

PROPOSED REVISION TO THE CODE ADDRESSING THE OBJECTIVITY OF APPROPRIATE REVIEWERS

SECTION 300

Requirements and Application Material

Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having prepared the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A professional accountant lobbying in favor of legislation on behalf of a client.

(d) Familiarity Threats

- A professional accountant having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.
- An audit team member having a long association with the audit client
- An individual who serves as an appropriate reviewer on an engagement having a close relationship with the engagement partner.

(e) Intimidation Threats

- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
- A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
- A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment.
- A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

Evaluating Threats

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Addressing Threats

300.8 A1 Paragraphs R120.10 to 120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

Examples of Safeguards

300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed, or advise as necessary might address a self-review threat.
- Using different partners and engagement teams with separate reporting lines for the provision of non-assurance services to an assurance client might address self-review, advocacy or familiarity threats.

- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

300.8 A3 The remaining sections of Part 3 and *International Independence Standards* describe certain threats that might arise during the course of performing professional services and include examples of actions that might address threats.

SECTION 325

OBJECTIVITY OF APPROPRIATE REVIEWERS

Introduction

325.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

325.2 A professional accountant might appoint an appropriate reviewer to review work performed in an audit, other assurance or non-assurance engagement for different purposes, for example:

- To apply a safeguard to reduce the threats to compliance with the fundamental principles or, where applicable, to independence to an acceptable level.
- To meet a quality management objective under [proposed] ISQM 1 or other applicable quality framework.

325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an appropriate reviewer.

Application Material

General

325.4 A1 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided by a firm or an individual professional accountant. Such an appropriate reviewer might be a professional accountant. An engagement quality reviewer appointed under [proposed] ISQM 2 is an example of appropriate reviewer.

Identifying Threats

325.5 A1 Threats to compliance with the fundamental principle of objectivity might be created in certain circumstances in which an individual is appointed as an appropriate reviewer. The following are examples of circumstances where such threats might be created:

- (a) Self-interest threat
 - Two individuals each serving as an appropriate reviewer for the other's engagement.
- (b) Self-review threat
 - A professional accountant serving as an appropriate reviewer on an audit engagement after previously serving as the engagement partner.
- (c) Familiarity threat
 - An individual serving as an appropriate reviewer has a close relationship with, or is an immediate family member of, another individual who is involved in the engagement.

(d) Intimidation threat

- An individual serving as an appropriate reviewer for an engagement has a direct reporting line to the partner responsible for the engagement.

Evaluating Threats

325.6 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual being considered for appointment as an appropriate reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as appropriate reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgment from the individual in any previous involvement in the engagement.

Addressing Threats

325.7 A1 An example of an action that might eliminate such an intimidation threat is reassigning reporting responsibilities within the firm.

325.7 A2 An example of an action that might be a safeguard to address such a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an appropriate reviewer. [Proposed] ISQM 2 sets out a requirement for firms to establish policies or procedures that specify a cooling-off period to address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner.