

**Meeting:** IESBA CAG  
**Meeting Location:** Conrad Hotel, Brussels, Belgium  
**Meeting Date:** March 5, 2012

## Breach of a Requirement of the Code

### Objective of Agenda Item

To seek input from CAG members on key issues raised on exposure.

### Background

On October 24, 2011, the IESBA issued an exposure draft (Agenda Paper C-1) proposing changes to the Code related to provisions addressing a breach of a requirement of the Code. The comment period ended on January 23, 2012 and 43 responses had been received as at February 9, 2012.

At its February 2012 meeting, the IESBA discussed the responses to the first five questions in the exposure draft (Agenda Paper C-2) and provided feedback to the Task Force. The Task Force next meets in April and again in May. Subject to comments from the IESBA and CAG members, the Task Force anticipates presenting revised wording at the June 2012 IESBA meeting, together with a detailed cut and paste of all comments received.

### Discussion

*Q1 Do respondents agree that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement of the Code? If not why not?*

The IESBA noted the general support that the Code contain provisions to address the consequences of a breach of a requirement of the Code.

The IESBA noted that the guidance in paragraph 100.10 was quite brief and asked the Task Force to consider how the guidance could be embellished – for example by providing more context and a rationale for the approach.

*Question 2 Do respondents agree with the overall approach proposed to deal with a breach of an independence requirement, including the proposal that the firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and that such action can be taken?*

The IESBA noted several respondents had commented that ISA 260 *Communication with Those Charged with Governance* contains extensive guidance on those charged with governance and the timing of communications. The IESBA also noted that the Code defines those charged with governance differently from ISA 260. The IESBA asked the Task Force to consider the definition in ISA 260 and determine whether a change should be made to the Code. If the Task Force believes that such a change should be made, the Task Force will develop a separate exposure draft addressing the matter.

*Question 3 Do respondents agree that a firm should be required to communicate all breaches of an independence requirement to those charged with governance? If not why not and what should be the threshold for reporting?*

The IESBA noted that the responses to this question were mixed. After considering the comments received the IESBA was of the view all breaches should be communicated to those charged with governance. In light of the number of comments on the timing of the communication, the IESBA asked the Task Force to consider whether there should be some flexibility on timing. The Task Force will consider whether less significant breaches can be communicated as part of the regular communication with those charged with governance or whether the timing of the communication could be in accordance with a protocol established by those charged with governance.

*Question 4 Do respondents agree that a reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement? If not, why not and what should the test be?*

The IESBA noted that respondents were generally supportive of the test, which is consistent with the remainder of the Code. The IESBA noted that one respondent stated that the test should be based on a reasonable and informed investor and not the auditor. The IESBA asked the Task Force to consider how to modify the test to clarify that the auditor considers the matter from the perspective of a third party and not the perspective of another auditor.

*Q5 Do respondents agree that the matters that should be discussed with those charged with governance as proposed in Section 290.46 are appropriate? If not, why not? Are there other matters that should be included, or matters that should be excluded?*

The IESBA noted that respondents were generally supportive of the matters to be discussed with those charged with governance. In reviewing the comments, the IESBA asked the Task Force to consider whether the communication should be in writing.

**Material Presented**

Agenda Paper C	This Agenda Paper
Agenda Paper C-1	Exposure Draft
Agenda Paper C-2	IESBA February 2012 Agenda Paper.

**Action Requested**

CAG members are asked for their views on the key issues raised on exposure.