

Independence – Other Matters

Financial Interests

The majority of those who commented on this area were supportive of the proposals. A few respondents questioned whether the holding of an immaterial financial interest by a dependent child of a member of the audit team created such a significant threat that could not be addressed by safeguards. The Task Force notes that the ED did not represent a change from the existing Section 290 and is not, therefore recommending any change to the ED.

A respondent commented on the requirement in ¶290.111 in the ED that the firm, a member of the audit team or his or her immediate family member should not have a financial interest in an entity if one or more directors, officers or controlling owners of the client also has a financial interest in that entity and the interest is material to either party and the audit client (or director, officer or controlling owner) can exercise significant influence over the entity. The respondent noted that this requires knowledge of all of the financial interests of the directors, officers or controlling owners of the client. The Task Force has considered this matter and is of the view that the matter is addressed through close business relationships. Under that section, unless any financial interest is immaterial and the relationship is clearly insignificant to the firm and the client or its management, no safeguards could reduce the threat to an acceptable level. The Task Force therefore will recommend to the IESBA to delete the reference in ¶290.111 to directors, officers or controlling owners.

Loans and Guarantees

There were few comments received in this area. The Task Force is not recommending any changes in this area.

Close Business Relationships

There were few comments received in this area. The Task Force is not recommending any changes in this area.

Family and Personal Relationships

There were few comments received in this area. The Task Force is not recommending any changes in this area.

Employment with an Audit Client

Proposed revised Section 290 (¶135-137) provides additional guidance on employment with audit clients that are entities of significant public interest. Under the proposed revisions, if a key audit partner or the individual who is the firm's Senior or Managing Partner joined an audit client that is an entity of significant public interest before a

specific period of time (a “cooling-off period”) had elapsed, independence would be compromised if the position with the client is:

- One that enables the individual to exert significant influence over the preparation of the entity’s accounting records or its financial statements; or
- A director or an officer of the entity.

For key audit partners, the cooling-off period would be a period of not less than 12 months covered by audited financial statements for which the partner was not a member of the audit team for any part of the period. The ED stated that the self-interest, familiarity or intimidation threats would be so significant that no safeguards could reduce these threats to an acceptable level unless the entity had been through one complete annual audit cycle covering at least a 12 month period for which the former key audit partner was not involved.

Several respondents commented on this proposal. Comments provided on this topic were varied and included:

- The application to non-listed entities of significant public interest is too broad – restricting the ability of these entities to hire the most qualified person for the job could reduce the quality of financial reporting;
- The Code should adopt a safeguards approach with respect to non-listed entities of significant public interest such as requiring the individual to disassociate themselves from the firm and reviewing the audit plan;
- The period of cooling off is too complex should be a flat two years for both the CEO and key audit partners; and
- The requirement should apply only to the positions at the group level.

The Task Force has considered the comments received. The Task Force considered whether any change to the period of the cooling-off period was appropriate. The Task Force noted that in many circumstances the period would be longer than one year – as noted in the Explanatory Memorandum to the Exposure Draft the period could sometimes be almost two years. The Task Force is of the view that the period of time is appropriate and focuses on the threat to independence. The Task Force is not, therefore, recommending any changes in this area.

Temporary Staff Assignments

There were few comments received in this area. The Task Force is not recommending any changes in this area.

Recent Services with an Audit Client

There were few comments received in this area. The Task Force is not recommending any changes in this area.

Serving as a Director or an Officer of an Audit Client

There were few comments received in this area. The Task Force is not recommending any changes in this area.

Fees

There were few comments received in this area and the topic was the subject of the Exposure Draft issued in July 2007. The Task Force is not recommending any changes in this area.

Compensation and Evaluation Policies

The ED acknowledged that compensation and evaluation arrangements may create a self-interest threat and detract from audit quality by providing an inappropriate incentive to focus on the selling of non-assurance services to an audit client. Therefore, the ED proposed that compensating or evaluating members of an audit team for selling non-assurance services to an audit client may create a self-interest threat. It further proposed that key-audit partners should not be evaluated or compensated in this manner because the threat created would be so significant that it could not be addressed by safeguards.

Of the 14 respondents who commented on this proposal, eight expressed general support for the proposal, three were of the view that the restriction that key-audit partners should not be evaluated or compensated for selling non-audit services to an audit client should be expanded to cover all of the audit team; two were of the view that small firms should be subject to the restriction and should be permitted to apply safeguards to address the threat.

The Task Force has reviewed the comments in this area. The Task Force is of the view that the restriction should not be extended to members of the audit team other than key audit partners. The Task Force is of the view that for such individuals a threats and safeguards approach is appropriate. The Task Force is also of the view that the position should be strengthened by providing further guidance on the factors that would influence the significance of the threats. Accordingly, the Task Force will recommend that the guidance in this area be expanded.

Gifts and Hospitality

There were few comments received in this area. The Task Force is not recommending any changes in this area.

Actual or Threatened Litigation

There were few comments received in this area. The Task Force is not recommending any changes in this area.

Restricted Use Reports

Several respondents commented on this area. The majority of the respondents were supportive of the position taken.

The Task Force has considered the comments received and will recommend some changes to clarify the wording of the guidance. The Task Force will also recommend some changes to bring the language in line with the description of general purpose financial statements and special purpose financial statements contained in the ISAs.

Section 291

Several of the respondents who commented on this section expressed concern that the discussion of assurance engagements remains difficult to understand and apply in Section 291. Many of the comments relate to the assurance framework itself as opposed to Section 291 itself. The Task Force will, therefore, recommend that the comments are passed on to the IAASB for its consideration.

Action requested

CAG Members are asked to consider the direction of the IESBA and the recommendations of the Task Force.