

**IESBA**

# **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