reasonable and informed third party test should be used. In addition, we would propose that in paragraph 290.43 where the reasonable and informed third party test is required, that references be made to the conceptual framework approach to independence in paragraphs 290.6 to emphasise the importance of auditor independence.	HKICPA	Supportive comment. For consistency with other drafting of the Code no reference to paragraph 290.6 to be made
221.	4	<p><i>Overall Perspective of the Reasonable and Informed Investor</i></p> <p>We observe that the “reasonable and informed third party” consideration within the Paper is currently mentioned in paragraph 290.43 with respect to the audit firm determining whether it may be possible to take action that satisfactorily addresses the consequences of the breach. We believe the Board should make clear that the views of a reasonable and informed <i>investor</i> – not the auditor – weighing all the specific facts and circumstances, are applicable not only in paragraph 290.43 but elsewhere. For example, see paragraph 290.40 which summarizes the overall model, paragraph 290.42 which describes assessing whether a breach has affected objectivity, and paragraph 290.49 which describes assessing the effect of a breach, if any, on previously issued auditors’ reports.</p>	IOSCO	<p>The reasonable and informed third party test is consistent with the remainder of the Code and imbedded in the definition of “acceptable level”</p> <p>Two staff Q&amp;As developed to explain the operation of the test</p>
222.	4	<p>The AIA’s only concern is that it will be very difficult to adopt the mind-set of a “reasonable and informed third party”. The problem is that professionalism, particularly independence, is largely a matter of attitude. The members of the audit firm may “know” that they are behaving independently, but (almost by definition) any third party will have to work with appearance and perception.</p> <p>The third party test is undoubtedly the most reasonable and realistic criterion that could be applied in this setting.</p>	AIA	Supportive comment
223.	4	Yes – We agree that the third party test should be used. Nevertheless, we would prefer to have the same wording as in paragraph 100.7, where it is more explicit that the third party test is part of applying professional judgment. The reference to professional judgment is important to determine if there is a breach and the appropriate actions to be taken.	Mazars	Change made to ¶290.43 In making this determination the firm shall <u>exercise professional judgment and consider whether...</u>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
224.	4	The reasonable and informed third party test is clearly addressed in the conceptual framework of the code, and therefore we agree. But we believe that an explicit reference to professional judgment should also be made in the second sentence of the suggested drafting for paragraphs 290.43 in order to be consistent with the content of paragraph 100.7 of the Code.	CNCC-OEC	See above
225.	4	<p>The conceptual framework in the Code already gives consideration to the reasonable and informed third party test (paragraphs 100.2 and 100.7 of the current Code). We agree that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement.</p> <p>In this context, we find that the wording of the third party test should be aligned to the wording in paragraph 100.7 of the current Code to make it clear that it is a thought process when exercising professional judgement.</p>	FEE	See above
226.	4	<p>We agree that the reasonable and informed third party test should be used to determine if a firm's objectivity has been compromised. Section 290.43 in its current form presents the possibility that a reasonable and informed third party may consider an action that satisfactorily addresses the consequences of the breach as unsatisfactory. This needs to be clarified as in its current form section 290.43 proposes that a breach may be satisfactorily addressed and yet a reasonable and informed third party may not think so. We consider that satisfactorily addressing the consequences of the breach would require that a third party would consider it so as well. If that is not the case we would argue that the action does not satisfactorily address the consequences of the breach. To address this issue, we propose that 'even if such action can be taken' be deleted from the section so that it is expressed as:</p> <p><i>'Depending upon the significance of the breach, it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken. In making this determination the firm shall consider whether, 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.'</i></p>	CPA Australia	Change made "even if such action can be taken" deleted from ¶290.43

X ref	Par Ref	Comment	Respondent	Proposed Resolution
227.	4	We agree with the principle that the firm should assess whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised in determining whether action can be taken to satisfactorily address the consequences of a breach. However, any conclusion with respect to the third party test would be a matter of judgment and different professionals may arrive at different conclusions. The IESBA may wish to develop some application guidance to address the third party test.	CPAB	Staff Q&As regarding reasonable and third party test developed
228.	4	The reasonable and informed third party test seems to be a sensible suggestion though there could be potential application problem arising from the inherently subjective element of the test. The identification of actions which would satisfactorily address the consequence of a breach involves application of judgment and is premised on a strong governance environment. It may therefore be worthy for IESBA to consider conducting a study to develop a robust basis to explain the principle of "the reasonable and informed third party test".	MIA	See above
229.	4	We do not agree to the proposal. IESBA should be cognizant of the fact that the reasonable and informed third party test is vulnerable to subjectivity. With the lack in further guidance, we are of the view that professional accountants will face difficulty in practice when applying the third party test. This will also entail subjectivity and inconsistency in application and interpretation. We would like to suggest that the IESBA consider providing further guidance and specific definitions in this area, for example, what or who is considered a "reasonable and informed third party".	ICPAS	See above
230.	4	Yes. However, we suggest the IESBA clarify that it intends the auditor rather than those charged with governance to use professional judgment in applying this test.	IDW	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
231.	4	CoE 290.6 draws a clear distinction between „Independence of Mind“ and „Independence in Appearance“. Decisive measures (e.g. examination of services rendered or to be rendered, withdrawal from the engagement) are required where independence is impaired or in other clear cases (e.g. the auditor holds shares in the audited entity or an audit engagement team member or audit firm decision-maker sits on the Board of the audited entity), but for other situations the FAOA welcomes the use of a „reasonable and informed third party“ test. It should be made clear, however, that in determining whether a lack of independence in appearance exists, the situation should be appraised using the life experiences of an average observer as a reference, and not exclusively those of someone with audit knowledge. Furthermore, the use of such a test must not lead to situations where clear breaches are not punished with the necessary decisiveness and severity.	FAOA	See above
232.		<p>Yes, we agree. The reasonable and informed third party test together with the requirement that those charged with governance should agree with the action taken provides a comprehensive framework to test that the breach is adequately resolved. We stress the importance of the third party test which is the responsibility of the firm to determine.</p> <p>We do not believe that agreement from those charged with governance on its own is adequate. Those charged with governance are not responsible for acting in the public interest at large. We strongly support the requirement for the firm to apply the third party test, which emphasises that the responsibility for addressing the breach rests with the firm. Disclosure to those charged with governance on its own, would imply that the responsibility can be passed to those charged with governance which is not appropriate.</p>	NZAuSB	<p>Supportive comment</p> <p>Auditor would use third party test in determining whether the action satisfactorily addresses the consequences of the breach</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
233.	4	One board member is of the view that disclosure in the auditor's report should be required, and not only disclosure to those charged with governance, on the basis that such disclosure should be as transparent as possible. It was proposed that this recommendation should apply a <i>de minimis</i> test, where insignificant breaches are not disclosed in the auditor's report, subject to the agreement of those charged with governance.	NZAuSB	<p>Task Force to discuss – to develop a response to this point</p> <p>The Task Force considered whether reporting to investors would be appropriate. The Task Force concluded that such reporting would not be appropriate. The auditor will resign unless the actions taken satisfactorily address the consequences of the breach. Communicating breaches to investors would undermine confidence in the audit report and would not be in the public interest because it would, in turn, undermine confidence in financial reporting.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
234.	4	<p>Grant Thornton agrees that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement. However when applying this threshold, the Code refers to “a reasonable and informed third party, weighing all the specific facts and circumstances”.</p> <p>In order to promote consistency in the application of the Code, we propose the following language be added to Section 290.43 and Section 291.33 as follows:  <i>“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 <b>and all the facts and circumstances</b>.....”</i></p>	GTI	<p>Change made to ¶290.43</p> <p>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, <u>and all the specific facts and circumstances available to the professional accountant at that time,</u> would be likely to conclude that the firm's objectivity would be compromised such that the firm is unable to issue an audit report.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
235.	4	<p><b>Response: Yes with reservations</b></p> <p>Reference should be made to the requirements in paragraph 200.10 of the Code requiring the auditor to exercise judgement in determining the significance of the <i>threats</i> and <i>available safeguards by applying the reasonable and informed third party test</i>. However, we see the determination of <i>threats</i> and <i>safeguards</i> as distinctly different to the determination of a <i>breach</i>, and hence the application of the third party test should be considered independently, and possibly differently, for a breach. The “<i>informed third party test</i>” referred to in paragraph 200.10 and included in the proposed paragraph 290.43 is the principle encapsulated in the Code and thus a default judgement position. However, the auditor should apply such judgment with reference to the firm’s processes in place to identify breaches.</p> <p>A further consideration will be whether or not the regulatory requirement includes the disclosure of the breach - whether by way of a direct reporting responsibility by the auditor to the relevant regulator, or by the audit committee when reporting on the independence of the auditor throughout the period in the annual financial statements.</p> <p>This would be particularly important in circumstances where the firm concludes that appropriate actions can be taken without the necessity for the firm to resign from the engagement.</p>	IRBA	<p>¶290.43 changed to require the exercise of professional judgment</p> <p>¶290.41 changed to state that the firm may determine that it is appropriate to consult with a member body, relevant regulator or oversight authority.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
236.	4	<p>A “reasonable and informed third party test” is used in several parts of the Code when an accountant is to consider an action or circumstance. In proposed paragraph 290.43, the accountant is to take the view of a hypothetical third party to weigh the significance of a breach in making a conclusion as to whether the firm’s objectivity would be compromised such that the firm is unable to issue an audit report.</p> <p>While we acknowledge that the reasonable and informed third party test is appropriate for considering certain independence matters addressed in the Code, such as whether threats have been eliminated or reduced to an acceptable level, it may not be appropriate to use such a test when considering whether the actions to be taken by the firm would satisfactorily address the consequences of a breach. Specifically, we believe it would be difficult for a firm to determine what a reasonable and informed third party would likely conclude to be an appropriate course of action for addressing a breach of the independence requirements, and the impact of that action on independence and objectivity. We believe it would be more appropriate to allow the use of the firm’s professional judgment with agreement by those charged with governance, to determine whether the actions taken satisfactorily address the consequences of the breach such that the firm’s objectivity would not be compromised.</p> <p>If the reasonable and informed third party test is to be adopted as exposed, we recommend that in addition to the significance of the breach, the third party should weigh the action to be taken by the firm. Adding that to the language in proposed paragraph 290.43 would be: “...a reasonable and informed third party, weighing the significance of the breach and the action to be taken...”. That would make this test comparable to other uses of a third party test in the Code. Alternatively, adoption of identical language used elsewhere in the Code would get that effect. The following language is used in several places in the Code and could be used here: “...weighing all the specific facts and circumstances available to the professional accountant at that time,...” (used in Code paragraphs 100.2(c), 100.7, 150.1, 200.10, definition of acceptable level).</p>	AICPA	<p>Majority view supports use of the reasonable and informed third party test</p> <p>Change made</p>
237.	4	<p>I think that this point is more useful, when the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement have impact direct with some requirement, if not I think that don’t need make reasonable and informed third party.</p>	DSFJ	<p>Majority view supports use of the reasonable and informed third party test</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
238.	4	<p>The reasonable and informed third party test is a kind of framework for applying the Code to the specific case of a breach; therefore, it is just a general principle in the application of the Code. Therefore, we suggest that the third party test not be included in every paragraph addressing: evaluation of the significance of the breach and judgment of the appropriateness of the safeguard applied.</p> <p>Therefore, it is recommended that the third party test be referred only in the general provisions of the Code, not the specific paragraph describing independence.</p>	KICPA	Majority view supports use of the reasonable and informed third party test
239.	4	<p>In CNDCEC opinion the use of “a reasonable and informed third party” test, which is appropriate when assessing the risk of breach of the Code’s fundamental principles, has instead little significance when assessing the effectiveness of the action taken to satisfactorily address the consequences of a breach. CNDCEC believes that, requiring a pro veritate opinion on the appropriateness of the corrective action to a third independent and qualified party (another professional who is independent from the auditor or the network, either a professional accountant or a lawyer), informed on the outcomes of the discussion with those charged with governance, reduces the subjectivity of the “reasonable and informed third party” test.</p>	CND-CEC	Majority view supports use of the reasonable and informed third party test
<p><b>Q5. Do respondents agree that the matters that should be discussed with those charged with governance as proposed in section 290.46 are appropriate? If not, why not? Are there other matters that should be included, or matters that should be excluded?</b></p>				
240.	5	Yes	AGNZ	Supportive comment
241.	5	We agree	ICPAR	Supportive comment
242.	5	Yes we agree.	NZAUSB	Supportive comment
243.	5	We agree.	Mazars	Supportive comment
244.	5	We agree with the proposed approach.	ICAS	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
245.	5	We agree with the list of matters to be discussed.	PWC	Supportive comment
246.	5	The Institute agrees that proposed in section 290.46.	MIA	Supportive comment
247.	5	We agree that these matters are appropriate.	CPAB	Supportive comment
248.	5	We believe that the matters identified to be discussed are appropriate.	ICAA	Supportive comment
249.	5	We agree that all the points mentioned in the suggested paragraph 290. 46 are appropriate.	CNCC-OEC	Supportive comment
250.	5	Yes, I think the matters that should be discussed with those charged with governance as proposed in section 290.46.	DSFJ	Supportive comment
251.	5	Yes, we agree that the matters set out in section 290.46 for discussion with those charged with governance are appropriate.	KPMG	Supportive comment
252.	5	Yes. We believe that the matters to be discussed with those charged with governance as set forth in proposed paragraph 290.46 are appropriate.	AICPA	Supportive comment
253.	5	We agree. The items proposed for discussion with those charged with governance in the deliberations on addressing the consequences of a breach of an independence requirement cover the topics likely to require consideration. We believe the proposed matters are appropriate.	JICPA	Supportive comment
254.	5	We think the matters that should be discussed with those charged with governance as proposed in section 290.46 are appropriate.	CICPA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
255.	5	We agree that matters outlined in section 290.46 are appropriate. It is a comprehensive list and will provide those charged with governance the information needed to properly evaluate a breach of the Code.	E&Y	Supportive comment
256.	5	We agree that the matters proposed to be discussed with those charged with governance are appropriate since these individuals as the decision makers of the entity, need \to understand any potential threats to the assurance that they will be receiving from the auditor, if they accept the threat as bearable this should be included in the meeting minutes and available for public scrutiny to ensure the auditor was always transparent about the potential threat.	SAICA	Supportive comment
257.	5	APESB agrees with the matters listed in section 290.46, subject to our comments on trivial and inconsequential matters in question 3.	APESB	Supportive comment
258.	5	The ICJCE agrees with the list of matters that should be discussed with those charged with Governance proposed in Section 290.46. under the conditions stated in our answer to question 3 above.	ICJCE	Supportive comment
259.	5	Subject to our responses to Question 3, we agree that the matters that should be discussed with those charged with governance as proposed in section 290.46 are appropriate.	FEE	Supportive comment
260.	5	Yes, subject to the comments in paragraph 7 above. (NB Para ref 3)	ICAEW	Supportive comment
261.	5	<u>Matters to Discuss</u>  Paragraph 290.46 includes matters to be discussed with those charged with governance. One of the matters listed is "A description of the firm's relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained." We believe this sentence should be expanded to include "...reasonable assurance that independence is maintained and will be maintained during the engagement period and the period covered by the financial statements." Further, we believe additional matters that should be discussed with those charged with governance are the implications of the firm's independence being breached and relevant regulatory requirements.	IOSCO	ISCQ1 contains the requirements for quality control policies and procedures –the requirement in 290.46 is consistent with ISQC1

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p><u>Risks to the Process</u></p> <p>Imposing obligations upon those charged with governance is, as a practical matter, beyond the purview of the Code. This raises the question of what actions the audit firm should take if those charged with governance (1) will not engage with the audit firm on the matter or (2) face potentially negative pragmatic consequences to disagreeing with the firm's reasoning/assessment that the audit firm's objectivity is uncompromised. The Board should consider what steps are required of the audit firm in these situations. To this end, we believe that prior to finalizing the proposed revisions to the Code the Board should perform specific outreach to organizations representing those charged with governance to obtain their views on the engagement with those charged with governance.</p>		
262.	5	<p>An additional factor that AAT considers might be helpfully added to the list to ensure that the actions are fully undertaken would be an evaluation or review of actions undertaken to ensure that where a firm has agreed to undertake actions as described in bullet points 5 to 7, these are followed through within a measurable period of time to the satisfaction of those charged with governance. Arguably this is implied by paragraph 290.47, but explicitly stating it would go some way to address the concern of IOSCO in terms of potential abuse.</p>	AAT	<p>Those charged with governance would be informed of the action the firm intends to take. Those charged with governance have ability to follow up</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
263.	5	<p>We agree with the matters proposed in section 290.46 that should be discussed with those charged with governance with one exception. On occasions breaches to the Code may be the result of actions taken by the audit client over which a firm has little or no control.</p> <p>Examples of such situations are as follows:</p> <ul style="list-style-type: none"> <li>a) an audit client inadvertently hires a key audit partner after such partner has left the firm but before the end of the cooling-off period;</li> <li>b) an audit client has failed to pay all prior year audit fees and such fees are material to the audit firm;</li> <li>c) an audit client acquires another company and has failed to undertake actions to terminate a prohibited business relationship between the acquired entity and the firm which cannot be terminated unilaterally by the firm.</li> </ul> <p>We believe that the provisions being proposed by the IESBA should give greater recognition to such situations. In particular, section 290.46 should contain any recommendations by the firm to the audit client to address any perceived weakness in the entity's procedures designed to ensure that the entity does not cause the firm to incur a breach of the Code. An example of such wording is as follows: "Where the breach occurred as a result of action or lack of action taken by the audit client, any steps that the audit client is recommended to take to reduce or avoid the risk of similar breaches occurring in the future."</p>	ASSIREVI	No change proposed – approach is predicated on the impact of the breach, irrespective of how the breach was created
264.	5	We agree this approach is appropriate. In addition firms should be required to respond with additional information if requested.	CARB	No change – the list is not all inclusive
265.	5	We agree with the list, in proposed section 290.46, of matters that should be discussed with those charged with governance, although the wording of the fourth item in the list could be improved. It does not appear to provide for a situation in which objectivity has, in fact, been compromised, but action can be taken to restore the integrity of the audit by, for example, re-performing some of the audit work.	ACCA	No change
266.	5	<p><b>Response: Yes</b></p> <p>We support the requirement in the proposed paragraph 290.46 for matters to be "discussed with those</p>	IRBA	No change proposed – text is consistent with ISQC1 which addresses quality control

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>charged with governance as soon as possible" where the firm determines that satisfactory action can be taken to address the breach without the firm resigning from the audit as this increases transparency and good governance surrounding compliance by the auditors and audit firm with the Code, and the responsibilities of those charged with governance. It also provides an opportunity for those charged with governance to understand the nature of the breach and implications for the quality of the audit and ability of the audit firm to complete the audit.</p> <p>We suggest that the requirement in the third bullet of the proposed paragraph 290.46 should be extended by the underlined addition, as follows: <i>"A description of the firm's relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained, <u>and will be maintained during the remainder of the engagement period and the period covered by the financial statements on which the report is issued</u>,"</i></p> <p>A practical complication that might arise in reporting the breach "to those charged with governance as soon as possible" is the availability of those persons and what the auditor does in the meanwhile, particularly where a resignation is indicated or the quality of the audit might be compromised. In many global companies, there may be significant challenges in having access timeously to all of those charged with governance for purposes of a "discussion", and more specifically to those responsible for dealing with the auditor appointment, removal or resignation. This could have unintended consequences for the entity if the breach is discovered near the completion of the audit.</p> <p>It may be that those charged with governance, especially those directly responsible for determining the independence of the auditor, such as an audit committee, do not agree with the auditor's decision that action can be taken to satisfactorily address the breach, and who believe the audit firm should resign in the circumstances or alternatively take steps to remove the audit firm in compliance with the relevant legal and regulatory requirements. We note that these possibilities are addressed in paragraphs 290.47 and 290.48 arising from the discussion with those charged with governance.</p> <p>In those jurisdictions where laws or regulations do not permit the auditor to terminate the audit engagement, the proposed paragraphs 290.45 and 290.47 should recognise that such circumstance may arise and the paragraphs amended to reflect: "... to terminate the audit engagement, where legally possible, in compliance with..." Where it is not possible for the audit firm to terminate the engagement the paragraph should require some form of communication in this regard, possibly in the financial statements, in the director's report where applicable, or in the auditor's report by way of an "other matters" paragraph, permitted in terms of the ISA reporting standards.</p>		<p>policies and procedures</p> <p>Some flexibility to be provided on timing of communication</p> <p>No change – preface to Code states that law or regulation takes precedence.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
267.	5	<p>We agree with the matters listed in 290.46 however to ensure reporting does not become extensive and is relevant to the breach identified we would recommend the following amendments to the third item listed:</p> <p>“A description of the firm’s <del>relevant</del> policies and procedures <i>relevant to the breach</i> designed to provide it with reasonable assurance that independence is maintained;”</p> <p>We acknowledge that the code establishes ethical requirements for professional accountants and is unable to place requirements on those charged with governance of an entity. However, we are of the opinion that client systems which include policies around the entities interactions with its auditor, for example the provision of non audit services by the auditor, are important to maintaining independence. For this reason, we would like to see the following requirement added to the list of matters in 290.46 that should be discussed with those charged with governance in the event of a breach occurring.</p> <p>The entity’s policies, where they exist, designed to provide those charged with governance with assurance that independence is maintained and any apparent breach of those policies;</p>	BDO	<p>No change – requirement is to discussion relevant policies and procedures</p> <p>No change</p>
268.	5	<p>We agree with the list of items that are included in paragraph 290.46. However, we believe the list should also include the point that the firm should determine whether or not it should report the breach to someone else, including perhaps to a regulator such as a Securities Commission or a body having oversight of the professional accountant. The firm would then discuss its recommendation about reporting the breach to a relevant regulator with those charged with governance.</p> <p>We believe this section should specifically indicate that the items being discussed should be provided in writing to those charged with governance. We believe this goes beyond the important documentation requirement contemplated in 290.50.</p>	CICA	¶290.51 address to require communication in writing
269.	5	<p>Far agrees that the matters that should be discussed with those charged with governance as proposed in section 290.46 are appropriate. However, Far is doubtful as to whether those charged with governance will feel obliged to follow the Code’s regulations as to which matters are discussed and how they are to be dealt with.</p>	FAR	Code establishes standards for professional accountants. ISA 260 addresses an auditor’s requirement to communicate with those charged with governance.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
270.	5	<p>Generally, we agree with the matters to be discussed in section 290.46.</p> <p>However, it is suggested that IESBA further clarifies if the discussion with those charged with governance set out in section 290.46 is the same requirement as in section 290.40 where the firm shall communicate the breach to those charged with governance. In section 290.40 the firm is to "terminate, suspend or eliminate the interest or relationship that caused the breach" whereas in 290.46, the firm is required to "discuss the breach and the action it proposes to take".</p> <p>If they are two different requirements, one would expect that when addressing the consequences of the breach in 290.46, the requirement in 290.40 to "terminate, suspend or eliminate the interest or relationship that caused the breach" would have been undertaken and should be communicated to those charged with governance.</p>	HKICPA	¶290.40 changed to address suspending or eliminating the interest or relationship that caused the breach and addressing the consequences of the breach
271.	5	<p>We agree that the proposed matters to be discussed are appropriate. We suggest that explicit mention of the breach and its characteristics be included in the list of the matters to be discussed. This is because even though the paragraph requires the firm to discuss the breach it is not clear that a comprehensive description of the breach is required to be disclosed.</p>	CPA Australia	¶290.46 requires a discussion of the significance of the breach including its nature and duration – nature would address the characteristics
272.	5	<p>The FAOA finds the list of matters to be discussed (290.46 of the Draft) to be good. However, the list should not be worded as if it were conclusive: A requirement to report breaches to the oversight authorities is also necessary, subject to national law.</p>	FAOA	List is not all inclusive as it indicates the matters to be communicated "include" which is consistent with the remainder of the Code.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
273.	5	<p>We generally agree with the matters that are listed in section 290.46 which will provide a good background of the facts and circumstances of the case for discussion with those charged with governance. Other matters that can be considered to be included are:</p> <ul style="list-style-type: none"> <li>• The relevant sections of the Code which has been breached; and</li> <li>• Where the breach occurred prior to the issuance of previous audit reports, the impact of the breach, if any, on any previously issued audit reports and the conclusion why, in the firm's professional judgement, objectivity has not been compromised for those reports.</li> </ul>	ICPAS	<p>No change – requirement is to communicate the nature of the breach, those charged with governance will likely not have sufficient knowledge of the Code for a section reference to be meaningful</p> <p>¶290.46 provides guidance on when the breach occurred in a prior year</p>
274.	5	<p>We think a discussion of the aspects presented in Section 290.46 is both useful and necessary. Additionally, the consultation with internal and/or external third parties should be taken up as a topic of discussion, to the extent that one has occurred. Whether there are other matters that should be discussed, we think it is possible there are.</p>	WPK	Supportive comment
275.	5	<p>CNDCEC believes the matters identified are appropriate. Moreover, with reference to the requirement of par. 290.50, CNDCEC suggests to specify that there is need to document also the advice of those charged with governance on the selection of the action taken to address the breach.</p>	CND-CEC	<p>No change - addressed by “all the matters discussed with those charged with governance”:</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
276.	5	<p>Grant Thornton agrees that the matters to be discussed with those charged with governance as proposed in Section 290.46 are appropriate. However, due to confidentiality and privacy laws in various jurisdictions, it may not be possible for a firm to disclose all information about how a breach occurred, such as disclosing the name of the audit team member that has a prohibited financial interest in the client.</p> <p>Therefore in consideration of legal limitations imposed by confidentiality and privacy laws in certain jurisdictions, we recommend adding language to the second bullet point in Section 290.46 as follows:</p> <p><i>"How the breach occurred and how it was detected; however, recognizing the confidentiality rights of interested parties must be adhered to by the professional accountant when discussing breaches with those charged with governance."</i></p> <p>Furthermore, although the professional accountant is required to disclose any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring, the firm may determine that the breach was an isolated incident that did not warrant any changes to the firm's relevant policies and procedures. The firm should include this conclusion in their discussion with those charged with governance. Accordingly, we recommend adding language to the Section 290.46 (as a separate bullet point) as follows:</p> <p><i>"If the firm concludes that the breach was an isolated incident that did not warrant any changes to the firm's relevant policies or procedures, the firm should include this in their discussion with those charged with governance."</i></p>	GTI	<p>No change considered necessary – paragraph 100.1 of the Code addresses situations where compliance with a provision in the Code is prohibited by law or regulation</p> <p>No change – is address by last bullet "any steps..."</p>
277.	5	<p>As discussed above, we believe the proposal is overly prescriptive. Generally, we would agree that most matters identified in section 290.46 would be appropriate to discuss with those charged with governance. However, there may be very minor breaches where it does not make sense to have conversations that include such matters and those charged with governance may not be interested in such details. Thus, as we have noted on Exhibit 2, we would propose some edits to this paragraph that would make it clear that such matters should generally be discussed, but are not necessarily mandated in each instance. The firm should be able to exercise judgment, along with those charged with governance, concerning the matters to cover in any communication.</p>	DTT	Matter addressed below under editorial suggestions paragraph by paragraph

X ref	Par Ref	Comment	Respondent	Proposed Resolution
278.	5	The exposure draft raises a question about whether the audit firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequence of the breach and such action is taken. In our opinion, the audit should not be stopped by mandate of a professional standard, except where the firm has determined that it is not independent. The firm should make its own decision about whether it wishes to continue the audit while it awaits the decision of those charged with governance of the entity. Further, the firm's decision about continuing the audit should be communicated to those charged with governance as part of the requirements of paragraph 290.46.	NASBA	¶290.47 changed to address this concern
279.		Yes these are appropriate. However, the sentence "The matters to be discussed shall include" should be "the matters to be discussed may include" as there could be circumstance where all listed matters may not be relevant.	ICAP	Majority of respondents supportive of the items to be discussed
280.	5	<p>The AIA does not agree that it will always be appropriate to discuss such matters with those responsible for governance. In some cases, such a detailed disclosure could amount to providing the directors with insights into the audit strategy that could be best kept confidential and might, in itself, compromise independence.</p> <p>A great deal depends upon the nature of the breach, its cause and the effectiveness of the steps that have been taken to resolve it. There will undoubtedly be cases where there is no lingering doubt as to the audit firm's independence. For example, if a close relative of a senior member of the audit team accepts a management position with an audit client then it may be regarded as sufficient for the audit team member to be replaced and for any decisions taken by the outgoing member of staff to be thoroughly and carefully reviewed. In such a case, there would be no net effect on the independence of the audit firm and so any discussion would serve little or no purpose.</p> <p>As stated already, the AIA does not necessarily believe that those responsible for governance should be the final arbiters in the case where an audit firm has a more serious case to answer.</p>	AIA	<p>All breaches to be communicated to those charged with governance</p> <p>¶290.41 changed to state that firm may determine it is appropriate to consult with a member body, relevant regulator or an oversight authority</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
281.	5	<p>We do not agree. If the significance of the breach is deemed to be trivial, it is our view that the matter should not be required to be reported to the client. We are amenable to the suggestion that the nature and duration of the breach be documented, including how it was detected, and how it was mitigated once discovered; however, this should conclude the action required by the firm when the matter is insignificant.</p> <p>That said, for matters which are clearly significant, the process outlined in Para 290.46, as proposed, are largely reasonable.</p>	CGA Canada	Majority view that all breaches should be communicated to those charged with governance
282.	5	<p>No. As noted in the accompanying letter, we believe that it is likely to be counterproductive for the auditor to be required to discuss <i>all</i> breaches in the level of detail proposed.</p> <p>Those charged with governance should be involved in the discussion of <i>significant</i> breaches and have the chance to discuss their concerns and make alternative proposals where appropriate. The IESBA should not prescribe a right of veto (290.48) in this context, since the role of those charged with governance does not fall within its mandate.</p> <p>Furthermore, we do not believe there is any merit in requiring the auditor to discuss with those charged with governance a “description of the firm’s relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained” proposed in the third bullet point. As such policies and procedures are designed to provide reasonable but not 100% assurance, breaches may well occur. Thus breaches will not always indicate that the policies and procedures were at fault. In our view, the relevant requirements already included in the ISAs and ISQC 1 are sufficient.</p>	IDW	Majority view that all breaches should be communicated to those charged with governance
283.	5	We suggest that the proposal should be changed, therefore, a firm should be able to exercise its own judgment whether to discuss with those charged with governance.	KICPA	Majority view that all breaches should be communicated to those charged with governance
Q6. Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA?				

X ref	Par Ref	Comment	Respondent	Proposed Resolution
284.	6	We agree	ICPAR	Supportive comment
285.	6	We agree with the impact analysis.	SAICA	Supportive comment
286.	6	We agree with the impact analysis as presented.	ICAA	Supportive comment
287.	6	We agree with the impact analysis as presented.	ASSIREVI	Supportive comment
288.	6	CNDCEC agrees on the presented analysis	CND-CEC	Supportive comment
289.	6	Yes, we agree with the impact analysis as presented.	KPMG	Supportive comment
290.	6	We agree with the impact analysis and have no further comments.	HKICPA	Supportive comment
291.	6	The Institute agrees with the impact analysis presented and has no further comment.	MIA	Supportive comment
292.	6	Far generally agrees with the impact analysis as presented.	FAR	Supportive comment
293.	6	APESB agrees with the impact analysis presented and has no additional comments to make in this regard.	APESB	Supportive comment
294.	6	We agree with the impact analysis as presented. We did not identify any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA.	BDO	Supportive comment
295.	6	We believe the overall direction of the impact analysis is reasonable.	CICPA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
296.	6	The IESBA's impact analysis appears appropriate.	CPAB	Supportive comment
297.		Agreed	ICAP	Supportive comment
298.	6	The impact analysis appears reasonable.	ICAS	Supportive comment
299.	6	We agree. In our opinion, the impact analysis covers and includes all key stakeholders who must be considered and addressed in connection with this amendment, and states in a concise manner the impact that will result.	JICPA	Supportive comment
300.	6	No further impacts on stakeholders have been identified.	NZAuSB	Supportive comment
301.	6	Yes, I observed that IESBA/IFAC makes consolidation the important informations and included others viewpoint of the others discussion of the IFAC, is very important, clear, transparency and objective.	DSFJ	Supportive comment
302.	6	Grant Thornton agrees that the impact analysis as presented appropriately identifies the stakeholders and the impacts on the stakeholders as a result of the new policy.	GTI	Supportive comment
303.	6	We agree with the impact analysis and consider it to be detailed and informative. The Committee believe that all stakeholders are considered within the analysis.	CARB	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
304.	6	<p>With the exception of the issue noted under “Documentation” below in our “Other Comments” section, we agree with the impact analysis as presented. We are not aware of additional stakeholders that should be considered.</p> <p>In addition, we noted that in the discussion of this new requirement in the impact analysis, it indicates that the impact to “Auditors/accountants” is “Significant because a documentation requirement puts an added rigor into the process of dealing with a breach <i>and will inform audit regulators</i>, who could challenge the firm and audit committee’s judgments” (emphasis added). If the impact analysis is published, we would recommend that this statement be clarified to reflect that the Code does not contain a requirement to inform audit regulators.</p>	AICPA	Supportive comment
305.	6	We agree with the analysis though note that it seems overly lengthy for the scale of the change.	ICAEW	Supportive comment – with some concern over length
306.	6	We took good note and welcome the fact that for the first time, the exposure draft is accompanied by an impact assessment, but we find it a bit too detailed, not easy to read and as a result, not getting to the point.	CNCC-OEC	Supportive comment – with some concern over length
307.	6	We are in basic agreement with the Impact Assessment. We would hereby like to point out the remarks on page 12, third column (Impacts), in which the above-mentioned consultation with internal and/or external third parties, at least with respect to the regulator, is itself mentioned, albeit in another context.	WPK	

X ref	Par Ref	Comment	Respondent	Proposed Resolution
308.	6	<p>The impact analysis is comprehensive and has addressed the relevant areas. We generally do not object to the impact analysis presented, other than to provide further elaborations to the analysis for greater clarity to readers if the impact analysis is formally issued with the Code.</p> <p>For example, in the analysis presented on page 15 of the ED, it was mentioned that removing the “deeming” concept and requiring the firm to evaluate the significance of a breach and its impact on the firm’s objectivity and ability to issue an audit report will result in “more appropriate outcomes in relation to auditor independence”. Specific examples could be provided to explain what is meant by “more appropriate outcomes”. We suggest the following wordings, “This would result in more appropriate outcomes such as increased credibility of auditor performance and greater transparency being communicated in relation to auditor independence”.</p>	ICPAS	
309.	6	<p>The impact analysis is helpful, however, we note that whilst explaining the proposed changes and focusing on several implications, in particular any possible increased costs for firms, the impact analysis continues to refer in the columns dealing consistently with the: “<i>Impacts, Party / interest impacted, Significance and Duration</i>”, to “<i>inadvertent violations</i>” rather than referring to refer to “<i>breaches</i>” which appear to infer: “<i>breaches of the independence or other provisions of the Code having the consequence that the firm’s objectivity is compromised such that the firm is unable to issue an audit report that is likely to be regarded as credible</i>” that appears to be the focus of the proposed changes to paragraphs 100.10 and paragraphs 290.39 to 290.50.</p>	IRBA	
310.	6	<p>Generally speaking, we like the impact analysis that the IESBA has prepared and appreciate its inclusion in the ED. However, we were unclear as to who was being referred to with the term “Oversight Bodies”. As well, we believe the impact analysis should include some reference to risks of the client that are impacted by proposed changes.</p> <p>Finally, the ED and the impact analysis does not include any discussion of whether or not any breaches and the actions taken by the firm should be reported to regulators. While we do not believe that all trivial breaches need to be reported to regulators, we feel that any intentional and/or significant breaches of the independence standards should be reported to the relevant regulators. It would be necessary to provide some guidance as to what is “significant”.</p>	CICA	

X ref	Par Ref	Comment	Respondent	Proposed Resolution
311.	6	<p>In relation to the Impact analysis, AAT submits the following observations:</p> <p><i>100.10 Cost-</i></p> <p>As stated above, when a firm recognises what was previously an inadvertent breach, they are obliged to address the consequences under the current iteration of the Code, therefore this should be cost neutral.</p> <p>An additional impact may be considered, that being proportionality. Given the limited knowledge of how these provisions have been used to date, and the real possibility that they have not, it would be prudent to consider proportionality under impacts, and whether the end achieved is satisfactory to justify the obvious gaps that will arise through other exposure points</p> <p><i>290.39 Party interested/impacted-</i></p> <p>It would be appropriate to consider the impact of this from the perspective of “those charged with governance” specifically, as opposed to in the context of them being “clients”. The onus may fall onto them where firms are attempting to find a defence to a breach. This is because under the proposals they would be required to ratify the firm’s response action to make the continued engagement acceptable. Similarly, recognising, as the impact analysis does, the negative cost/delay implication of having to source new auditors should current ones resign, there is an additional self-interest/intimidation threat on those charged with governance to agree to unacceptable actions to address to avoid the resignation and associated pressures that may ensue from their investors. This risk is arguably of equivalent significance to the risk identified by the IOSCO, and therefore exposes an additional risk that does not currently exist, as a result of mitigating the one suggested.</p>	AAT	
312.	6	<p>We would draw attention to the points raised under questions 3 and 5 above, and the possibility of an unforeseen impact on audit firms and clients.</p>	ACCA	

X ref	Par Ref	Comment	Respondent	Proposed Resolution
313.	6	<p>The impact analysis reflects the views of the IESBA in preparing this revision and, thus, includes natural bias inherent to its development. For a clearer sense of the impact these proposals represent, other external stakeholders would necessarily require direct consultation (such as member bodies, professional accountants and clients).</p> <p>For example, under the analysis included for 290.39, the party/interest impacted for clients' states that the proposal would represent a positive improvement as it would provide 'greater transparency by their auditors.' We question whether there is any empirical evidence to suggest that clients are looking for increased transparency? The analysis goes on to state that the 'actual number of breaches is thought to be low.' Given the noted low incidence of these breaches, we question the rationale for any change to the process; particularly when the change involves anticipated inclusion of 'insignificant' breaches.</p>	CGA Canada	
314.	6	<p>Government agencies or regulators are another stakeholder that could be considered since in many jurisdictions they impose disclosure requirements for breaches of independence or conflict of interest situations.</p>	CPA Australia	
315.	6	<p>We appreciate the IESBA's effort to prepare an impact assessment and have the following observations:</p> <p>To get a more accurate assessment of the impact on various stakeholders, input from such stakeholders should be sought. Guessing as to stakeholders' reactions can lead to very misleading results and decisions should not be taken by the Board based on suppositions.</p> <p>Those charged with governance appear to be included as part of the client stakeholder. This is often not the case, particularly with public interest entities. Those charged with governance should be analyzed separately from the client. Not considering those charged with governance as a key stakeholder is, in our view, a significant omission.</p> <p>Beyond the negative impact of the proposal on cost to the audit firm, the impact analysis generally states that the proposal will have a positive impact to the identified stakeholders. We believe this is incorrect. When the audit firm and those charged with governance are required to spend time and effort on matters that a reasonable and informed third party would determine are trivial and inconsequential, we believe, clients, investors and oversight bodies would conclude that the auditor and those charged with governance</p>	DTT	

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>should be spending their time and effort on more important matters that more directly impact audit quality.</p> <p>For the reasons explained in this response letter, the proposal as drafted contains fatal flaws, the impact of which would be quite negative (e.g., inability on the part of the audit firm to comply with the revised requirements, such as where discussions with those charged with governance cannot be held in a timely manner, lack of interest on the part of those charged with governance to deal with all of the breaches, failure of the audit firm to comply with ISA 260, failure of audit clients to meet filing requirements because the audit firm has had to discontinue the audit until those charged with governance weigh in on the breach, etc.) The impact analysis does not adequately identify the costs of the proposal.</p>		
316.	6	The impact analysis is very useful and covers the right stakeholders, however we do believe the potential devaluing of the reporting process due to the requirement to report all, even inconsequential breaches and as soon as possible, is not adequately represented.	E&Y	
317.	6	Alongside audited entities, auditors, investors and regulators, other authorities, professional bodies and the courts have an interest in using the Code of Ethics as an interpretative aid. Moreover, the question of independence can impact auditor licensing conditions in a member state.	FAOA	
318.	6	<p>As a general remark, we suggest enhancing the impact analysis by making it more succinct and shorten it into a single page thereby making it easier to read.</p> <p>We note that the impact analysis appears to focus on costs. It would also be useful to include further potential benefits of the proposed revisions.</p> <p>We also question whether the public perception would indeed mirror the statements anticipated on page 10 of the ED. For example, the public might believe that since all breaches have to be treated in the same way they are considered as being equally serious. The lack of differentiation between significant breaches and those that are clearly trivial may also potentially create a public perception that the profession is <i>often</i> in breach of its own Code without the public being in a position to appreciate that minor breaches do not necessarily equate to accountants being unethical.</p>	FEE	

X ref	Par Ref	Comment	Respondent	Proposed Resolution
319.	6	Generally the ICJCE agrees with the list of effects and of stakeholders affected but we have some reservations about the effects in this case. The documentation of any breach would be very burdensome not only for the auditor but for the audited company. Due to the international implications of some of the proposed measures, we foresee a very difficult task to track all interests of all members of all the teams and document any breach if it is detected. Companies will be required to discuss them and also provide the firm with documentation which in many cases may be difficult to obtain.	ICJCE	
320.	6	<p>There would be negative influence on the convergence movement because the proposed changes in the ED are very different from the current regulations and practices in most jurisdictions.</p> <p>We concerned that the negative influences such as undue costs related to documentation and communication and increased lawsuits against auditors are much bigger than the positive influences in contrast to the IESBA's expectation.</p> <p>Also, the new proposal may weaken the voluntary effort to properly maintain internal control such as independence policy and procedures by a firm.</p>	KICPA	
321.	6	With respect to the impact analysis, we feel the IESBA should consider the impact on those charged with governance. The standard should be clear that the full responsibility for independence and objectivity rests with the audit firm. The responsibility of those charged with governance is to make a decision about hiring or continuing the audit firm. Obtaining approval of those charged with governance should not imply a shift in responsibility for the firm's independence and objectivity away from the audit firm. We do not believe that such a shift in responsibility is what is intended with the proposed standard.	NASBA	

X ref	Par Ref	Comment	Respondent	Proposed Resolution
322.	6	<p>Whilst we consider that the general direction of the impact analysis is fair, we believe that the tone of the analysis is overly negative towards past responses to a violation by the firms and accountants. The general tone suggests that auditors have not been transparent in the past and/or have not been “professional” enough. In reading that analysis one might reach the conclusion that there are high numbers of violations of the Code. While we cannot speak for other Networks, in our experience this has not been the case, and accordingly we do not think that the impact on firms and clients will be as “significant” as is indicated on the grounds that, as we believe, firms and clients are today undertaking the analysis and having the discussions that are contemplated in the proposals, certainly in relation to any matters of significance. It may generate an increase in reporting of minor matters, such as an (inadvertent) immaterial holding of a financial interest in the client by, say, the spouse of a manager providing non-assurance services to the client.</p> <p>Similarly we question whether “more appropriate outcomes” in relation to auditor independence (page 15) is a likely result. Again this suggests that past outcomes have not been appropriate – we are not aware of any basis for such a conclusion.</p>	PWC	
323.	6	<p>The AIA does not accept that the cost of rectifying any breach is necessarily the result of any revision or replacement of the Code provisions. Auditors cannot continue in post when they are in breach and so the costs associated with either stepping down or rectifying the breach are effectively sunk costs.</p> <p>It is debatable whether confidence can be increased by the disclosure of any breach in Code provisions. The AIA wholeheartedly agrees that there should be meaningful provisions in place to address problems arising from breaches, but breaches should not occur frequently and those that do occur should be attributable to changing circumstances rather than oversight on the part of audit firms.</p> <p>The one sense in which breaches may support the auditor’s credibility is when firms resign from office on the grounds that they have discovered breaches in their independence.</p>	AIA	
324.	6	<p>The main concern we have with the IESBA analysis is the assumption that those charged with governance will act in the public interest. For the reasons set out in our responses to the IESBA questions, and in our covering letter, we do not believe this assumption is valid.</p>	AGNZ	

X ref	Par Ref	Comment	Respondent	Proposed Resolution
325.	6	<p>First, it would have been better to have a shorter impact analysis, more focused on main changes and impact.</p> <p>We disagree with the magnitude of the impact: procedures are already in place to identify breaches as required by ISQC1 in paragraph 23 which states that “The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations.”</p> <p>Moreover, in many jurisdictions, auditors have to confirm that they are independent to the audit committee.</p> <p>The main benefit expected is to have a more formalized procedure and a better communication with those charged with governance.</p>	Mazars	
326.	6	<p>No. As noted in the accompanying letter, we do not agree with the statement on page 10 under the column headed significance: “High in terms of enhancing the reputation for professionalism in the accounting profession”. As we have explained, we believe that the proposals may even have the opposite effect, and thus in the long run, be detrimental to the public perception of the profession.</p>	IDW	
<p><b>Q7. Would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, does the proposed effective date provide sufficient time to make such changes?</b></p>				
327.	7	We agree	ICPAR	Supportive comment
328.	7	The AIA does not believe that these proposals are particularly onerous and so implementation should not cause any undue difficulty.	AIA	Supportive comment
329.	7	We do not believe the proposal will require significant changes to firms’ systems and processes. The proposed effective date for breaches identified on or after 1 January 2013 seems reasonable.	AGNZ	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
330.	7	The proposed effective date should provide us with sufficient time to modify our systems and processes.	DTT	Supportive comment
331.	7	We are not aware that firms would require to make significant changes to their systems or processes to enable them to properly implement the proposed requirements. Therefore, we believe the proposed effective date is appropriate.	ICAS	Supportive comment
332.	7	We do not believe the proposals will result in significant changes and therefore agree with the proposed effective date.	NZAuSB	Supportive comment
333.	7	We do have policies and procedures already in place and therefore the implementation of the new requirements should not entail real difficulties. Accordingly we have no objection with the suggested effective date.	CNCC-OEC	Supportive comment
334.	7	At least in Germany the proposed suggestions would constitute no additional burden, or very little at any rate, for the auditor. This is due to the fact that, as we previously pointed out, many of the anticipated suggestions are already ingrained in German law, and auditors in Germany thus already for the most part fulfill the requirements <i>de lege lata</i> . That is why there are no reservations concerning the effective date to make the changes.	WPK	Supportive comment
335.	7	The proposals in the exposure draft set out considerations and procedures that would currently be regarded as best practice. In addition, instances of discovery of material breaches of the Code are expected to be rare (but please see our comments concerning materiality under 3 above). Firms will be able to refer directly to the requirements of the Code when breaches are discovered. Therefore, we believe that significant changes to firms' systems and processes may not be necessary.	ACCA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
336.	7	We believe that transnational firms that operate in many jurisdictions will not be required to make significant changes to their systems or processes as they are already required to address breaches of independence requirements in some jurisdictions in a manner similar to the proposed provisions. However, audit firms with a lesser international reach and which do not operate in jurisdictions with similar provisions may need to make significant changes to their processes to enable them to properly implement the requirements.	ASSIREVI	Supportive comment
337.	7	Some changes may be required to properly implement proposed new requirements however we believe many firms already have similar mechanisms in place. Any incremental enhancements should not result in significant systems development or implementation time. Therefore, the effective date of 1 January, 2013 seems appropriate.	E&Y	Supportive comment
338.	7	As has been identified above, in the Australian context firms are already required to document and discuss inadvertent violations of the auditor independence provisions with those charged with governance, unless the violation is trivial and inconsequential. For this reason we do not believe that Australian firms would need to make significant changes to their systems to implement the proposed requirements. Accordingly we consider that the proposed effective date would provide our members with sufficient time to make the changes proposed.	ICAA	Supportive comment
339.	7	Not really as procedures already exist. The consequence would be more of an amendment of existing procedures and systems rather than the implementation of new systems and procedures. So we consider that the proposed effective date is appropriate.	Mazars	Supportive comment
340.	7	We do not foresee any significant changes to firms' systems or processes required to enable proper implementation of the requirements for large firms. Most small-medium practitioners perform manual evaluation of firms' independence requirement, we therefore do not anticipate significant changes to the processes for small-medium practices.	MIA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
341.	7	We do not believe that significant changes in systems or processes will be required and therefore we support the proposed effective date. In practice it is likely that firms may need to speed up their internal reporting and evaluation (e.g. to meet the standard proposed in 290.46 if retained) rather than dealing with certain matters say on a quarterly reporting basis as may be the case today.	PWC	Supportive comment
342.	7	CNDCEC agrees on the need to foresee an interim period to allow the Code's addressees to comply with the new regulation, also considering that this regulation will imply, from an operational point of view, the introduction of new procedures. Therefore, CNDCEC believes that the proposed effective date provides sufficient time.	CND-CEC	Supportive comment
343.	7	The systems and controls requirements relating to the independence provisions may require significant changes, but if the purpose of the changes is to particularise already existing requirements for the avoidance of doubt, then seemingly firms who would be subject to the existing regulations should already have such systems and controls in place, thus minimising the impact of change requirements, should the IESBA be minded to progress these proposals further.	AAT	Supportive comment
344.	7	In countries where more developed professional ethical standards already exist we do not believe the proposals will require firms to make significant changes to their systems or processes in order to properly implement the requirements. Some other countries may have changes to implement but we believe the proposed timescale seems adequate.	BDO	Supportive comment
345.	7	We believe that smaller firms would need to make significant changes to their systems and processes as they may not have the numbers required in order to implement all or some of the safeguards. The larger firms will already have policies and procedures in place and we do not believe the change in systems and processes will be significant. We believe the timing is sufficient even though the timing in which to comply would be less than a year.	SAICA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
346.	7	From our perspective, it is difficult to determine if this proposal would require firms to make significant changes to their systems of quality control. Firms are already charged with the responsibility to maintain quality control systems that address independence and objectivity. For those firms with good systems, changes might not be required. For those firms with systems that lack proper safeguards, changes would be, and should be, required.	NASBA	Supportive comment
347.	7	<p>The proposed changes, in our view, formalise the systems or processes that should already have been in place in the firms to ensure that there is no compromise to the firm's independence or violations of other requirements in the Code.</p> <p>The need for documentation and that all breaches should be discussed with those charged with governance will increase the amount of work for the firm operationally rather than requiring significant or complex changes to the systems or processes. Hence the proposed provisions should not require firms to make significant changes to their systems or processes to enable them to properly implement the requirements.</p> <p>The six months time period between the targeted finalisation of the revision in first half of 2012 to the proposed effective date for breaches identified on and after 1 January 2013, should provide adequate time for the firm to implement and communicate the additional procedures to document all identified breaches, the actions taken with respect to the breaches and all matters discussed with those charged with governance and relevant regulators. Under ISA 260 <i>Communication with Those Charged with Governance</i>, auditors have the responsibility to communicate with those charged with governance in an audit of financial statements and in the case of listed entities; the auditor has to communicate with those charged with governance their compliance with relevant ethical requirements regarding independence. Henceforth, the additional requirement in the Code should not significantly impact listed companies, while for non-listed companies, auditors will have to consider the additional communication required in furtherance to those required under ISA 260.</p>	ICPAS	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
348.	7	We doubt that the effect would be significant in terms of a firm's systems (policies and procedures) already required under ISQC 1 and ISA 220. As noted in our response to q. 5 an assumption that a firm's policies and procedures are at fault may not be correct. However, significantly more detail would have to be documented, which could be a factor to consider in this context.	IDW	Supportive comment
349.	7	<p>As noted in our response to question 3, APESB incorporated into the Australian Code requirements to discuss and document with those charged with governance, inadvertent violations of independence requirements which are not trivial and inconsequential. These additional Australian requirements were effective from 1 July 2011. To date, APESB has not received any feedback from stakeholders to indicate that implementation of these additional Australian requirements has created significant challenges to stakeholders.</p> <p>Assuming IESBA is able to issue the proposed standard in the first half of 2012, APESB is supportive of the start date of 1 January 2013. We believe that the effective date should be at least 6 months after publication of the final standard to provide sufficient time for constituents to educate and inform the affected parties as well as for audit firms to make appropriate changes to their systems, policies and procedures.</p>	APESB	Supportive comment
350.	7	Currently, firms would have different practices of handling breaches. With the proposed changes, there would be a consistent approach for responding to breaches identified. It is proposed that the effective date is one year from the finalized revisions.	HKICPA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
351.	7	<p>We do not believe that the proposal would require firms to make significant changes to their systems or processes, but it is important to note that changes would be required, and that any incremental change to these systems and processes represent a real cost to firms. The requirement to discuss the breach with those charged with governance, and to obtain their concurrence with the auditor's judgements, will represent additional time on the engagement and, thus, would represent a significant change.</p> <p>The proposed effective date of January 1, 2013 would be difficult to impose for our membership, given our governance structure (many regions require ratification of Code changes before their respective memberships at the annual general meeting, and these meetings are typically held in the autumn of each year). If the revisions were finalized by the IESBA in the first half of 2012 there would not be sufficient time to obtain all of the various levels of approval required to provide consent to the change.</p>	CGA Canada	While respondent agrees that the proposals will not require significant changes to system, due process for standard setting in the jurisdiction would create difficulties in meeting the effective date
352.	7	<p>We don't anticipate that it would be a problem for most firms to make changes to their systems and processes on a timely basis. However, even though firms may be able to adjust on a timely basis to allow for an early effective date, in Canada, it would be important to follow appropriate due process before any such changes could be implemented into the CA profession's Rules of Professional Conduct. If the changes to the Code are not approved until mid-2012, it would not be possible to implement these changes in Canada to be effective by January 1, 2013.</p>	CICA	While respondent agrees that the proposals will not require significant changes to system, due process for standard setting in the jurisdiction would create difficulties in meeting the effective date

X ref	Par Ref	Comment	Respondent	Proposed Resolution
353.	7	<p>We see no need for significant changes to the systems and processes of audit firms necessary for an appropriate response to the matters required by the exposure draft. However, the more concrete guidance proposed will necessitate reviews of systems and processes in relation to their current practices. This may require time, depending on the extent of such reviews. We expect that reconfiguration of systems and processes may in certain instances become necessary. Moreover, translation work will be required in jurisdictions where English is not an official language. We expect that a certain period of time will be required also for due process in each jurisdiction and for the propagation of knowledge and appreciation among those charged with governance. Taking this into consideration, the approximately 6-month period from the presumed time of finalization of the regulation until the proposed effective date may not be long enough. We believe that an effective date of 18 months after approval, which IESBA referred to in a previous exposure draft, would likely strike the right balance, and would be appropriate.</p> <p>We believe, however, that the proposed effective date may not be sufficiently long. Although we do not see the necessity for significant changes to the systems and processes of audit firms, reviews of systems and processes in relation to their current practices will be needed because of the more specific guidance provided. This may require time and it seems that reconstruction of systems and processes may in certain instances become necessary. Additional time will also be needed for translation work in jurisdictions where national language is not English. Therefore, we believe that the 18 month period from the issuance of the amendment, which IESBA referred to in a previous exposure draft, would likely strike the right balance, and would be appropriate.</p>	JICPA	Respondent believes additional time of needed for translation
354.	7	<p>While audit firms should already have systems and processes in place to allow for the identification and analysis of breaches and the timely reporting to audit committees of those breaches that might reasonably bear on independence, we believe that the Exposure Draft would frequently require firms to enhance their tracking and reporting procedures to enable all breaches to be identified and reported to the audit committee as soon as possible and without regard to significance. Although we would not anticipate that there would typically be numerous matters to report, we believe that the requirements could nevertheless be quite onerous in the case of a large group audit merely from a process perspective.</p>	KPMG	Generally supportive but seems to support a longer period

X ref	Par Ref	Comment	Respondent	Proposed Resolution
355.	7	For those firms who have systems or processes in existence the timescale seems appropriate but some SMPs may not currently have such systems or processes to update. The implementation process may take longer for such firms.	CARB	Supports a longer time frame
356.	7	Yes. We believe that the proposal would result in firms having to make significant changes to their quality control and independence systems. For example, while many large firms have developed independence tracking systems and closely monitor investments and other relationships with listed entities, we do not believe the same level of monitoring may exist for non-listed entities. Accordingly, we believe firms will need to invest resources in enhancing their existing systems or developing new systems or processes to implement the proposed requirements. Due to the time necessary to implement the new systems and processes as well as educate firm personnel on the new requirements, we recommend at least an additional year and have the new requirements become effective for breaches identified on and after January 1, 2014.	AICPA	Respondent believes another year is necessary
357.	7	We believe that while for the larger firms the proposals will not require significant changes they may have a different impact on SMPs in terms of awareness raising, training and education. For this reason we believe that the effective day should be at least 12 months from the time the proposed revision is finalised and issued.	CPA Australia	Supports a longer time frame
358.	7	Firms will need a substantial amount of time in: discussing all identified breaches with those charged with governance irrespective of the significance of the breach, and establishing processes or systems for communication and documentation. Therefore, firms should be provided with sufficient time to establish processes and build the system in order to effectively implement the new requirements.	KICPA	Supports a longer time frame

X ref	Par Ref	Comment	Respondent	Proposed Resolution
359.	7	<p>Grant Thornton believes the proposal may require firms to make changes to their systems or processes in order to enable them to properly implement the new requirements. Many of the large and mid-size firms have a system in place to track financial interests with their listed entities. Firms will need to evaluate this system, as well as other existing systems and processes, in order to determine if their current design will enable the firm to comply with the new provisions. Furthermore, firms that currently do not have systems or processes in place will need to evaluate the impact reporting breaches of independence requirements to those charged with governance will have on their audits, including the time and resources they will expend implementing the requirements, as well as the economic and social implications of the requirements.</p> <p>Grant Thornton believes that the IESBA's proposed effective date does not provide sufficient time for firms to make changes to their systems and processes to enable them to comply with the new requirements. Therefore, we ask the IESBA to consider adding one year to the effective date and have the new requirements become effective for breaches identified on and after January 1, 2014.</p>	GTI	Supports a longer time frame
360.	7	Every firm is required to review its whole risk assessment system to ensure whether changes as per proposal are required further enhancement of existing system. Therefore, 12 months period may not be sufficient.	ICAP	Supports a longer time frame
361.	7	<p><b>Response: No comment</b></p> <p>We assume that responses from the audit firms will address these questions. Responses received should, however, be considered by the IESBA in determining the effective date.</p>	IRBA	No response provided
362.	7	In this case I suggest that IESBA/IFAC consult others jurisdictions with your local regulators and consolidated these informations with problems and difficulties.	DSFJ	No response provided
363.	7	This question would be best directed to firms who are most familiar with their current systems and processes and the time required to implement the proposed changes. Responses will likely vary from firm to firm.	CPAB	No response provided

X ref	Par Ref	Comment	Respondent	Proposed Resolution
364.	7	In Switzerland state-regulated audit firms who audit, amongst others, listed companies require a license from the FAOA. Compliance with national and international independence requirements is one of the licensing conditions. We cannot judge conclusively whether the changes proposed by the IESBA could lead to significant changes at the state-regulated audit firms. Only the audit firms themselves can clarify this and answer the question.	FAOA	No response provided
365.	7	Far cannot answer for the firms.	FAR	No response provided
366.	7	In general terms, this question is directly related to the internal impacts on firms and as such we believe they are best placed to comment on this particular matter. However, we believe it is worth noting that for audit firms auditing Public Interest Entities (PIEs) in the European Union, there is already an existing obligation to annually confirm their independence. Therefore, the systems or processes to enable them to properly meet this obligation already need to be in place.	FEE	No response provided
367.	7	We believe audit firms are best placed to answer this question.	ICAEW	No response provided
368.	7	Although the ICJCE is of the opinion that audit firms are already prepared to tackle with any threat to their independence, this is an internal matter and firms will provide a more accurate answer to this question. However, following our answer to the prior question, we are of the opinion that will be the audited entities which will need to implement internal measures to ensure an effective dialogue with the auditor about those issues.	ICJCE	No response provided
Q8. Is the abbreviated version of the framework described in Section 290 for dealing with a breach of an independence requirement suitable for Section 291? If not, what do respondents believe Section 291 should contain?				
369.	8	Yes	ICAEW	Supportive comment
370.	8	We agree	ICPAR	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
371.	8	Yes. We believe the abbreviated guidance proposed is suitable for Section 291.	AICPA	Supportive comment
372.	8	We believe the proposed treatment in section 291 is appropriate.	CICA	Supportive comment
373.	8	Far finds the abbreviated version found in Section 291 suitable.	FAR	Supportive comment
374.	8	We believe that an abbreviated framework is suitable for this purpose.	ICAS	Supportive comment
375.	8	Yes, we are off the opinion that it is suitable.	SAICA	Supportive comment
376.	8	We believe that the abbreviated version of the framework described in Section 290 for dealing with a breach of an independence requirement is suitable for Section 291.	ACCA	Supportive comment
377.	8	We consider that the proposed abbreviated version in Section 291 is suitable.	ICAA	Supportive comment
378.	8	Yes. We do not have any additional comment with regard to Section 291	ICJCE	Supportive comment
379.	8	We agree with the approach taken in Section 291.	PWC	Supportive comment
380.	8	Yes, the abbreviated version of the framework is appropriate for section 291.	Mazars	Supportive comment
381.	8	APESB supports the inclusion of an abbreviated version of the framework for section 291.	APESB	Supportive comment
382.	8	The abbreviated version is appropriate as the content in Section 291 is consistent with Section 290.	MIA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
383.	8	We believe that the abbreviated version of the framework described in Section 290 is suitable for Section 291, subject to our comments on the framework in Section 290.	ASSIREVI	Supportive comment
384.	8	We concur that the abbreviated version of the framework described in Section 290 is suitable for Section 291, as proposed on page 25 of the ED.	CGA Canada	Supportive comment
385.	8	We support the version of the framework described in Section 290.	CARB	Supportive comment
386.	8	We believe that the Framework abbreviated version could apply in section 291.	CNCC-OEC	Supportive comment
387.	8	We regard the abbreviated version of the framework described in Section 290 suitable for Section 291, and support the modification to the provisions dealing with a breach of an independence requirement.	CICPA	Supportive comment
388.	8	We agree the abbreviated version of the framework is suitable but suggest that a cross reference be made in section 291 to section 290 so that the examples and comments of section 290 enrich and clarify section 291 as well.	CPA Australia	Supportive comment
389.	8	We believe the abbreviated version of the framework should be suitable for dealing with the breach of independence requirements of Section 291.	CPAB	Supportive comment
390.	8	We agree that the abbreviated version is suitable for Section 291. We have noted some suggested changes in Exhibit 2.	DTT	Supportive comment
391.		We have no particular issues with the abbreviated version of the framework described in Section 290 as suitable for Section 291.	FEE	Supportive comment
392.		Yes. It seems	ICAP	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
393.		Section 290 pertains to independence requirements for audit and review engagements whereas Section 291 relates to independence requirements for other assurance engagements. We agree to the proposal that an abbreviated version of the framework described in Section 290 for dealing with a breach of an independence requirement can be adopted for Section 291.	ICPAS	Supportive comment
394.		We believe the abbreviated version of the framework is suitable for Section 291 since it incorporates in summary form much of the text of Section 290 and the abbreviation is consistent with the summary form.	JICPA	Supportive comment
395.		We consider that the proposed paragraphs 291.33-37 are suitable for dealing with a breach of an independence requirement within the scope of Section 291.	KPMG	Supportive comment
396.	8	The section 291 must be similar Section 290, I think that don't need include others informations, can be unclear.	DSFJ	Supportive comment
397.		If the IESBA is minded to make the changes proposed within the document, than AAT sees no reason why the abbreviated framework should not be included in section 291.	AAT	Supportive comment
398.	8	In our opinion the framework can be applied also for dealing with a breach of an independence requirement suitable for Section 291. CNDCEC suggests to introduce only a cross-reference between the two sections.	CND-CEC	Supportive comment – cross-reference not considered necessary
399.	8	The AIA believes that the content of Section 291 is basically sound, albeit with the reservations expressed above concerning the involvement of those responsible for governance.	AIA	Supportive comment
400.	8	In substance, the concept of independence is the same in the case of both assurance engagements and non-assurance engagements. Therefore, there appears to be no material reason not to apply the edits proposed for section 290 to section 291 as well. Our concerns raised with respect to proposed changes to section 290 would similarly apply to possible changes to section 291.	E&Y	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
401.	8	If Section 290 is revised according to our comments in the above, we suggest that Section 290 be summarized in a principles-based version and then reflected in Section 291.	KICPA	Supportive comment
402.	8	Finally, we believe that the framework described in Section 290 (related to audit and review engagements) for dealing with a breach of an independence requirement is suitable for Section 291 (related to other assurance engagements). We would hope to see a uniform framework for independence, whether the engagement is an audit, a review, or some other level of assurance.	NASBA	Supportive comment
403.	8	We consider the abbreviated version of the framework described in Section 290 for dealing with a breach of an independence requirement is suitable for Section 291. However, we consider the proposed requirements contained in Section 290 provide useful guidance in applying the requirements. Therefore, we recommend that the abbreviated version produced for Section 291 include references to Section 290 where relevant, with the exception of the matters listed in paragraph 290.46 which we feel should be reproduced in paragraph 291.35 as shown in Appendix A to our response.	BDO	Majority of respondents expressed the view that level of detail in the proposed changes to section 291 is appropriate
404.	8	Grant Thornton believes the abbreviated version of the framework described in Section 290 for dealing with a breach of an independence requirement is generally sufficient for Section 291 because Section 291 is generally less restrictive than Section 290 and the abbreviated version of the framework is consistent with the structure of Section 290.	GTI	Majority of respondents expressed the view that level of detail in the proposed changes to section 291 is appropriate
405.	8	Given that provisions already exist in Section 291, it makes absolute sense to adopt the proposed changes in this area. The question arises as to whether it would be helpful to add additional explanations or interpretations, along the lines of „Interpretation 2005-01, Revised July 2009 [...]“.	FAOA	Majority of respondents expressed the view that level of detail in the proposed changes to section 291 is appropriate
406.	8	The abbreviated version of the framework to be applied in Section 291 would seem to raise the question among those applying the rule whether and what substantive differences exist compared to the normal version (Section 290). The answer to this question appears elusive, however, at least at first glance, which means that the rule seems in need of further improvement in terms of user-friendliness.	WPK	Majority of respondents expressed the view that level of detail in the proposed changes to section 291 is appropriate

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>In our view, there is basically no cause to differentiate between Sections 290 and 291, thus a relevant reference to Section 290 could be adopted in Section 291. We feel a reference would also be appropriate in this situation because the aspect that the audited company, by virtue of its de facto and indeed official decision-making authority, should not be enabled to terminate the engagement and get rid of an unwelcome auditor, will not apply, because Section 291 does not cover the area of statutory audits.</p> <p>Furthermore, in the event that substantive differences (objectively justified) between Section 290 and Section 291 exist, we still believe that on regulatory grounds it would be preferable to make a reference to Section 290, whereby it would be necessary to specify which rules would not apply.</p>		<p>The approaches taken in section 290 and 291 are the same but section 291 is written at a more generic level given the nature of the engagements.</p>
407.	8	<p><b>Response: Possibly</b> The abbreviated version may be suitable provided it retains the principles in the proposed changes to the Code relating to “a <i>breach of the independence or other provisions of the Code having the consequence that the firm’s objectivity is compromised such that the firm is unable to issue an assurance report that is likely to be regarded as credible</i>”.</p> <p>It should be recognised that the whole area of “<i>other assurance engagements</i>” addressed by the independence provisions in Section 291 of the Code is evolving around the world and much of the reporting is currently related to regulatory reporting circumstances, sustainability reporting or specific assurance aspects agreed on a contractual basis between the three parties to the engagement as envisaged in the <i>International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>.</p> <p>Regulatory reporting frequently involves restrictions on the distribution of the reports designed specifically for reporting on regulatory returns for the internal use of the regulator, whereas other assurance reports, such as sustainability reports on global resource companies, may be of public interest with wide distribution to the general public, investors etc. Subject specific assurance standards are being developed by the IAASB and national standard setters, such as the recent <i>ISAE 3420, Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus</i> that, when applied, will affect reports on pro-forma information included in prospectuses of companies listed on Securities Exchanges around the world. In many instances, subject specific standards have yet to be developed and</p>	IRBA	<p>The approaches taken in section 290 and 291 are the same but section 291 is written at a more generic level given the nature of the engagements.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
		<p>auditors and professional accountants providing such assurance services are applying the principles in ISAE 3000, adapted as necessary, to the circumstances of the specific engagement in consultation with the regulators or other recipients of the report.</p> <p>In addition, such assurance engagements may be conducted by multi-disciplinary teams with professionals other than professional accountants and auditors who are not necessarily bound by the Code.</p> <p>It is therefore suggested that the IESBA may require further research to determine that the proposed abbreviated provisions regarding a possible breach in circumstances of other assurance engagements are indeed appropriate.</p>		
408.	8	Our concerns apply equally. We also include wording changes in Appendix 2, as ED ISAE 3000 does not talk of those charged with governance in isolation and we suggest the Code be aligned to the wording of ISAE 3000 in this regard.	IDW	Language aligned to ISAE 3000) which refers to the engaging party
409.	8	<p>The proposed revisions to Section 291 do not seem to align with the current drafting convention of Section 291 as a whole. In the extant Section 291, the key principles and requirements which are similar to that in Section 290 are clearly set out. However for the proposed revisions, it is not clear if the proposed revisions in Section 290 which have not been included in Section 291 are not relevant or that one is to refer to Section 290 for further guidance.</p> <p>We are of the view that the guidance for addressing a violation of any requirement for an audit engagement or an assurance engagement should be clearly set out in its respective sections.</p>	HKICPA	Majority of respondents expressed the view that level of detail in the proposed changes to section 291 is appropriate

X ref	Par Ref	Comment	Respondent	Proposed Resolution
410.	8	We disagree with the inclusion of Section 291 (we have difficulty with the notion of different standards of independence). However, given that Section 291 is likely to be retained, the concerns we have previously expressed in this submission should also be reflected in Section 291.	AGNZ	<p>Majority of respondents expressed the view that level of detail in the proposed changes to section 291 is appropriate</p> <p>Mandate of project was to develop standards addressing action to be taken if a breach is identified not to address the independence requirements in 291.</p>
411.	8	It is not clear to the NZAuSB why an abbreviated or lesser framework is appropriate for Section 291. We strongly recommend that the same framework as described in Section 290 would be appropriate for other assurance engagements as the consequences of a breach of independence is as significant regardless of the subject matter of the engagement. We do not agree that the nature of the assurance services covered by Section 291 and the importance, or lack thereof as implied by the proposals, of those services to the broader public interest, make an abbreviated discussion of the framework appropriate.	NZAuSB	<p>Majority of respondents expressed the view that level of detail in the proposed changes to section 291 is appropriate</p> <p>Mandate of project was to develop standards addressing action to be taken if a breach is identified not to address the independence requirements in 291.</p>
OTHER COMMENTS				

X ref	Par Ref	Comment	Respondent	Proposed Resolution
412.	9	<p>We would also like to make an additional point about paragraph 100.10. The last sentence of this paragraph states that: <i>'If a professional accountant identifies a breach of any other provision of this Code, the professional accountant shall take whatever actions that might be available, as soon as possible, to satisfactorily address the consequences of the breach, including determining whether to report the breach to those who may have been affected by the breach.'</i> We are of the opinion that the requirement to determine 'whether to report the breach to those who may have been affected by the breach' can be understood in very broad terms. We do not think the intention of this paragraph is to report the breach to those who have been affected (in an extreme case this can be the users of the financial statements) but rather to require the professional accountant to determine if the breach should be reported and to whom. We think that can be expressed more precisely as <i>'including determining whether and to whom to report the breach'</i>.</p>	CPA Australia	¶100.11 changed to read "The professional accountant shall determine whether to report the breach to for example, those who may have been affected by the breach, a member body, relevant regulator or oversight authority" or a professional or regulatory body"

X ref	Par Ref	Comment	Respondent	Proposed Resolution
413.	9	<p><i>Clarification of the terms “breach of a provision” and “compromising a fundamental principle”</i></p> <p>The Exposure Draft proposes that all breaches of a provision of the Code be dealt with (100.10, 290.40 and 291.33). It is therefore important that it be clear what the term “breach” should mean.</p> <p>The explanatory memorandum talks of a breach in various different contexts: “a requirement of the Code”, “a requirement in the Code”, “an independence requirement in the Code”, and “a provision of the Code”. The explanatory memorandum also talks of some authorities having built into their standards and regulations provisions that set out mandatory processes for dealing with violations (violations of what is not stated). We would question whether the two could be considered to be equivalent? In our view, it is ultimately not the mere breach of any provision of the Code per se, but instead the possible result thereof, i.e., that a fundamental principle has been compromised (and the extent of compromise is not inconsequential) that would need to be addressed in the manner proposed in the Exposure Draft. Furthermore, because certain provisions of the Code taken in isolation require the accountant or auditor to make a judgement as to a) the significance of the threat, b) the appropriateness of the safeguard planned, and c) the actual effectiveness of the safeguard as it was applied in practice, judgement may also be needed in determining whether or not – despite a breach of only one of a)- c) having occurred – a fundamental principle has been compromised.</p> <p>It would be useful if the IESBA were to define the term “breach of a provision” as used in proposed paragraphs 100.10, 290.39 and 291.33. Should the differentiation mentioned above not be covered in the definition of “breach”, there needs to be a mechanism in place to differentiate the reactions to breaches according to their relative significance as we have discussed in more detail above.</p>	IDW	<p>IESBA considered whether a definition of a breach was necessary and concluded that it was not.</p> <p>All breaches are addressed by the proposed provisions irrespective of how the breach occurred, whether inadvertent or the duration of the breach</p>
414.	9	<p>The approach in the ED, especially in relation to communication of a breach of a requirement of the Code, is not straightforward to “translate” into and apply appropriately in the context of smaller entities’ environments, served to a large extent by Small and Medium-sized Practitioners (SMPs). FEE would like to invite the IESBA to pay special attention to these issues in their finalisation of this ED.</p>	FEE	<p>The proposed guidance on those charged with governance recognizes that this can be an individual.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
415.	9	<p><i>Examples of inadvertent breaches</i></p> <p>APESB suggests that IESBA consider including examples of inadvertent breaches (e.g. inheritance of shares in an audit client, investment by a fund manager in an audit client, spouses/dependents/power of attorney/executors acting independently of the auditor, etc.) which will provide audit practitioners with guidance to identify the most common scenarios.</p>	APESB	Minority comment – approach does not differentiate between inadvertent and advertent breaches
Other Comments				
416.		<p>We like to inform you that the Danish Executive Order on the Independence of Approved Auditors and Audit Firms already contains a few guidelines on how to act, if the auditor realizes a threat to his/her independence, which originally he/she was not aware of, e.g. if a close family member to the auditor inherits a minor amount of stocks in a client company. It is stated in the Danish Executive Order that “if there is a threat ... and the auditor has not realized and should not have realized this threat, the obligation to take action (e.g. resign or remove the auditor in question from the assignment) shall only apply from the time at which the auditor becomes aware of the threat”.</p> <p>Furthermore, a short time is allowed to sell the financial interest after the auditor became aware of the matter.</p> <p>We believe that inclusion of such provisions on non-intended breaches should be considered when finalizing this part of the Code of Ethics.</p>	FSR	Minority comment – approach does not differentiate between inadvertent and advertent breaches
417.		With respect to sanctions (Draft page 8), the FAOA suggests that audit firms be required to implement internal rules regarding potential sanctions, both to ensure the application of sanctions and equality of treatment. The IESBA's remark that they have no authority in this area could be answered by referring to local regulatory provisions.	FAOA	No change proposed – ISQC1 addresses remedial action
Specific Wording suggestions by paragraph				

X ref	Par Ref	Comment	Respondent	Proposed Resolution
418.	100.10	Referring to the changes to Paragraph 100.10, CNDCEC would suggest to reverse the order of the sentences, so as to indicate first the case of breach of any requirement in the Code and then specifically the breach of independence requirements	CND-CEC	Paragraphs split – with the first paragraph referencing sections 290 and 291
419.	100.10	Proposed section 100.10 refers to “determining whether to report the breach to those who may have been affected by the breach”. We consider that it may on occasion be advisable to report a matter to a party who is not strictly affected by the breach, but who nevertheless it would be appropriate to notify, such a regulator or a professional body. We therefore believe that it might be preferable here to refer to “determining whether and to whom to report the breach”. Alternatively, the words “to those who may have been affected by the breach” could be omitted.	ICAA	¶100.11 changed to read “The professional accountant shall determine whether to report the breach to for example, those who may have been affected by the breach, a member body, relevant regulator or oversight authority” or a professional or regulatory body”
420.	100.10	Whilst we are generally supportive of the obligation for a professional accountant to determine whether to report a breach of the Code to appropriate parties, the use of the phrase ‘those who may have been affected by the breach’ may cast the net too wide. APESB suggests that IESBA consider limiting this requirement to communicate with ‘the appropriate parties of the client or employer’. Further, confidentiality obligations will limit a professional accountant’s ability to communicate with parties (other than a party of the client or employer) who may have been affected by the breach.	APESB	¶100.11 changed to read “The professional accountant shall determine whether to report the breach to for example, those who may have been affected by the breach, a member body, relevant regulator or oversight authority” or a professional or regulatory body”
421.	100.10	<b>Phrase ‘as soon as possible’ in paragraphs 100.10, 290.46, 291.33 and 291.35</b> APESB suggests that IESBA consider revising the phrase ‘as soon as possible’ used in the paragraphs noted above to ‘as soon as practicable’. We believe that there is more subjectivity in ‘as soon as possible’ compared to ‘as soon as practicable’. We note that the existing Code uses ‘as soon as practicable’ four times (paragraphs 290.105, 290.111, 290.161 and 291.107) whilst ‘as soon as possible’ is only used once (paragraph 290.116). “As soon as practicable” implies taking action at the first reasonable opportunity and is a higher threshold.	APESB	As soon as possible retained but some flexibility provided on the timing of reporting breaches to those charged with governance

X ref	Par Ref	Comment	Respondent	Proposed Resolution
422.	100.10	<p><i>Paragraph 100.10 would be deleted and replaced with the following:</i></p> <p>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 whatever actions that might be available, as soon as <u>practicable possible</u>, to satisfactorily address the consequences of the breach, including determining whether to report the breach to <u>relevant parties</u> <del>those who may have been affected by the breach</del>.</p> <p>NOTE: It would seem there may be many interested parties, beyond those who may have been affected by the breach. For example, those charged with governance, professional bodies and regulators may have an interest in knowing of breaches although they may not have been “affected” by the breach. Moreover, in the case of certain provisions of the Code, it may be unknown who may be affected by the breach.</p>	DTT	As soon as possible retained but some flexibility provided on the timing of reporting breaches to those charged with governance
423.	290.39	ISQC 1.21 requires an audit firm establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethical requirements. ISQC 1.23 requires an audit firm to establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements and to enable it to take appropriate sanctions to resolve such situations. By its very nature, reasonable assurance implies that below the firm’s thresholds of reasonable assurance breaches of independence requirements will occur and not be prevented, and also that breaches that occur below a certain level will not be notified. The word “may” is therefore misleading as it is not correct from a technical viewpoint.	IDW	No change proposed – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
424.	230.39	<p>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 <del>such</del> a <u>significant</u> breach may be that termination of the audit engagement is necessary.</p> <p>NOTE: “such” in this context seems to refer only to breaches where the firm has policies and procedures. Moreover, it is unlikely that an insignificant breach would result in a termination of the audit engagement.</p>	DTT	No change proposed – not considered necessary because of “may be that”
425.	290.40	<p>Section 290.40 discusses communication of the breach with those charged with governance. Grant Thornton believes that timely reporting is critical to appropriate evaluation of a breach and as such the proposal should include an appropriate timeframe for communication. For example, revising the paragraph to state “If the firm concludes that a [significant] breach has occurred, the firm shall communicate <i>in a timely manner</i>, the matter to those charged with governance ...”</p>	GTI	Some flexibility to be provided on timing of reporting
426.	290.40	<p>In Italy, specific requirements have been established by CONSOB (<i>Commissione Nazionale per le Società e la Borsa</i>) which are similar to the provisions proposed by the IESBA and require communication of all breaches to those charged with governance as well as CONSOB. While a number of regulators and standard setters like CONSOB have established similar requirements we understand that there are many jurisdictions where there are no such requirements and, accordingly, we believe these provisions will provide much needed guidance and help strengthen the authority of the Code.</p>	ASSIREVI	Supportive comment
427.	290.40	<p>In addition, we are of the opinion that there are weaknesses in the drafting of some of the proposed sections. In particular, it is not clear what is meant by the phrase ‘eliminate the interest or relationship’ in proposed sections 290.40 and 291.33. We would question whether the word ‘eliminate’ is appropriate in respect of a relationship, or whether the word ‘terminate’ is sufficient.</p>	ACCA	No change proposed – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
428.	290.40	We note that the terminology in the ED could be improved as it is not always clear. For instance, it is not fully clear what is meant by “eliminate” a relationship and “suspend” an interest in the proposed provision to “terminate, suspend or eliminate the interest or relationship that caused the breach” (proposed paragraph 290.40 in the ED), and moreover what is the difference between these three terms within this context. We suggest to change the wording so that it refers to “terminate (or suspend)” a relationship and “eliminate” an interest.	FEE	See above
429.	290.40	290.40 – the drafting of this paragraph could be read that the firm shall communicate the matter before it has had the opportunity to evaluate the breach and its significance, which we assume is not the intent. Communication and its timing is adequately dealt with in paragraphs 290.45/46 and we think that the general reference in 290.40 to communications is potentially confusing and we recommend that it be dropped. If the Board concludes that it should be retained, then we suggest that the paragraph at least be re-ordered such that the first action is to terminate, suspend or eliminate the interest or relationship that caused the breach. Further we suggest that the provision should more accurately state “terminate or eliminate the interest or suspend the relationship that caused the breach” on the grounds that the accountant cannot suspend an interest, such as a financial interest.	PWC	¶290.40 changed to “When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.”
430.	290.40	If the firm concludes that a breach has occurred, the firm shall <del>communicate the matter to those charged with governance and</del> terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.  NOTE: From a process point, the firm would generally not communicate with those charged with governance until such time as the facts surrounding the breach are gathered and actions that can be taken immediately to eliminate the breach are taken. Moreover, it is unreasonable to advise those charged with governance of a breach without having such information.	DTT	¶290.40 changed to “When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.”
431.	290.42	The wording “... on the accounting records or an amount that is recorded in the financial statements...” ought to be amended to read “...on the accounting records or <del>an amount that is recorded in</del> on the financial statements...”, since the audit opinion is given on the financial statements as a whole as opposed to amounts recorded therein.	IDW	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
432.	290.42	In paragraphs 290.42 and 290.44 of the ED the wording "... on the accounting records or amounts recorded in the financial statements..." ought to be amended to read "...on the accounting records or <del>amounts recorded in</del> on the financial statements...", since the audit opinion is given on the financial statements as a whole as opposed to amounts recorded therein.	FEE	Change made
433.	290.42	It is stated in the Paragraph 290.42 of the Exposure Draft that "whether a member of the audit team had knowledge of the interest or relationship that caused the breach". We think the meaning of "a member of the audit team" is not clear, who does a member refer to? We suggest its being clarified.	CICPA	No change necessary – consistent with remainder of section 290
434.	290.42	Paragraph 290.42 provides guidance to assist the firm when evaluating the significance of a breach and its impact on the firm's objectivity and ability to issue an audit report. While we agree that the guidance should address all types of independence breaches, not just those that are considered to be inadvertent, we recommend that whether the breach was inadvertent or done with knowledge should be a consideration when evaluating the significance of the breach. Accordingly, we recommend the following be added to the bulleted list:  <i>"Whether the breach was inadvertent or if the firm or individual had knowledge that the interest or relationship resulted in a breach."</i>	AICPA	No change proposed  This might impact the action to be taken but did not necessarily impact the significance of the breach
435.	290.43	It is stated in the paragraph 290.43 of the Exposure Draft that "the firm is unable to issue an audit report". We understand that the meaning of the sentence is the firm is unable to issue an objective audit report. We suggest its being clarified in the Exposure Draft. Such situations exist in other paragraphs such as 290.46.	CICPA	No change made – minority comment
436.	290.43	In order to promote consistency in the application of the Code, we propose the following language be added to Section 290.43 and Section 291.33 as follows: <i>"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 and all the facts and circumstances....."</i>	GTI	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
437.	290.43	<p>Section 290.43 in its current form presents the possibility that a reasonable and informed third party may consider an action that satisfactorily addresses the consequences of the breach as unsatisfactory. This needs to be clarified as in its current form section 290.43 proposes that a breach may be satisfactorily addressed and yet a reasonable and informed third party may not think so. We consider that satisfactorily addressing the consequences of the breach would require that a third party would consider it so as well. If that is not the case we would argue that the action does not satisfactorily address the consequences of the breach. To address this issue, we propose that 'even if such action can be taken' be deleted from the section so that it is expressed as:</p> <p><i>'Depending upon the significance of the breach, it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken. In making this determination the firm shall consider whether, 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.'</i></p>	CPA Australia	Changed made – phrase “even if such action can be taken” deleted
438.	290.43	<p>If the reasonable and informed third party test is to be adopted as exposed, we recommend that in addition to the significance of the breach, the third party should weigh the action to be taken by the firm. Adding that to the language in proposed paragraph 290.43 would be: “...a reasonable and informed third party, weighing the significance of the breach and the action to be taken...”. That would make this test comparable to other uses of a third party test in the Code. Alternatively, adoption of identical language used elsewhere in the Code would get that effect. The following language is used in several places in the Code and could be used here: “...weighing all the specific facts and circumstances available to the professional accountant at that time,...” (used in Code paragraphs 100.2(c), 100.7, 150.1, 200.10, definition of acceptable level).</p>	AICPA	Change made
439.	290.43	<p>We agree that the reasonable and informed third party test should be used. In addition, we would propose that in paragraph 290.43 where the reasonable and informed third party test is required, that references be made to the conceptual framework approach to independence in paragraphs 290.6 to emphasise the importance of auditor independence.</p>	HKICPA	No change proposed

X ref	Par Ref	Comment	Respondent	Proposed Resolution
440.	290.44	<u>290.44 and 290.46</u> Subject to national law, an additional requirement to report breaches to the oversight authorities is necessary (see paragraph 5). Thought should also be given to including the most important considerations (impairment of independence, remedial measures) in the audit report.	FAOA	¶290.41 changed to state the firm may determine it is appropriate to consult with a member body, relevant regulator or oversight authority.
441.	290.44	Section 290.44 provides a list of possible actions a firm may take to satisfactorily address the consequences of a breach. Realizing the list includes examples and is not intended to be all inclusive, we suggest that the IESBA consider including the following examples in the list: <ul style="list-style-type: none"> <li>• Disposal of the financial interest causing the breach</li> <li>• Eliminating or reducing the magnitude of the business relationship to an acceptable level</li> </ul>	GTI	No change proposed – the suggested actions address eliminating the circumstances that created the breach. ¶290.44 contains examples of actions that might address the consequences of the breach.
442.	290.44	The wording “... on the accounting records or an amount that is recorded in the financial statements...” ought to be amended to read “...on the accounting records or <del>an amount that is recorded in</del> on the financial statements...”, since the audit opinion is given on the financial statements as a whole as opposed to amounts recorded therein.	IDW	Change made
443.	290.44	In paragraphs 290.42 and 290.44 of the ED the wording “... on the accounting records or amounts recorded in the financial statements...” ought to be amended to read “...on the accounting records or <del>amounts recorded in</del> on the financial statements...”, since the audit opinion is given on the financial statements as a whole as opposed to amounts recorded therein.	FEE	Change made
444.	290.44	APESB suggests that IESBA consider the use of the term ‘may’ instead of ‘might’ in paragraph 290.44 in order to convey a greater expectation of likelihood of actions.	APESB	Change made – change also made to ¶100.11

X ref	Par Ref	Comment	Respondent	Proposed Resolution
445.	290.44	<p>Examples of actions that the firm might consider include <del>one or more of</del> the following:</p> <ul style="list-style-type: none"> <li>• Removing the relevant individual from the audit team;</li> <li>• Conducting an additional review of the affected audit work or re-performing that work to the extent necessary, in either case using different personnel;</li> <li>• Recommending that the audit client engage another firm to review or reperform the affected audit work to the extent necessary; and</li> <li>• 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.</li> </ul> <p>NOTE: in the example provided in our response, none of the above actions would be necessary or appropriate.</p>	DTT	No change proposed – paragraph provides examples
446.	290.45	<p>Section 290.45 discusses when the firm determines that action cannot be taken to satisfactorily address the consequences of the breach and begins to take the necessary steps to terminate the engagement. We believe due to the significance of this decision, the firm should consider obtaining legal advice. Therefore we suggest that the following sentence be added to the end of the paragraph, “<i>In such situations, the professional accountant may consider seeking legal advice.</i>”</p>	GTI	No change proposed
447.	290.45	<p>in the first instance, the decision to resign where satisfactory actions cannot be taken remains that of the firm not those charged with governance of the entity. To clarify this position, we have suggested some amendments to proposed paragraphs 290.45 and 290.48 as follows (additions are shown in bold italics and deletions in strikethrough text):</p> <p>“If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, after <del>discussion with</del> <b><i>informing</i></b> those charged with governance of the need to terminate the engagement, take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement.”</p>	BDO	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
448.	290.46	We noted that the term “detect” is used in the 290.46 of the Exposure Draft, however, in other paragraphs, the term “identify” is used when convey situations when a breach is known. To improve the consistency of terminology used in the Code, we suggest unifying the use of terminology.	CICPA	Change made
449.	290.46	<p>290.46 states that “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”. We have some concerns about these last few words:</p> <ul style="list-style-type: none"> <li>• The words “as soon as possible” generally mean “promptly”, “as soon as time permits”, “in the least time possible” – the words are open to interpretation and can mean “immediately” if the circumstances allow.</li> <li>• Whilst we support the reporting of breaches (subject to our comments below), based on our experience we recognise that in practice those charged with governance often do not want to be contacted immediately after there is a minor breach of the code (for example an immaterial holding of a financial interest by a partner in the engagement office) and that they have their own views on what matters should be reported and when. In our experience most audit committees see little value in immediate reporting of minor breaches.</li> <li>• In practice most identified breaches, certainly in relation to financial interests, are identified after the audit report has been issued (for example through the annual confirmation of compliance required by ISCQ 1) and therefore timing of the communication is often not so time critical.</li> </ul> <p>In the light of this we recommend that the paragraph be redrafted to “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 in accordance with protocols agreed with those charged with governance”. Such a protocol might reasonably require the communication of minor breaches relating to financial interests on a quarterly basis and communication of any matters relating to say scope of services within a shorter period of time. This would highlight matters of significance and allow timely consideration thereof. If such a protocol is not agreed, then by default the communication reverts to “as soon as possible”. The views of audit committees would be interesting to see in this regard.</p>	PWC	Change made to require reporting as soon as possible unless those charged with governance have established an alternative timing for the communication of less significant breaches

X ref	Par Ref	Comment	Respondent	Proposed Resolution
450.	290.46	Paragraph 290.46 includes matters to be discussed with those charged with governance. One of the matters listed is “A description of the firm’s relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained.” We believe this sentence should be expanded to include “...reasonable assurance that independence is maintained and will be maintained during the engagement period and the period covered by the financial statements.” Further, we believe additional matters that should be discussed with those charged with governance are the implications of the firm’s independence being breached and relevant regulatory requirements.	IOSCO	ISCQ1 contains the requirements for quality control policies and procedures –the requirement in 290.46 is consistent with ISQC1

X ref	Par Ref	Comment	Respondent	Proposed Resolution
451.	290.46	<p>If the firm determines that action can be taken to satisfactorily address the consequences of the breach <u>and the breach is not trivial or inconsequential</u>, the firm shall discuss the breach and the action it <u>has taken or proposes to take</u> with those charged with governance as soon as <u>practicable possible</u>. The matters to be discussed <del>shall</del> <u>will generally</u> include:</p> <ul style="list-style-type: none"> <li>• The significance of the breach, including its nature and duration;</li> <li>• How the breach occurred and how it was detected;</li> <li>• A description of the firm's relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained;</li> <li>• The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion;</li> <li>• <del>The action proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an audit report;</del></li> <li>• Any additional action that those charged with governance request the firm to take; and</li> <li>• Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring.</li> </ul> <p>NOTE: Significant breaches should be disclosed as soon as practicable. This wording was selected because it is used in ISA 260, paragraph A40. The matters to be discussed will depend on the facts and circumstances, including the audit committee's views on what information they would like submitted. The bullet was deleted because it was unnecessary since it is covered by the first sentence of this paragraph and is redundant.</p> <p>Should the Board conclude that all breaches must be communicated to those charged with governance, we would propose the following changes to paragraph 290.46:</p> <p>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 has taken or proposes to take with those charged with governance.<sup>20</sup> <u>If the breach is significant, such communication shall occur as soon as practicable possible.</u></p>	DTT	Change made to require reporting as soon as possible unless those charged with governance have established an alternative timing for the communication of less significant breaches

X ref	Par Ref	Comment	Respondent	Proposed Resolution
452.	290.47	<u>The firm shall seek concurrence from those charged with governance that the action satisfactorily addresses the consequences of the breach.</u> If those charged with governance do not agree that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement.	DTT	Change made to require concurrence of those charged with governance
453.	290.48	<i>Ultimately</i> , if those charged with governance do not agree that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement.	BDO	No change proposed
454.	290.48	However, we believe that a comment should be added to paragraph 290.48 as follows : "if those charged with governance do not agree that the action satisfactorily addresses the consequences of the breach, the firm shall take the necessary steps to terminate the audit engagement, unless applicable legal or regulatory provision requires to discuss the matter with relevant regulators."	CNCC-OEC	No change proposed – it is implicit that an auditor cannot continue if those charged with governance do not concur
455.	290.49	It would clarify the Code to highlight further the distinction (detailed in paragraph 290.49 of the ED) between breaches that occur prior to and after the issuance of the previous audit report. For instance, the specific paragraph 290.49 of the ED could be made more prominent by moving it upfront in the section to distinguish between these two different situations or by including it under a subheading which could be added.	FEE	No change proposed – minority comment

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<sup>20</sup> See ISA 260, *Communication with Those Charged with Governance*, paragraphs 11 – 13.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
456.	290.49	<p><i>Withdrawal of an Auditor's Report</i></p> <p>The withdrawal of an auditor's report has serious consequences not only in terms of costs, but also in terms of the public's trust in the financial systems as a whole. As such, withdrawal of an auditor's report has to be seen as an absolute last resort.</p> <p>One essential element in a audit that is meaningful and useful to all stakeholders is the expression by the auditor of an objective opinion. The auditor therefore must to comply with the fundamental principle of objectivity, with auditor independence forming a part of this, but not an objective in its own right.</p> <p>In our view, the withdrawal of an auditor's report previously issued would only be justified when, as a result of circumstances that came to light retrospectively, there is a clear case that the auditor's independence <u>had</u> indeed been compromised at the time the report was issued <u>and that the breach caused the report to be incorrect</u>. Breaches that, whilst they had occurred, were, for example, unknown to the auditor at the time the auditor signed his or her report cannot have compromised the auditor's objectivity at that point in time, and therefore would not justify a withdrawal of the audit report. In this context, the relative significance of a breach ought also to be a key factor in determining whether, and if so what, impact the breach will have had on the content of the auditor's report . We therefore suggest paragraph 290.49 mention these factors in the context of the auditor's consideration of breaches to be discussed with those charged with governance, and also of those which ought to lead to the withdrawal of the auditor's report rather than using the timing of a breach as the sole criteria in this context.</p>	IDW	Change made to clarify the consideration would be with respect to the auditor's objectivity in the previous report
457.	290.50	Paragraph 290.50 prescribe the content of documentation, including the actions taken and all the matters discussed with those charged with governance and any relevant regulators (if applicable). We suggest the breach itself (including the nature, timing etc.) should also be documented besides the contents mentioned above.	CICPA	Change made "The firm shall document <u>all breaches</u> , the action taken..."

X ref	Par Ref	Comment	Respondent	Proposed Resolution
458.	290.50	We appreciate the fact that documentation of identified breaches may impose a discipline promoting a high degree of care on the part of the firm in the identification of relevant facts, performance of the necessary evaluations and determination of appropriate action in response to a breaches. This also provides a reference for inspections by, where appropriate, the engagement quality control reviewer, and external auditor oversight bodies. However, ISQC 1. 57 already requires appropriate documentation to provide evidence of the operation of each element if its system of quality control, thus including relevant ethical requirements (ISQC 1.16(b)). Requiring documentation of matters discussed as required in the third bullet point in 290.46 would thus likely give rise to duplication.	IDW	No change proposed – the proposed documentation requirement is more explicit than in ISQC1.
459.	290.50	We also propose an addition to the documentation requirements (290.50 and 291.37).  In addition to 290.29, and having regard to Non-Assurance cases, it should be added that the documentation must be sufficiently comprehensive and detailed to allow a „reasonable and informed third party“ to understand fully the relevant considerations and conclusions.	FAOA	Not considered necessary as this is included in ISA on documentation
460.	290.50	Paragraph 290.50 states that “The firm shall document the action taken and all the matters discussed with those charged with governance and, if applicable, discussions with relevant regulators.” We believe the term “if applicable” is unclear as used in this sentence. We recommend the sentence be replaced with the following:  <i>“The firm shall document the action taken and all the matters discussed with those charged with governance and any discussions with relevant regulators.”</i>	AICPA	Change made
461.	290.50	First, we would advocate a modification to the proposed section 290.50, to say that the firm ‘shall document <u>as appropriate</u> the action taken and all the matters discussed with those charged with governance’.	ACCA	No change proposed – as this might weaken the documentation requirement

X ref	Par Ref	Comment	Respondent	Proposed Resolution
462.	290.50	<p>The firm shall document:  <del>The action taken and all the matters its discussion</del> ed with those charged with governance and, if applicable, discussions with relevant regulators;  <del>When the firm continues with the audit, t</del> The matters to be documented shall also include the <u>The rationale for why the action taken satisfactorily addressed the consequences of the breach; and</u>  <u>its conclusion that, in the firm's professional judgment, the firm's objectivity has not been compromised and such that the firm could issue an audit report.</u>            NOTE: the above reflects some suggested edits.</p>	DTT	No change
463.	291.33	<p>In order to promote consistency in the application of the Code, we propose the following language be added to Section 290.43 and Section 291.33 as follows:</p> <p><i>"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 <b>and all the facts and circumstances</b>....."</i></p>	GTI	Conforming changes to be made to 291 as appropriate
464.	291.33	<p>If a breach of a provision of this section is identified, the firm shall take steps as soon as possible to terminate, 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. <i>The significance of the breach will depend on the factors outlined in paragraph 290.42.</i> The firm shall determine whether action can be taken that satisfactorily addresses the consequences 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 such that the firm is unable to issue an assurance report. <i>Examples of actions that the firm might consider are noted in paragraph 290.44.</i></p>	BDO	Conforming changes to be made to 291 as appropriate

X ref	Par Ref	Comment	Respondent	Proposed Resolution
465.	291.33	If a breach of a provision of this section is identified, the firm shall take steps as soon as <u>practicable</u> <del>possible</del> to terminate, 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 <del>the an</del> assurance report. The firm shall determine whether <del>the</del> action <del>can be taken that or proposed</del> satisfactorily addresses the consequences 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 such that the firm is unable to issue the <del>an</del> -assurance report.	DTT	Conforming changes to be made to 291 as appropriate
466.	291.34	We would like to point out that ED ISAE 3000 does not use the term "those charged with governance" alone, but talks of other relevant parties with whom the practitioner may need to communicate, giving examples. This section ought to be brought in line with the terminology used in ISAE 3000, once finalised.	IDW	ISAE 3000 refers to engaging party
467.	291.34	If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, after <del>discussion with</del> <i>informing</i> the party that engaged the firm or those charged with governance, as appropriate, <i>of the need to terminate the engagement</i> , take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.	BDO	Conforming changes to be made to 291 as appropriate

X ref	Par Ref	Comment	Respondent	Proposed Resolution
468.	291.35	<p>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 the party that engaged the firm or those charged with governance, as soon as possible. <i>The matters to be discussed shall include:</i></p> <ul style="list-style-type: none"> <li>• <i>The significance of the breach, including its nature and duration;</i></li> <li>• <i>How the breach occurred and how it was detected;</i></li> <li>• <i>A description of the firm's relevant policies and procedures designed to provide it with reasonable assurance that independence is maintained;</i></li> <li>• <i>The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion;</i></li> <li>• <i>The action proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an audit report;</i></li> <li>• <i>Any additional action that those charged with governance request the firm to take; and</i></li> <li>• <i>Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring.</i></li> </ul> <p>If <i>the party that engaged the firm or those charged with governance</i> they agree that action can be taken to satisfactorily address the consequences of the breach, and such action is taken, the firm may continue with the assurance engagement.</p>	BDO	No changes proposed – majority of respondents were of the view the level of detail on 291 was appropriate
469.	291.35	<p>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 <u>has taken or</u> proposes to take with the party that engaged the firm or those charged with governance. <u>If the breach is significant, such communication shall occur as soon as practicable possible. The firm shall seek their concurrence that the action satisfactorily addresses the consequences of the breach.</u> <del>If they agree that action can be taken to satisfactorily address the consequences of the breach, and such action is taken, the firm may continue with the assurance engagement.</del></p>	DTT	Conforming changes to be made to 291 as appropriate
470.	291.36	<p><i>Ultimately</i>, if the party that engaged the firm or those charged with governance, as appropriate, do not agree that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.</p>	BDO	Conforming changes to be made to 291 as appropriate

X ref	Par Ref	Comment	Respondent	Proposed Resolution
471.	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	BDO	Conforming changes to be made to 291 as appropriate
472.	291.37	However, the IESBA should consider expanding the documentation requirements in Section 291.37 to be more reflective of the more comprehensive documentation requirements in Section 290.50.	GTI	¶291.37 changed to expand documentation requirements to mirror section 290

Exhibit 1 to DTT letter

ISA 260, <i>Communications with Those Charged with Governance</i> , and Other ISAs that Refer to Communications with Those Charged With Governance		Appendix 1	Specific Requirements in ISQC 1
	Specific Requirements	Timing of Required Communication	
ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements" – paragraph 30(a)	30. The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that: (a) The identity and role of the engagement partner are communicated to key members of client management and those charged with governance;	None specified	
ISA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" – paragraphs 21, 38(c)(i) and 40-42	21. Unless all of those charged with governance are involved in managing the entity, the auditor shall make inquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries are made in part to corroborate the responses to the inquiries of management.  38. If, as a result of a misstatement resulting from fraud or suspected fraud, the auditor encounters exceptional circumstances that bring into question the auditor's ability to continue performing the audit, the auditor shall: (c) If the auditor withdraws: (i) Discuss with the appropriate level of management and those charged with governance the auditor's withdrawal from the engagement and the reasons for the withdrawal; and  40. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters on a timely basis to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A60)  41. Unless all of those charged with governance are involved in managing the entity, if the auditor has identified or suspects fraud involving: (a) management; (b) employees who have significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements, the auditor	38(c)(i). None specified 40. On a timely basis 41(c). On a timely basis 42. None specified	

	<p>shall communicate these matters to those charged with governance on a timely basis. If the auditor suspects fraud involving management, the auditor shall communicate these suspicions to those charged with governance and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit. (Ref: Para. A61–A63)</p> <p>42. The auditor shall communicate with those charged with governance any other matters related to fraud that are, in the auditor's judgment, relevant to their responsibilities. (Ref: Para. A64)</p>	
ISA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements" – paragraphs 14, 19 and 22–24	<p>14. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements: (Ref: Para. A9–A10)</p> <p>(a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and</p> <p>(b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities.</p> <p>19. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter with management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgment, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A15–A16)</p> <p>22. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected noncompliance already communicated by the auditor,<sup>5</sup> the auditor shall communicate with those charged with governance matters involving noncompliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.</p> <p>23. If, in the auditor's judgment, the non-compliance referred to in paragraph 22 is believed to be intentional and material, the auditor shall communicate the matter to those charged with governance as soon as practicable.</p> <p>24. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.</p>	<p>19. None specified</p> <p>22. None specified</p> <p>23. As soon as practicable</p>
ISA 265, "Communicating	9. The auditor shall communicate in writing significant deficiencies in internal control identified during the	On a timely basis

Deficiencies in Internal Control to Those Charged with Governance and Management” – paragraph 9	audit to those charged with governance on a timely basis. (Ref: Para. A12–A18, A27)	
ISA 450, “Evaluation of Misstatements Identified during the Audit” – paragraphs 12-13	<p>12. The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor’s report, unless prohibited by law or regulation.<sup>4</sup> The auditor’s communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected. (Ref: Para. A21–A23)</p> <p>13. The auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.</p>	<p>12. None specified</p> <p>13. None specified</p>
ISA 505, “External Confirmations” – paragraph 9	9. If the auditor concludes that management’s refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with ISA 260. <sup>12</sup> The auditor also shall determine the implications for the audit and the auditor’s opinion in accordance with ISA 705. <sup>13</sup>	None specified. ISA 260 provides for communicating on a timely basis.
ISA 510, “Initial Audit Engagements—Opening Balances” – paragraph 7	7. If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period’s financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period’s financial statements. If the auditor concludes that such misstatements exist in the current period’s financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with ISA 450. <sup>3</sup>	None specified in ISA 450.
ISA 550, “Related Parties” – paragraph 27	27. Unless all of those charged with governance are involved in managing the entity, <sup>13</sup> the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity’s related parties. (Ref: Para. A50)	
ISA 560, “Subsequent Events” – paragraphs 7(b)–(c), 10(a), 13(b), 14(a) and 17	<p>7. The auditor shall perform the procedures required by paragraph 6 so that they cover the period from the date of the financial statements to the date of the auditor’s report, or as near as practicable thereto. The auditor shall take into account the auditor’s risk assessment in determining the nature and extent of such audit procedures, which shall include the following: (Ref: Para. A7–A8)</p> <p>(b) Inquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. (Ref: Para. A9)</p> <p>(c) Reading minutes, if any, of the meetings of the entity’s owners, management and those charged</p>	<p>10(a). None specified</p> <p>13(b). None specified</p> <p>14(a). None specified</p> <p>17. None specified</p>

	<p>with governance that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. (Ref: Para. A10)</p> <p>10. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall: (Ref: Para. A11)</p> <p>(a) Discuss the matter with management and, where appropriate, those charged with governance;</p> <p>13. In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements and, accordingly, the auditor need not provide an amended or new auditor's report. However, if management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then: (Ref: Para. A13–A14)</p> <p>(b) If the auditor's report has already been provided to the entity, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. (Ref: Para: A15–A16)</p> <p>14. After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, if, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:</p> <p>(a) Discuss the matter with management and, where appropriate, those charged with governance;</p> <p>17. If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity,<sup>6</sup> those charged with governance, that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. (Ref: Para. A18)</p>	
ISA 570, "Going Concern" – paragraph 23	23. Unless all those charged with governance are involved in managing the entity, <sup>7</sup> the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those	None specified

	<p>charged with governance shall include the following:</p> <p>(a) Whether the events or conditions constitute a material uncertainty;</p> <p>(b) Whether the use of the going concern assumption is appropriate in the preparation of the financial statements; and</p> <p>(c) The adequacy of related disclosures in the financial statements.</p>	
ISA 600, “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)” – paragraph 49	<p>49. The group engagement team shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA 26012 and other ISAs: (Ref: Para. A66)</p> <p>(a) An overview of the type of work to be performed on the financial information of the components.</p> <p>(b) An overview of the nature of the group engagement team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components.</p> <p>(c) Instances where the group engagement team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work.</p> <p>(d) Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted.</p> <p>(e) Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.</p>	None specified
ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report” – paragraphs 12, 14, 19(a) and 28	<p>12. If management refuses to remove the limitation referred to in paragraph 11, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity, 2 and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.</p> <p>14. If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)</p> <p>19. If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:</p> <p>(a) Discuss the non-disclosure with those charged with governance;</p> <p>28. When the auditor expects to modify the opinion in the auditor’s report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification. (Ref: Para. A25)</p>	<p>12. None specified</p> <p>14. None specified</p> <p>19(a). None specified</p> <p>28. None specified</p>

ISA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report” – paragraph 9	9. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor’s report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph. (Ref: Para. A12)	None specified
ISA 710, “Comparative Information—Corresponding Figures and Comparative Financial Statements” – paragraph 18	18. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and, unless all of those charged with governance are involved in managing the entity, <sup>6</sup> those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor’s report on the amended financial statements of the prior period, the auditor shall report only on the current period. (Ref: Para. A11)	None specified
ISA 720, “The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements” – paragraphs 10, 13 and 16	<p>10. If revision of the other information is necessary and management refuses to make the revision, the auditor shall communicate this matter to those charged with governance, unless all of those charged with governance are involved in managing the entity;<sup>3</sup> and</p> <p>(a) Include in the auditor’s report an Other Matter paragraph describing the material inconsistency in accordance with ISA 706;<sup>4</sup></p> <p>(b) Withhold the auditor’s report; or</p> <p>(c) Withdraw from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A6–A7)</p> <p>13. If revision of the other information is necessary, but management refuses to make the revision, the auditor shall notify those charged with governance, unless all of those charged with governance are involved in managing the entity, of the auditor’s concern regarding the other information and take any further appropriate action. (Ref: Para. A9)</p> <p>16. If the auditor concludes that there is a material misstatement of fact in the other information which management refuses to correct, the auditor shall notify those charged with governance, unless all of those charged with governance are involved in managing the entity, of the auditor’s concern regarding the other information and take any further appropriate action. (Ref: Para. A11)</p>	<p>10. None specified</p> <p>13. None specified</p> <p>16. None specified</p>

EXHIBIT 2 to DTT letter

PROPOSED CHANGES TO THE CODE OF ETHICS FOR  
PROFESSIONAL ACCOUNTANTS RELATED TO PROVISIONS  
ADDRESSING A BREACH OF AN INDEPENDENCE REQUIREMENT

*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 whatever actions that might be available, as soon as practicable possible, to satisfactorily address the consequences of the breach, including determining whether to report the breach to relevant parties ~~those who may have been affected by the breach~~.

NOTE: It would seem there may be many interested parties, beyond those who may have been affected by the breach. For example, those charged with governance, professional bodies and regulators may have an interest in knowing of breaches although they may not have been “affected” by the breach. Moreover, in the case of certain provisions of the Code, it may be unknown who may be affected by the breach.

*Paragraph 290.39, and its heading, would be deleted and replaced with the following heading and paragraphs 290.39-290.50.*

**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~~ significant breach may be that termination of the audit engagement is necessary.

NOTE: “such” in this context seems to refer only to breaches where the firm has policies and procedures. Moreover, it is unlikely that an insignificant breach would result in a termination of the audit engagement.

- 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 and address the consequences of the breach.

NOTE: From a process point, the firm would generally not communicate with those charged with governance until such time as the facts surrounding the breach are gathered and actions that can be taken immediately to eliminate the breach are taken. Moreover, it is unreasonable to advise those charged with governance of a breach without having such information.

- 290.41 When a breach is identified, the firm shall consider whether there are any 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 current audit engagement;
  - 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 nonassurance 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 action that satisfactorily addresses 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 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 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;
  - Recommending that the audit client engage another firm to review or reperform 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.
- NOTE: in the example provided in our response, none of the above actions would be necessary or appropriate.
- 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 relevant to terminating the audit engagement.

290.46 If the firm determines that action can be taken to satisfactorily address the consequences of the breach and the breach is not trivial or inconsequential, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance as soon as practicable possible. The matters to be discussed ~~shall~~ will generally 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 the rationale for that conclusion;
- ~~The action proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an audit report;~~
- Any additional action that those charged with governance request the firm to take; and
- Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring.

NOTE: Significant breaches should be disclosed as soon as practicable. This wording was selected because it is used in ISA 260, paragraph A40. The matters to be discussed will depend on the facts and circumstances, including the audit committee's views on what information they would like submitted. The bullet was deleted because it was unnecessary since it is covered by the first sentence of this paragraph and is redundant.

Should the Board conclude that all breaches must be communicated to those charged with governance, we would propose the following changes to paragraph 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 has taken or proposes to take with those charged with governance.<sup>21</sup> If the breach is significant, such communication shall occur as soon as practicable possible.

~~290.47 If those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and such action is taken, the firm may continue with the audit engagement.~~

NOTE: this was deleted because it not only raises the issues noted in our response, but is unnecessary, given the proposed edits to the next paragraph. If concurrence is not obtained, the engagement is required to be terminated.

290.47 The firm shall seek concurrence from those charged with governance that the action satisfactorily addresses the consequences of the breach. If those charged with governance do not agree that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement.

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<sup>21</sup> See ISA 260, Communication with Those Charged with Governance, paragraphs 11 – 13.

- 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.
- 290.50 The firm shall document:
- The action taken and all the matters its discussion ed with those charged with governance and, if applicable, ~~discussions with~~ relevant regulators;
  - ~~When the firm continues with the audit, t~~ The matters to be documented shall also include the The rationale for why the action taken satisfactorily addressed the consequences of the breach; and
  - Its conclusion that, in the firm's professional judgment, the firm's objectivity has not been compromised ~~and such that the firm could issue an audit report.~~

NOTE: the above reflects some suggested edits.

*Paragraph 291.33, and its heading, would be deleted and replaced with the following heading and paragraphs 291.33-37.*

#### **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 practicable possible to terminate, 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 ~~the an~~-assurance report. The firm shall determine whether the action can be taken that or proposed satisfactorily addresses the consequences 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 such that the firm is unable to issue the ~~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 relevant to terminating the assurance engagement.
- 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 and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance. If the breach is significant, such communication shall occur as soon as practicable possible. The firm shall seek their concurrence that the action satisfactorily addresses the consequences of the breach. If they agree that action can be taken to satisfactorily address the consequences of the breach, and such action is taken, the firm may continue with the assurance engagement.

- 291.36 If the party that engaged the firm or those charged with governance, as appropriate, do not agree that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.
- 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.

# Legend

AAT	Association of Accounting Technicians
ACCA	Association of Chartered Certified Accountants
AGNZ	Auditor-General New Zealand
AIA	Association of International Accountants
AICPA	American Institute of Certified Public Accountants
APESB	Accounting Professional and Ethical Standards Board – Australia
ASSIREVI	Associazione Italiana Revisori Contabile
BDO	BDO International Limited
CARB	Chartered Accountants Regulatory Board – Ireland
CGA Canada	Certified General Accountants Association of Canada
CICA	Canadian Institute of Chartered Accountants
CICPA	Chinese Institute of Certified of Public Accountants
CNCC-OEC	Compagnie Nationale des Commissaires aux Comptes. Conseil Supérieur de l'Ordre des Experts-Comptables
CND-CEC	Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili
CPA Australia	CPA Australia
CPAB	Canadian Public Accountability Board
DTT	Deloitte Touche Tohmatsu
E&Y	Ernst & Young
FAOA	Federal Audit Oversight Authority of Switzerland
FAR	FAR (Institute for the Accountancy Profession in Sweden)
FEE	Federation des Experts Comptables Europeens
FSR	Foreningen af Statsautoriserede Revisorer (Danske)
GTI	Grant Thornton International
HKICPA	Hong Kong Institute of Chartered Accountants
ICAA	Institute of Chartered Accountants in Australia
ICAEW	Institute of Chartered Accountants of England and Wales
ICAS	Institute of Chartered Accountants of Scotland
ICJCE	Instituto de Censores Jurados de Cuentas de España
ICPAR	Institute of Certified Public Accountants of Rwanda
ICPAS	Institute of Public Accountants in Singapore
IDW	Institut der Wirtschaftsprüfer (Germany)
IOSCO	International Organization of Securities Commissions
IRBA	Independent Regulatory Board for Auditors (South Africa)
JICPA	Japanese Institute of Certified Public Accountants
DSFJ	Denise Silva Ferreira Juvenal
KICPA	Korean Institute of Certified Public Accountants

KPMG	KPMG LLP
Mazars	Mazars
MIA	Malaysian Institute of Accountants
NASBA	National Association of State Boards of Accountancy
NZAuSB	NZ Auditing and Assurance Standards Board
PwC	PricewaterhouseCoopers
SAICA	South African Institute of Chartered Accountants
WPK	Wirtschaftsprüferkammer