

Proposed Amendments

18 October 2013

Comments requested by 18 November 2013



Proposed amendments to the Code of Professional Conduct for Registered Auditors

REQUEST FOR COMMENTS

The Committee for Auditor Ethics (CFAE) of the Independent Regulatory Board for Auditors (IRBA) approved these proposed amendments to the *Code of Professional Conduct for Registered Auditors* (the IRBA Code) in September 2013 for exposure for a period of 30 days following publication of Board Notice No. 208 of 2013 in Government Gazette No 36923 of 18 October 2013 for public comment. The proposed amendments may be modified in light of comments received, before being issued in final form.

The IRBA adopted Parts A and Part B of the International Ethics Standards Board (IESBA) *Code of Ethics for Professional Accountants* (the IESBA Code) published by the International Federation of Accountants' (IFAC) with adaptations, with effect from 1 January 2011. These proposed amendments to the IRBA Code are those made to the IESBA Code during 2013 with adaptations.

The IRBA's legislative mandate

The objects of the Auditing Profession Act, 2005 (Act No 26 of 2005) (the "Act") are set out in section 2 and include, inter alia:

- (c) *"to approve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and*
- (d) *to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession;"*

To give effect to the objects of the Act, section 4(1) sets out the general functions of the IRBA, including that *"the Regulatory Board must, in addition to its other functions provided for in this Act -*

- (a) *"take steps to promote the integrity of the auditing profession; and*
- (c) *prescribe standards of professional competence, ethics and conduct of registered auditors;"*

To enable the IRBA to meet these requirements, section 4(2) (a) states that *"the IRBA may participate in the activities of international bodies whose main purpose it is to develop and set auditing standards and to promote the auditing profession;"*

Statutory responsibility of the CFAE

The statutory responsibility of the CFAE is set out in section 21(2) which requires that *"the CFAE must assist the IRBA:*

- (a) *To determine what constitutes improper conduct by registered auditors by developing requirements and guidelines for professional ethics, including a code of professional conduct;*
- (b) *To interact on any matter relating to its functions and powers with professional bodies and any other body or organ of state with an interest in the auditing profession; and*
- (c) *To provide advice to registered auditors on matters of professional ethics and conduct.*

REQUEST FOR COMMENTS

The proposed amendments may be downloaded free-of-charge from the IRBA website at: www.irba.co.za.

Comments should be submitted by **18 November 2013**.

Respondents are requested to submit their comments electronically in Word and PDF format to the Director: Standards, Sandy van Esch svanesch@irba.co.za or to standards@irba.co.za. All comments will be considered a matter of public record and will be posted on the IRBA website, www.irba.co.za. Responses received will assist the CFAE to identify any further changes to the amendments.

Comments may also be faxed for the attention of the Director: Standards at +27 086 575 6535 or mailed to:

The Director: Standards
The Independent Regulatory Board for Auditors
P O Box 8237
Greenstone1616
South Africa

Should you have any queries, or experience any technical difficulties in downloading the documents, please e-mail the Standards Department at: standards@irba.co.za or contact:

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The proposed amendments to this Code are based on amendments to Parts A and B of the *Code of Ethics for Professional Accountants* of the *International Accounting Ethics Standards Board (IESBA)* published by the International Federation of Accountants (IFAC) in 2013 and is used with permission of IFAC. Adaptations to Parts A and B are *underlined and in italics*.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to and an explanation of these proposed amendments to the Independent Regulatory Board for Auditors (IRBA) *Code of Professional Conduct for Registered Auditors* (the IRBA Code). The Committee for Auditor Ethics (CFAE) approved these proposed amendments in September 2013 for issue on exposure for a period of 30 days for public comment.

Background

The IRBA adopted Parts A and B and the Definitions of the International Ethics Standards Board (IESBA) *Code of Ethics for Professional Accountants* (July 2009) published by the International Federation of Accountants (IFAC) with effect from 1 January 2011. The CFAE comments on all proposed amendments to the IESBA Code and considers final amendments to the IESBA Code for possible amendment of the IRBA Code. Adaptations of the proposed amendments, for purposes of the IRBA Code are underlined and in italics.

Proposed Amendments to the IRBA Code

Amendments to the IESBA Code published during 2013, now considered for proposed amendments to the IRBA Code are as follows:

Breach of a Requirement of the Code

This proposed revision deals more comprehensively with a registered auditor's actions when encountering a breach of a requirement of the Code. The changes in particular establish a robust framework for addressing a breach of an independence requirement in the Code.

It is proposed that the amendments will become effective from the 1 April 2014, with early adoption permitted.

Conflicts of Interests

This proposed revision to the Code establishes more specific requirements and provides more comprehensive guidance to support registered auditors in identifying, evaluating, and managing conflicts of interest. The changes clarify the meaning of a conflict of interest under the Code.

It is proposed that the changes will become effective from the 1 July 2014, with early adoption permitted.

Definition of "Engagement team"

The proposed change to the definition of "engagement team" is to clarify the relationship between internal auditors providing direct assistance on an external audit and the meaning of an engagement team under the Code.

The IESBA issued the revised definition in conjunction with the International Auditing and Assurance Standards Board's (IAASB's) issue of its International Standard on Auditing (ISA) 610 (Revised 2013), *Using the Work of Internal Auditors*. ISA 610 (Revised 2013) includes requirements and guidance addressing the external auditor's responsibilities if using internal auditors to provide direct assistance under the direction,

supervision, and review of the external auditor for purposes of the audit, where such assistance is not prohibited by law or regulation.

It is proposed that the proposed revised definition of “*engagement team*” will become effective for audits of financial statements for periods ending on or after the 15 December 2014. Early adoption is permitted.

Definition of “Those charged with governance”

The proposed change more closely aligns the definition of “*those charged with governance*” in the Code with that of the IAASB’s (ISA) 260, *Communication with Those Charged with Governance*, thereby eliminating any potential confusion. The Ethics Board does not expect any changes will be necessary to accounting firms’ systems and methodologies or common practice.

The changes clarify that a subgroup of those charged with governance of an entity, such as an audit committee, may assist the governing body in meeting its responsibilities. In those cases, if a registered auditor or audit firm communicates with such a subgroup, the Code requires the registered auditor or firm to determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

It is proposed that the changes will become effective from the 1 July 2014, with early adoption permitted.

Drafting convention

IFAC’s copyright permissions policy permits modifications to the *IFAC Code* to accommodate jurisdictional requirements in different countries. Consequently, the following modifications have been made to the proposed amendments.

The term “professional accountants” in the Revised IFAC Code is replaced throughout with a reference to “registered auditors” as the IRBA regulates only individual registered auditors and their firms (as defined) in the Act and where reflected in the Code.

Project timetable

Subject to comments received during this period, the CFAE intends to finalise the amendments to the Code during the last quarter of 2013. The CFAE plans to finalise amendments during November 2013 for approval by the IRBA Board for issue in January 2014.

Guide for respondents

The CFAE welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and where appropriate, make specific suggestions for any proposed changes to wording.

When a respondent agrees with the proposals in this exposure draft it will be helpful for the CFAE to be made aware of this view.

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Existing sections of the Code of Professional Conduct for Registered Auditors	Proposed amendments to sections of the Code of Professional Conduct for Registered Auditors
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Definitions

Effective for audits of financial statements for periods ending prior to 15 December 2014 and thereafter will be substituted	Effective for audits of financial statements for periods ending on or after 15 December 2014.
<p>Engagement Team:</p> <p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or a network firm.</p>	<p>Engagement team:</p> <p>All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.</p> <p>The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), <i>Using the Work of Internal Auditors</i>.</p>

Effective until 30 June 2014 and thereafter substituted	Effective on or after 1 July 2014
<p>Professional Services</p> <p>Services requiring accountancy or related skills performed by a <u>registered auditor</u> including accounting, auditing, <u>review, other assurance and related services</u>, taxation, management consulting and financial management services. <u>These include but are not limited to:</u></p>	<p>Professional Activity</p> <p>An activity requiring accountancy or related skills undertaken by a <u>registered auditor</u>, including accounting, auditing, <u>review, other assurance and related services</u>, taxation, management consulting, and financial management.</p> <p>Professional Services</p> <p>Professional activities performed for clients. <u>These include but are not limited to:</u></p>

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<p><u>(a) Audit, review, other assurance and related services:</u></p> <p><u>(i) Financial statement audits and reviews, other assurance and related services such as regulatory reporting, sustainability, compliance and performance reporting;</u></p> <p><u>(ii) Company accounting advisory services such as preparation of accounting records and financial statements in accordance with recognised financial reporting standards and applicable statutes; and</u></p> <p><u>(iii) Company statutory services;</u></p> <p><u>(b) Taxation services:</u></p> <p><u>(i) Tax return preparation and submission,</u></p> <p><u>(ii) Tax calculations for the purpose of preparing accounting entries,</u></p> <p><u>(iii) Tax planning and other tax advisory services, and</u></p> <p><u>(iv) Assistance in the resolution of tax disputes;</u></p> <p><u>(c) Advisory services:</u></p> <p><u>(i) Accounting advisory and financial management advisory services: accounting support, conversion services for new and revised accounting standards, financial modelling and project management;</u></p> <p><u>(ii) Business performance services: business effectiveness, people and change management, operational and business finance;</u></p> <p><u>(iii) Internal audit: risk and compliance services, review and monitoring of internal controls, risk management,</u></p>	<p><u>(a) Audit, review, other assurance and related services:</u></p> <p><u>(i) Financial statement audits and reviews, other assurance and related services such as regulatory reporting, sustainability, compliance and performance reporting;</u></p> <p><u>(ii) Company accounting advisory services such as preparation of accounting records and financial statements in accordance with recognised financial reporting standards and applicable statutes; and</u></p> <p><u>(iii) Company statutory services;</u></p> <p><u>(b) Taxation services:</u></p> <p><u>(i) Tax return preparation and submission,</u></p> <p><u>(ii) Tax calculations for the purpose of preparing accounting entries,</u></p> <p><u>(iii) Tax planning and other tax advisory services, and</u></p> <p><u>(iv) Assistance in the resolution of tax disputes;</u></p> <p><u>(c) Advisory services:</u></p> <p><u>(i) Accounting advisory and financial management advisory services: accounting support, conversion services for new and revised accounting standards, financial modelling and project management;</u></p> <p><u>(ii) Business performance services: business effectiveness, people and change management, operational and business finance;</u></p> <p><u>(iii) Internal audit: risk and compliance services, review and monitoring of internal controls, risk management,</u></p>

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<p><u>compliance services, corporate governance and audit committee advisory services;</u></p> <p><u>(iv) Corporate finance services: mergers and acquisitions, valuations, infrastructure financing, debt and capital markets, due diligence reviews, transaction services and designated advisor services to listed companies;</u></p> <p><u>(v) Corporate recovery services: liquidation and insolvency administration, curator bonis, administration of deceased estates, judicial management and trusteeships;</u></p> <p><u>(vi) Financial risk management services: actuarial services, banking and risk advisory, regulatory and compliance services, technical accounting;</u></p> <p><u>(vii) Information technology (IT) Advisory: security, privacy and continuity, enterprise resource planning; information system audit services, IT project advisory, governance and performance;</u></p> <p><u>(viii) Forensic services: dispute advisory and resolution, ethics and integrity monitoring, fraud risk management, intellectual property and other investigations and regulatory compliance.</u></p>	<p><u>compliance services, corporate governance and audit committee advisory services;</u></p> <p><u>(iv) Corporate finance services: mergers and acquisitions, valuations, infrastructure financing, debt and capital markets, due diligence reviews, transaction services and designated advisor services to listed companies;</u></p> <p><u>(v) Corporate recovery services: liquidation and insolvency administration, curator bonis, administration of deceased estates, judicial management and trusteeships;</u></p> <p><u>(vi) Financial risk management services: actuarial services, banking and risk advisory, regulatory and compliance services, technical accounting;</u></p> <p><u>(vii) Information technology (IT) Advisory: security, privacy and continuity, enterprise resource planning; information system audit services, IT project advisory, governance and performance;</u></p> <p><u>(viii) Forensic services: dispute advisory and resolution, ethics and integrity monitoring, fraud risk management, intellectual property and other investigations and regulatory compliance.</u></p>

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Existing sections of the Code of Professional Conduct for Registered Auditors	Proposed amendments to sections of the Code of Professional Conduct for Registered Auditors
Effective until 30 June 2014 and thereafter substituted	Effective on or after 1 July 2014
<p>Those charged with governance</p> <p>The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.</p>	<p>Those charged with governance</p> <p>The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.</p>

Part A- General Application of the Code

Section 100 Introduction and Fundamental Principles

Effective until 31 March 2014 and thereafter substituted	Effective on or after 1 April 2014
<p>100.10 A <u>registered auditor</u> may inadvertently violate a provision of this Code. Depending on the nature and significance of the matter, such an inadvertent violation may be deemed not to compromise compliance with the fundamental principles provided, once the violation is discovered, the violation is corrected promptly and any necessary safeguards are applied.</p>	<p>100.10 Sections 290 and 291 contain provisions with which a <u>registered auditor</u> shall comply if the <u>registered auditor</u> identifies a breach of an independence provision of the Code. If a <u>registered auditor</u> identifies a breach of any other provision of this Code, the <u>registered auditor</u> shall evaluate the significance of the breach and its impact on the <u>registered auditor's</u> ability to comply with the fundamental principles. The <u>registered auditor</u> shall take whatever actions that may be available, as soon as possible, to satisfactorily address the consequences of the breach. The <u>registered auditor</u> shall determine</p>

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	whether to report the breach, for example, to those who may have been affected by the breach, a member body, relevant regulator or oversight authority.
Effective until 30 June 2014 and thereafter renumbered	Effective on or after 1 July 2014
	<p>Conflicts of Interest</p> <p>100.17 A <u>registered auditor</u> may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:</p> <ul style="list-style-type: none"> • The <u>registered auditor</u> undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or • The interests of the <u>registered auditor</u> with respect to a particular matter and the interests of a party for whom the <u>registered auditor</u> undertakes a professional activity related to that matter are in conflict. <p>100.18 Parts B of this Code discuss conflicts of interest for <u>registered auditors</u> in public practice.</p>
<p><i>Ethical Conflict Resolution</i></p> <p>100.17 A <u>registered auditor</u> may be required to resolve a conflict in complying with the fundamental principles.</p> <p>100.18 When initiating either a formal or informal conflict resolution process, the following factors, either</p>	<p><i>Ethical Conflict Resolution</i></p> <p>100.19 A <u>registered auditor</u> may be required to resolve a conflict in complying with the fundamental principles.</p> <p>100.20 When initiating either a formal or informal conflict resolution process, the following factors, either</p>

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Existing sections of the Code of Professional Conduct for Registered Auditors	Proposed amendments to sections of the Code of Professional Conduct for Registered Auditors
<p>individually or together with other factors, may be relevant to the resolution process:</p> <ul style="list-style-type: none"> (a) Relevant facts; (b) Ethical issues involved; (c) Fundamental principles related to the matter in question; (d) Established internal procedures; and (e) Alternative courses of action. <p>Having considered the relevant factors, a <u>registered auditor</u> shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the <u>registered auditor</u> may wish to consult with other appropriate persons within the firm for help in obtaining resolution</p> <p>100.19 Where a matter involves a conflict with, or within, an organisation, a <u>registered auditor</u> shall determine whether to consult with those charged with governance of the organisation, such as the board of directors or the audit committee</p> <p>100.20 It may be in the best interests of the <u>registered auditor</u> to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue</p> <p>100.21 If a significant conflict cannot be resolved, a <u>registered auditor</u> may consider obtaining professional advice from the <u>Regulatory Board</u>, from a relevant professional body</p>	<p>individually or together with other factors, may be relevant to the resolution process:</p> <ul style="list-style-type: none"> (a) Relevant facts; (b) Ethical issues involved; (c) Fundamental principles related to the matter in question; (d) Established internal procedures; and (e) Alternative courses of action. <p>Having considered the relevant factors, a <u>registered auditor</u> shall determine the appropriate course of action, weighing the consequences of each possible course of action. If the matter remains unresolved, the <u>registered auditor</u> may wish to consult with other appropriate persons within the firm for help in obtaining resolution</p> <p>100.21 Where a matter involves a conflict with, or within, an organisation, a <u>registered auditor</u> shall determine whether to consult with those charged with governance of the organisation, such as the board of directors or the audit committee</p> <p>100.22 It may be in the best interests of the <u>registered auditor</u> to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue</p> <p>100.23 If a significant conflict cannot be resolved, a <u>registered auditor</u> may consider obtaining professional advice from the <u>Regulatory Board</u>, from a relevant professional body</p>

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<p>or from legal advisors. The <u>registered auditor</u> generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the <u>registered auditor</u> may consider obtaining legal advice vary. For example, a <u>registered auditor</u> may have encountered a fraud, the reporting of which could breach the <u>registered auditor's</u> responsibility to respect confidentiality. The <u>registered auditor</u> may consider obtaining legal advice in that instance to determine whether there is a requirement to report.</p> <p>100.22 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a <u>registered auditor</u> shall, where possible, refuse to remain associated with the matter creating the conflict. The <u>registered auditor</u> shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement or the firm.</p>	<p>or from legal advisors. The <u>registered auditor</u> generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under the protection of legal privilege. Instances in which the <u>registered auditor</u> may consider obtaining legal advice vary. For example, a <u>registered auditor</u> may have encountered a fraud, the reporting of which could breach the <u>registered auditor's</u> responsibility to respect confidentiality. The <u>registered auditor</u> may consider obtaining legal advice in that instance to determine whether there is a requirement to report.</p> <p>100.24 If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a <u>registered auditor</u> shall, where possible, refuse to remain associated with the matter creating the conflict. The <u>registered auditor</u> shall determine whether, in the circumstances, it is appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the engagement or the firm</p>
	<p>Effective on or after 1 July 2014</p>
	<p>Communicating with Those Charged With Governance</p> <p>100.25 When communicating with those charged with governance in accordance with the provisions of this Code, the <u>registered auditor</u> or firm shall determine, having regard to the nature and importance of the</p>

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	<p>particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the <u>registered auditor</u> or firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the <u>registered auditor</u> or firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.</p>
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Part B- Registered Auditors in Public Practice

Section 220 Conflicts of Interest

Effective until 30 June 2014 and thereafter substituted	Effective on or after 1 July 2014
<p>220.1 A <u>registered auditor</u> shall take reasonable steps to identify circumstances that could pose a conflict of interest. Such circumstances may create threats to compliance with the fundamental principles. For example, a threat to objectivity may be created when a <u>registered auditor</u> competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client. A threat to objectivity or confidentiality may also be created when a <u>registered auditor</u> performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question.</p> <p>220.2 A <u>registered auditor</u> shall evaluate the significance of any</p>	<p>220.1 A <u>registered auditor</u> in public practice may be faced with a conflict of interest when performing a professional service. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:</p> <ul style="list-style-type: none"> • The <u>registered auditor</u> provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or • The interests of the <u>registered auditor</u> with respect to a particular matter and the interests of the client for whom the <u>registered auditor</u> provides a professional service related to that matter are in conflict.

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<p>threats and apply safeguards when necessary to eliminate the threats or reduce them to an acceptable level. Before accepting or continuing a client relationship or specific engagement, the <i>registered auditor</i> shall evaluate the significance of any threats created by business interests or relationships with the client or a third party.</p> <p>220.3 Depending upon the circumstances giving rise to the conflict, application of one of the following safeguards is generally necessary:</p> <ol style="list-style-type: none"> a) Notifying the client of the firm’s business interest or activities that may represent a conflict of interest and obtaining their consent <i>in writing</i> to act in such circumstances; or b) Notifying all known relevant parties that the <i>registered auditor</i> is acting for two or more parties in respect of a matter where their respective interests are in conflict and obtaining their consent to so act; or c) Notifying the client that the <i>registered auditor</i> does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service) and obtaining their consent to so act. <p>220.4 The <i>registered auditor</i> shall also determine whether to apply one or more of the following additional safeguards:</p>	<p>A <i>registered auditor</i> shall not allow a conflict of interest to compromise professional or business judgment.</p> <p>When the professional service is an assurance service, compliance with the fundamental principle of objectivity also requires being independent of assurance clients in accordance with Sections 290 or 291 as appropriate.</p> <p>220.2 Examples of situations in which conflicts of interest may arise include:</p> <ul style="list-style-type: none"> • Providing a transaction advisory service to a client seeking to acquire an audit client of the firm, where the firm has obtained confidential information during the course of the audit that may be relevant to the transaction. • Advising two clients at the same time who are competing to acquire the same company where the advice might be relevant to the parties’ competitive positions. • Providing services to both a vendor and a purchaser in relation to the same transaction. • Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets. • Representing two clients regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership. • Providing an assurance report for a licensor on royalties due under a license agreement when at the

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Effective until 30 June 2014 and thereafter substituted	Effective on or after 1 July 2014
<p>a) The use of separate engagement teams;</p> <p>b) Procedures to prevent access to information (e.g., strict physical separation of such teams, confidential and secure data filing);</p> <p>c) Clear guidelines for members of the engagement team on issues of security and confidentiality;</p> <p>d) The use of confidentiality agreements signed by employees and partners of the firm; and</p> <p>e) Regular review of the application of safeguards by senior individual not involved with relevant client engagements.</p> <p>220.5 Where a conflict of interest creates a threat to one or more of the fundamental principles, including objectivity, confidentiality, or professional behaviour, that cannot be eliminated or reduced to an acceptable level through the application of safeguards, the <u>registered auditor</u> shall not accept a specific engagement or shall resign from one or more conflicting engagements.</p> <p>220.6 Where a <u>registered auditor</u> has requested consent from a client to act for another party (which may or may not be an existing client) in respect of a matter where the respective interests are in conflict and that consent has been refused by the client, the <u>registered auditor</u> shall not continue to act for one of the parties in the matter giving rise to the conflict of interest.</p>	<p>same time advising the licensee of the correctness of the amounts payable.</p> <ul style="list-style-type: none"> • Advising a client to invest in a business in which, for example, the spouse of the <u>registered auditor</u> in public practice has a financial interest. • Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client. • Advising a client on the acquisition of a business which the firm is also interested in acquiring. • Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service. <p>220.3 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, a <u>registered auditor</u> in public practice shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the <u>registered auditor</u> at the time, would be likely to conclude that compliance with the fundamental principles is not compromised.</p> <p>220.4 When addressing conflicts of interest, including making disclosures or sharing information within the firm or</p>

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	<p>network and seeking guidance of third parties, the <u>registered auditor</u> in public practice shall remain alert to the fundamental principle of confidentiality.</p> <p>220.5 If the threat created by a conflict of interest is not at an acceptable level, the <u>registered auditor</u> in public practice shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the <u>registered auditor</u> shall decline to perform or shall discontinue professional services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.</p> <p>220.6 Before accepting a new client relationship, engagement, or business relationship, a <u>registered auditor</u> in public practice shall take reasonable steps to identify circumstances that might create a conflict of interest, including identification of:</p> <ul style="list-style-type: none"> • The nature of the relevant interests and relationships between the parties involved; and • The nature of the service and its implication for relevant parties. <p>The nature of the services and the relevant interests and relationships may change during the course of the engagement. This is particularly true when a <u>registered auditor</u> is asked to conduct an engagement in a situation</p>

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	<p>that may become adversarial, even though the parties who engage the <i>registered auditor</i> may not initially be involved in a dispute. The <i>registered auditor</i> shall remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.</p> <p>220.7 For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a <i>registered auditor</i> in public practice to identify actual or potential conflicts of interest prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the <i>registered auditor</i> being able to apply safeguards, when necessary, to eliminate the threat to objectivity and any threat to compliance with other fundamental principles or reduce it to an acceptable level. The process to identify actual or potential conflicts of interest will depend on such factors as:</p> <ul style="list-style-type: none"> • The nature of the professional services provided • The size of the firm • The size and nature of the client base. • The structure of the firm, for example, the number and geographic location of offices. <p>220.8 If the firm is a member of a network, conflict identification</p>

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	<p>shall include any conflicts of interest that the <u>registered auditor</u> in public practice has reason to believe may exist or might arise due to interests and relationships of a network firm. Reasonable steps to identify such interests and relationships involving a network firm will depend on factors such as the nature of the professional services provided, the clients served by the network and the geographic locations of all relevant parties.</p> <p>220.9 If a conflict of interest is identified, the <u>registered auditor</u> in public practice shall evaluate:</p> <ul style="list-style-type: none"> • The significance of relevant interests or relationships; and • The significance of the threats created by performing the professional service or services. In general, the more direct the connection between the professional service and the matter on which the parties' interests are in conflict, the more significant the threat to objectivity and compliance with the other fundamental principles will be. <p>220.10 The <u>registered auditor</u> in public practice shall apply safeguards, when necessary, to eliminate the threats to compliance with the fundamental principles created by the conflict of interest or reduce them to an acceptable level. Examples of safeguards include:</p> <ul style="list-style-type: none"> • Implementing mechanisms to prevent unauthorized disclosure of confidential information when performing

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	<p>professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. This could include:</p> <ul style="list-style-type: none"> ○ Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality. ○ Creating separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm. ○ Establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and/or the physical and electronic separation of confidential information <ul style="list-style-type: none"> • Regular review of the application of safeguards by a senior individual not involved with the client engagement or engagements. • Having a <u>registered auditor</u> who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate. • Consulting with third parties, such as a professional body, legal counsel or another <u>registered auditor</u>. <p>220.11 In addition, it is generally necessary to disclose the nature of the conflict of interest and the related safeguards, if any, to clients affected by the conflict and,</p>

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	<p>when safeguards are required to reduce the threat to an acceptable level, to obtain their consent to the <u>registered auditor</u> in public practice performing the professional services.</p> <p>Disclosure and consent may take different forms, for example:</p> <ul style="list-style-type: none"> • General disclosure to clients of circumstances where the <u>registered auditor</u>, in keeping with common commercial practice, does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might, for example, be made in the <u>registered auditor's</u> standard terms and conditions for the engagement. • Specific disclosure to affected clients of the circumstances of the particular conflict, including a detailed presentation of the situation and a comprehensive explanation of any planned safeguards and the risks involved, sufficient to enable the client to make an informed decision with respect to the matter and to provide explicit consent accordingly. • In certain circumstances, consent may be implied by the client's conduct where the <u>registered auditor</u> has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to

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	<p>the existence of the conflict.</p> <p>The <i>registered auditor</i> shall determine whether the nature and significance of the conflict of interest is such that specific disclosure and explicit consent is necessary. For this purpose, the <i>registered auditor</i> shall exercise professional judgment in weighing the outcome of the evaluation of the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.</p> <p>220.12 Where a <i>registered auditor</i> in public practice has requested explicit consent from a client and that consent has been refused by the client, the <i>registered auditor</i> shall decline to perform or shall discontinue professional services that would result in the conflict of interest; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level, such that consent can be obtained, after applying any additional safeguards if necessary.</p> <p>220.13 When disclosure is verbal, or consent is verbal or implied, the <i>registered auditor</i> in public practice is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to reduce the threats to an acceptable level and the consent obtained.</p>

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	<p>220.14 In certain circumstances, making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality. Examples of such circumstances may include:</p> <ul style="list-style-type: none"> • Performing a transaction-related service for a client in connection with a hostile takeover of another client of the firm. • Performing a forensic investigation for a client in connection with a suspected fraudulent act where the firm has confidential information obtained through having performed a professional service for another client who might be involved in the fraud. <p>The firm shall not accept or continue an engagement under such circumstances unless the following conditions are met:</p> <ul style="list-style-type: none"> • The firm does not act in an advocacy role for one client where this requires the firm to assume an adversarial position against the other client with respect to the same matter; • Specific mechanisms are in place to prevent disclosure of confidential information between the engagement teams serving the two clients; and • The firm is satisfied that a reasonable and informed third party, weighing all the specific facts and circumstances available to the <i>registered auditor</i> in public practice at the time, would be likely to conclude that it is appropriate for the firm to accept or continue

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	<p>the engagement because a restriction on the firm’s ability to provide the service would produce a disproportionate adverse outcome for the clients or other relevant third parties</p> <p>The <u>registered auditor</u> shall document the nature of the circumstances, including the role that the <u>registered auditor</u> is to undertake, the specific mechanisms in place to prevent disclosure of information between the engagement teams serving the two clients and the rationale for the conclusion that it is appropriate to accept the engagement.</p>

Section 290 Independence – Audit and Review Engagements

Those Charged with Governance

Effective until 30 June 2014 and thereafter substituted	Effective on or after 1 July 2014
<p>290.28 Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm’s opinion, reasonably bear on independence. Such communication enables those charged with governance to:</p> <p>(a) consider the firm’s judgments in identifying and evaluating threats to independence;</p> <p>(b) consider the appropriateness of safeguards applied</p>	<p>290.28 Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm’s opinion, reasonably bear on independence. Such communication enables those charged with governance to:</p> <p>(a) Consider the firm’s judgments in identifying and evaluating threats to independence;</p> <p>(b) Consider the appropriateness of safeguards applied to</p>

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<p>to eliminate them or reduce them to an acceptable level; and</p> <p>(c) take appropriate action. Such an approach can be particularly helpful with respect to intimidation and familiarity threats.</p>	<p>eliminate them or reduce them to an acceptable level; and</p> <p>(c) Take appropriate action.</p> <p>Such an approach can be particularly helpful with respect to intimidation and familiarity threats.</p> <p>In complying with requirements in this section to communicate with those charged with governance, the firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.</p>

A Breach of a Requirement of the Code

Effective until 31 March 2014 and thereafter substituted	Effective on or after 1 April 2014
<p>Other Considerations</p> <p>290.39 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally will be deemed not to compromise independence provided the firm has appropriate quality control policies and procedures in place, equivalent to those required by International Standards on Quality</p>	<p>Breach of a Provision of this Section</p> <p>290.39 A breach of a provision of this section may occur despite the firm having policies and procedures designed to provide it with reasonable assurance that independence is maintained. A consequence of a breach may be that termination of the audit engagement is necessary.</p>

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<p>Control, to maintain independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate any threat or reduce it to an acceptable level. The firm shall determine whether to discuss the matter with those charged with governance.</p> <p>Paragraphs 290.40 to 290.99 are intentionally left blank.</p>	<p>290.40 When the firm concludes that a breach has occurred, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach and address the consequences of the breach.</p> <p>290.41 When a breach is identified, the firm shall consider whether there are any legal or regulatory requirements that apply with respect to the breach and, if so, shall comply with those requirements. The firm shall consider reporting the breach to a member body, relevant regulator or oversight authority if such reporting is common practice or is expected in the particular jurisdiction.</p> <p>290.42 When a breach is identified, the firm shall, in accordance with its policies and procedures, promptly communicate the breach to the engagement partner, those with responsibility for the policies and procedures relating to independence, other relevant personnel in the firm, and, where appropriate, the network, and those subject to the independence requirements who need to take appropriate action. The firm shall evaluate the significance of that breach and its impact on the firm’s objectivity and ability to issue an audit report. The significance of the breach will depend on factors such as:</p> <ul style="list-style-type: none"> • The nature and duration of the breach; • The number and nature of any previous breaches with respect to the current audit engagement; • Whether a member of the audit team had knowledge of the interest or relationship that caused the breach;

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	<ul style="list-style-type: none"> • Whether the individual who caused the breach is a member of the audit team or another individual for whom there are independence requirements; • If the breach relates to a member of the audit team, the role of that individual; • If the breach was caused by the provision of a professional service, the impact of that service, if any, on the accounting records or the amounts recorded in the financial statements on which the firm will express an opinion; and • The extent of the self-interest, advocacy, intimidation or other threats created by the breach. <p>290.43 Depending upon the significance of the breach, it may be necessary to terminate the audit engagement or it may be possible to take action that satisfactorily addresses the consequences of the breach. The firm shall determine whether such action can be taken and is appropriate in the circumstances. In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the <u>registered auditor</u> at that time, would be likely to conclude that the firm's objectivity would be compromised and therefore the firm is unable to issue an audit report.</p> <p>290.44 Examples of actions that the firm may consider include:</p>

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	<ul style="list-style-type: none"> • Removing the relevant individual from the audit team; • Conducting an additional review of the affected audit work or re-performing that work to the extent necessary, in either case using different personnel; • Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary; and • Where the breach relates to a non-assurance service that affects the accounting records or an amount that is recorded in the financial statements, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service. <p>290.45 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall inform those charged with governance as soon as possible and take the steps necessary to terminate the audit engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</p> <p>290.46 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with those charged with governance. The</p>

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Effective until 31 March 2014 and thereafter substituted	Effective on or after 1 April 2014
	<p>firm shall discuss the breach and the action as soon as possible, unless those charged with governance have specified an alternative timing for reporting less significant breaches. The matters to be discussed shall include:</p> <ul style="list-style-type: none"> • The significance of the breach, including its nature and duration; • How the breach occurred and how it was identified; • The action taken or proposed to be taken and the firm's rationale for why the action will satisfactorily address the consequences of the breach and enable it to issue an audit report; • The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and • Any steps that the firm has taken or proposes to take to reduce or avoid the risk of further breaches occurring. <p>290.47 The firm shall communicate in writing with those charged with governance all matters discussed in accordance with paragraph 290.46 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach. The communication shall include a description of the firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained and any steps that the firm has taken, or proposes to take, to reduce or avoid the risk</p>

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	<p>of further breaches occurring. If those charged with governance do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the audit engagement, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the audit engagement. Where termination is not permitted by law or regulation, the firm shall comply with any reporting or disclosure requirements.</p> <p>290.48 If the breach occurred prior to the issuance of the previous audit report, the firm shall comply with this section in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue an audit report in the current period. The firm shall also consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued audit reports, and the possibility of withdrawing such audit reports, and discuss the matter with those charged with governance.</p> <p>290.49 The firm shall document the breach, the action taken, key decisions made and all the matters discussed with those charged with governance and any discussions with a member body, relevant regulator or oversight authority. When the firm continues with the audit engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for</p>

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	<p>why the action taken satisfactorily addressed the consequences of the breach such that the firm could issue an audit report.</p> <p>Paragraphs 290.50 to 290.99 are intentionally left blank.</p>

Effective until 31 March 2014 and thereafter deleted	
<p>Inadvertent violations</p> <p>290.117 When an inadvertent violation of this section as it relates to a financial interest in an audit client occurs, it is deemed not to compromise independence if:</p> <p>(a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the audit client;</p> <p>(b) The actions in paragraph 290.116 (a)–(c) are taken as applicable; and</p> <p>(c) The firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Having a <i>registered auditor</i> review the work of the member of the audit team; or • Excluding the individual from any significant decision-making concerning the audit engagement. 	<p>Paragraph 290.117 is deleted</p>

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The firm shall determine whether to discuss the matter with those charged with governance.	
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Effective until 31 March 2014 and thereafter deleted	
<p>Inadvertent violations</p> <p>290.133 When an inadvertent violation of this section as it relates to family and personal relationships occurs, it is deemed not to compromise independence if:</p> <ul style="list-style-type: none"> (a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence; (b) The inadvertent violation relates to an immediate family member of a member of the audit team becoming a director or officer of the audit client or being in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion, and the relevant professional is removed from the audit team; and (c) The firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include: 	<p>Paragraph 290.133 is deleted.</p>

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<ul style="list-style-type: none"> • Having a <u>registered auditor</u> review the work of the member of the audit team; or • Excluding the relevant professional from any significant decision-making concerning the engagement. <p>The firm shall determine whether to discuss the matter with those charged with governance.</p>	
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Effective until 31 March 2014 and thereafter deleted	
<p>290.159 Providing certain non-assurance services to an audit client may create a threat to independence so significant that no safeguards could reduce the threat to an acceptable level. However, the inadvertent provision of such a service to a related entity, division or in respect of a discrete financial statement item of such a client will be deemed not to compromise independence if any threats have been reduced to an acceptable level by arrangements for that related entity, division or discrete financial statement item to be audited by another firm or when another firm re-performs the non-assurance service to the extent necessary to enable it to take responsibility for that service.</p>	<p>Paragraph 290.159 is deleted.</p>

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Section 291 Independence- Other Assurance Engagements

A Breach of a Requirement of the Code

Effective until 31 March 2014 and thereafter substituted	Effective from 1 April 2014
<p>Other Considerations</p> <p>291.33 There may be occasions when there is an inadvertent violation of this section. If such an inadvertent violation occurs, it generally will be deemed not to compromise independence provided the firm has appropriate quality control policies and procedures in place equivalent to those required by International Standards on Quality Control to maintain independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate any threat or reduce it to an acceptable level. The firm shall determine whether to discuss the matter with those charged with governance.</p> <p>Paragraphs 291.34 to 291.99 are intentionally left blank.</p>	<p>Breach of a Provision of this Section</p> <p>291.33 When a breach of a provision of this section is identified, the firm shall terminate, suspend or eliminate the interest or relationship that caused the breach, and shall evaluate the significance of that breach and its impact on the firm's objectivity and ability to issue an assurance report. The firm shall determine whether action can be taken that satisfactorily addresses the consequences of the breach. In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken and all the specific facts and circumstances available to the <i>registered auditor</i> at that time, would be likely to conclude that the firm's objectivity would be compromised such that the firm is unable to issue an assurance report.</p> <p>291.34 If the firm determines that action cannot be taken to satisfactorily address the consequences of the breach, the firm shall, as soon as possible, inform the party that engaged the firm or those charged with governance, as appropriate, and take the steps necessary to terminate the assurance engagement in compliance with any</p>

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Existing sections of the Code of Professional Conduct for Registered Auditors	Proposed amendments to sections of the Code of Professional Conduct for Registered Auditors
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Effective until 31 March 2014 and thereafter substituted	Effective from 1 April 2014
	<p>applicable legal or regulatory requirements relevant to terminating the assurance engagement.</p> <p>291.35 If the firm determines that action can be taken to satisfactorily address the consequences of the breach, the firm shall discuss the breach and the action it has taken or proposes to take with the party that engaged the firm or those charged with governance, as appropriate. The firm shall discuss the breach and the proposed action on a timely basis, taking into account the circumstances of the engagement and the breach.</p> <p>291.36 If the party that engaged the firm or those charged with governance, as appropriate, do not concur that the action satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to terminate the assurance engagement in compliance with any applicable legal or regulatory requirements relevant to terminating the assurance engagement.</p> <p>291.37 The firm shall document the breach, the actions taken, key decisions made and all the matters discussed with the party that engaged the firm or those charged with governance. When the firm continues with the assurance engagement, the matters to be documented shall also include the conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the firm could</p>

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	<p>issue an assurance report.</p> <p>Paragraphs 291.38 to 291.99 are intentionally left blank.</p>
Effective until 31 March 2014 and thereafter deleted	
<p><i>Inadvertent violation</i></p> <p>291.112 When an inadvertent violation of this section as it relates to a financial interest in an assurance client occurs, it is deemed not to compromise independence if:</p> <p>(a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from the purchase, inheritance or other acquisition of a financial interest in the assurance client;</p> <p>(b) The actions taken in paragraph 291.111(a) – (b) are taken as applicable; and</p> <p>(c) The firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Having a <u>registered auditor</u> review the work of the member of the assurance team; or • Excluding the individual from any significant decision-making concerning the assurance engagement. 	<p>Paragraph 291.112 is deleted.</p>

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The firm shall determine whether to discuss the matter with those charged with governance.	
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Effective until 31 March 2014 and thereafter deleted	
<p><i>Inadvertent violation</i></p> <p>291.127 When an inadvertent violation of this section as it relates to family and personal relationships occurs, it is deemed not to compromise independence if:</p> <ul style="list-style-type: none"> (a) The firm has established policies and procedures that require prompt notification to the firm of any breaches resulting from changes in the employment status of their immediate or close family members or other personal relationships that create threats to independence; (b) The inadvertent violation relates to an immediate family member of a member of the assurance team becoming a director or officer of the assurance client or being in a position to exert significant influence over the subject matter information of the assurance engagement, and the relevant professional is removed from the assurance team; and (c) The firm applies other safeguards when necessary to reduce any remaining threat to an acceptable level. 	<p>Paragraph 291.127 is deleted.</p>

PROPOSED AMENDMENTS TO THE CODE OF PROFESSIONAL CONDUCT FOR REGISTERED AUDITORS

Existing sections of the Code of Professional Conduct for Registered Auditors	Proposed amendments to sections of the Code of Professional Conduct for Registered Auditors
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<p>Examples of such safeguards include:</p> <ul style="list-style-type: none"> • Having a <u>registered auditor</u> review the work of the member of the assurance team; or • Excluding the relevant professional from any significant decision-making concerning the engagement. <p>The firm shall determine whether to discuss the matter with those charged with governance.</p>	
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