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January 20, 2012

Via website posting: [www.ifac.org](http://www.ifac.org)

International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York  
USA  
10017

**Attention: IESBA Deputy Director, Ms. Jan Munro**

Dear Ms. Munro:

Re: Exposure Draft (ED) - Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code

**General Comments:**

The Certified General Accountants Association of Canada (CGA-C) is pleased to provide comment on the exposure draft concerning the proposed changes to the Code of Ethics for Professional Accountants related to provisions addressing a breach of a requirement of the Code for the International Ethics Standards Board for Accountants (IESBA).

CGA-C is supportive of the goal to provide additional clarity to the provisions as they relate to inadvertent violations of the Code, with the objective of ensuring established and robust preventative controls to properly identify threats to independence.

**Specific Comments:**

**Question 1**

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

**Comments**

Yes, we agree that the Code should contain provisions that require professional accountants to address the consequence of a breach of a requirement in the Code. Without this provision, the aggregate import of the Code, itself, is diminished and could serve to encourage abuse of the requirements. CGA-Canada is of the view that any breach should be taken seriously. The profession must not only be clear about how to handle such instances, but member bodies must concomitantly be aware of the requirement(s) to discipline members if there is a failure to adhere to ethical expectations.

**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 such action is taken?*

**Comments**

Yes, overall we agree; however, we do have some concerns with certain of the provisions (See response to Question 3). The measures that a firm is required to undertake, as detailed on page 6 of the ED, are reasonable and concise, and should not typically represent an onerous burden to the firm, in the circumstance of an identified breach that it deemed to be significant.

**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?*

**Comments**

No, we do not agree. We do not agree that the assessment of whether or not a breach of the independence requirements is significant or insignificant would be too subjective to determine. Professional accountants must regularly, and routinely, use judgement and, as such, this assessment should not prove too complex to appreciate. Accordingly, we believe that a *de minimis* test should be employed when determining whether or not a breach should be reported to those charged with governance. The requirements to be met when a breach has occurred are quite detailed and will take a certain amount of effort to address. Those matters deemed insignificant should, by their nature, not require the same rigorous application and effort.

We do agree that, once a breach has been identified that has been considered significant; the requirement to communicate should be employed. While we realize that communication enhances the transparency of a firm's analysis and judgements, should these communications be required in circumstances which are inconsequential, the end result will produce the opposite of that intended (i.e. the client will see the communication as frivolous if the subject matter is not determined to be of import, thus diminishing the value of future communications where the issue might prove more significant).

**Question 4**

*Do respondents agree that the 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?*

**Comments**

We agree that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach. This test is one that is already employed within the Code and, thus, is one that is familiar to the profession (and to other users of the Code).

**Question 5**

*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?*

**Comments**

We do not agree. If the significance of the breach is deemed to be trivial, it is our view that the matter should not be required to be reported to the client. We are amenable to the suggestion that the nature and duration of the breach be documented, including how it was detected, and how it was mitigated once discovered; however, this should conclude the action required by the firm when the matter is insignificant.

That said, for matters which are clearly significant, the process outlined in Para 290.46, as proposed, are largely reasonable.

#### **Question 6**

*Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA?*

#### **Comments**

The impact analysis reflects the views of the IESBA in preparing this revision and, thus, includes natural bias inherent to its development. For a clearer sense of the impact these proposals represent, other external stakeholders would necessarily require direct consultation (such as member bodies, professional accountants and clients).

For example, under the analysis included for 290.39, the party/interest impacted for clients' states that the proposal would represent a positive improvement as it would provide 'greater transparency by their auditors.' We question whether there is any empirical evidence to suggest that clients are looking for increased transparency? The analysis goes on to state that the 'actual number of breaches is thought to be low.' Given the noted low incidence of these breaches, we question the rationale for any change to the process; particularly when the change involves anticipated inclusion of 'insignificant' breaches.

#### **Question 7**

*Would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, does the proposed effective date provide sufficient time to make such changes?*

#### **Comments**

We do not believe that the proposal would require firms to make significant changes to their systems or processes, but it is important to note that changes would be required, and that any incremental change to these systems and processes represent a real cost to firms. The requirement to discuss the breach with those charged with governance, and to obtain their concurrence with the auditor's judgements, will represent additional time on the engagement and, thus, would represent a significant change.

The proposed effective date of January 1, 2013 would be difficult to impose for our membership, given our governance structure (many regions require ratification of Code changes before their respective memberships at the annual general meeting, and these meetings are typically held in the autumn of each year). If the revisions were finalized by the IESBA in the first half of 2012 there would not be sufficient time to obtain all of the various levels of approval required to provide consent to the change.

#### **Question 8**

*Is the abbreviated version of the framework described in Section 290 for dealing with a breach of an independence requirement suitable for Section 291? If not, what do respondents believe Section 291 should contain?*

#### **Comments**

We concur that the abbreviated version of the framework described in Section 290 is suitable for Section 291, as proposed on page 25 of the ED.

**Closing Comments:**

Should you wish to consult us further on this matter, we request that the IESBA correspond with Ms. Dawn McGeachy, BAccS, FCUIC, ACUIC, FCGA, LPA, Director, Public Practice at [dmcgeachy@cga-canada.org](mailto:dmcgeachy@cga-canada.org) or the undersigned at [rlefevre@cga-canada.org](mailto:rlefevre@cga-canada.org) .

Sincerely,

[Original signed by:]

Rock Lefebvre, MBA, CFE, FCIS, FCGA  
Vice-President, Research & Standards