

Breach of a Requirement of the Code

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Time line

- Exposure Draft comment period ended January 2012
- CAG discussed March 2012
- IESBA discussed March, April (conference call) and June
- June 2012, IESBA straw poll indicating support, subject to any changes to address CAG comments

Exposure draft and responses – recap of key issues

- Board position:
 - The Code should address breaches
 - All breaches should be reported to maintain transparency, but flexibility of timing should be considered for less significant breaches
 - TCWG should agree with actions, but look at drafting so as not to subordinate auditor judgment to TCWG
 - Make further efforts to obtain the views of TCWG
 - Consider whether matters to be discussed with TCWG should be in writing
 - Consider the definition of TCWG

General provision

- General provisions (¶100.10)
 - Wording enhanced to provide a clearer thought process to be followed
 - New text requiring evaluation of breach and impact on compliance with fundamental principles
 - Additional examples added of parties to whom the accountant might determine disclosure was appropriate

Communicating breaches & timing

- Agreement that all breaches should be reported but:
 - Questioned whether flexibility may be appropriate for less significant breaches
 - Considered whether timing/protocol for less significant breaches could be agreed with TCWG
 - Consider whether communication should be in writing
- Board agreed views should be sought from TCWG
 - Survey developed and posted on IESBA website
 - 604 responses to the survey as at September 12, 2012

Survey results: Communicating breaches & timing

- Majority agree all breaches should be reported (89%)
- Timing of communication should be:
 - As soon as possible (33%)
 - Flexible (total of 67%)
 - ASAP unless breach is clearly trivial and inconsequential (26%)
 - On a timely basis left to the judgment of the auditor (31%)
 - In accordance with a timeline agreed with TCWG (10%)
- Form of communication should be:
 - Verbal ASAP, followed by written communication (50%)
 - Depends on urgency and significance (17%)
 - In writing (14%)
 - Verbal (19%)

Communicating breaches & timing

- Amendments made to ¶290.46 and ¶290.47:
 - Retain requirement that all breaches are to be discussed ASAP however proposed changes to ¶290.46 so that timing for less significant breaches can be agreed with TCWG
 - Proposed changes to ¶290.47 to require communication in writing after discussion has occurred so that concurrence can be obtained from TCWG
 - Other changes made to ¶290.46 and ¶290.47 so communication of firm's policies and procedures and steps to reduce reoccurrence is in writing
 - ¶290.40 amended to remove confusion that this suggested a different communication requirement

Reporting to a regulator

- Three respondents suggested reporting breaches to a regulator in certain circumstances
- Board initially concluded not appropriate for the Code to require reporting to a regulator
- After consideration, ¶290.41 amended to require a firm to consider reporting to a member body, relevant regulator or oversight authority if such reporting is common practice or expected in the particular jurisdiction

Significance of the breach

- One respondent (IOSCO) noted that the last factor in ¶290.42 was incomplete:
 - Independence impairing non-assurance services may not necessarily have an impact on the financial statements
 - Amendments made to ¶290.42:
 - Last bullet amended to make statement more generally about impact on financial statements
 - Another bullet point added to recognize impacts other than on the financial statements

Agreement of those charged with governance

- Majority of respondents supported overall approach of continuing only with the agreement of TCWG
- Board concluded:
 - TCWG should agree that firm can continue with the audit
 - Wording to be revised to avoid suggestion that audit activity must be suspended until agreement is obtained, or that responsibility is being devolved to TCWG

Agreement of those charged with governance

- Survey results
 - 80% agreed that audit firms should be required to seek the concurrence of TCWG that action can be taken to satisfactorily address the consequences of the breach
- Amendments made to ¶290.47
 - “may continue with the audit engagement” deleted to remove perception that audit activity must be suspended unless TCWG agree
 - “Agreement” changed to “concurrence”

Other amendments

- ¶290.42 amended to require notification within the firm in accordance with policies and procedures
- ¶290.43 amended to make determination wording consistent with 100.7
- ¶290.45 and ¶290.47 wording included “where permitted by law or regulation” after termination:
 - Where termination not permitted “comply with any reporting or disclosure requirements”

Effective date

- 24 respondents agreed with proposed effective date of approximately 6 months after approval
- 11 felt a longer period necessary
 - Translation, training, systems enhancements
- Recommendation: effective date of 1 January 2014
 - approximately 12 months after release

Next steps

- Task Force to consider input from CAG members
- IESBA to approve final on October conference call
- Release after PIOB confirmation of due process