

Feedback Statement on March 2011 CAG Comments

CAG Member Comment	Task Force Consideration
<p>Mr. Fleck noted with respect to the “reasonable third party test” that parties close to a conflicts of interest situation are rarely “reasonable,” therefore, it was important to stress objectivity.</p> <p>Mr. Johnson noted that a “reasonable third party” may expect a professional accountant to obtain written consent when faced with a conflict of interest.</p>	<p>The fundamental principal of objectivity is specifically mentioned within the description of a conflict of interest, thus, stressing the importance of being objective.</p> <p>The Task Force considered this comment and concluded that the “reasonable third party test” is part of the identification process. Once a conflict of interest is identified the proposed revision of the Code will generally require consent as a safeguard to manage the conflict of interest.</p>
<p>Mr. Fleck noted with respect to the “reason to believe” threshold for network firms in terms of evaluating potential conflicts of interest, that one might expect a test for potential conflicts of interest.</p> <p>Mr. Baumann inquired as to the extent that the “reason to believe” actually extends. Mr. Baumann provided the following example: a firm that is part of a network obtains an audit client. This audit client provides consultative services around the world. The some of the firms within the network are located in other countries and provide the same services as the audit client. Would this set of circumstances fall under the “reason to believe” threshold, thus forcing the professional accountant to investigate any potential conflicts of interest that may exist within the network?</p> <p>Mr. Fleck noted that the nature of the issue is the range in terms of types of relationships between firms within a network and how closely the firms work together.</p> <p>Mr. Baumann stated that firms may represent that they are one global organization as a network, yet, they would not be required to investigate potential conflicts of interest with clients despite this tightly-managed image of “one global organization,” unless there is a reason to believe that a conflict</p>	<p>The Task Force alternatively considered the threshold of “could be reasonably expected to know”, but considered this to be a threshold too high, in particular for network firms outside the large firms. The Task Force agreed to remain at the “reason to believe” threshold and provide additional guidance as to what factors could be considered for the following reasons:</p> <ol style="list-style-type: none"> 1. The “expected to know” threshold could create unreasonable expectations (i.e. implicitly requiring networks to establish a systematic process comparable to that of the very large networks) within networks of firms that may vary in size,

<p>of interest may exist.</p> <p>Mr. Johnson noted that a problem may be created if you have small networks that are loosely associated that are forced to investigate potential conflict of interest, and agreed with the Task Force’s approach.</p> <p>Mr. Hansen agreed by stating that the “reason to believe threshold” may be elusive in that it is much stronger than the attitude of the firm “keeping their eyes open” for potential conflicts of interest.</p>	<p>services performed and frequency of communication;</p> <ol style="list-style-type: none"> 2. The Task Force agreed that “reason to believe” is clear in that it requires the professional accountant to undertake careful considerations, but pertains to facts available to the professional accountant at that time; 3. Requiring communication under an “expected to know” test might even conflict with confidentiality obligations; and, 4. The “reason to believe” threshold is consistent with the requirement when evaluating independence for non-audit assurance engagements in Section 291.
<p>Mr. Fleck and Mr. Johnson did not accept the argument that disclosure may not be possible of a potential conflict of interest due to the fact that another firm may not be able to perform the professional service related to the potential conflict of interest.</p> <p>Mr. Fleck also recommended that, for further guidance, that the Task Force research certain laws of the United Kingdom. Specifically, Mr. Fleck noted that the current law of the U.K. states that a professional accountant may not act contrary to an existing client unless certain circumstances apply.</p> <p>Mr. Johnson noted that written consent is important when dealing with conflicts of interest and that if this situation is to be addressed, specific acceptable safeguards should be explicitly</p>	<p>The Task Force has considered the feedback and redrafted the guidance. The paragraph relates solely to situations in firms where specific consent cannot be obtained because of confidentiality obligations, but is tightly drawn to require three conditions to be met, including that the firm cannot act in an advocacy role for one client against the other.</p>

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