

## Independence Implementation Summary of Member Body/Firm Questionnaire Responses

### Question 1

**Are the principles and examples contained in Section 8 clearly presented? Did you find the meaning of any paragraphs unclear? If so please provide details:**

The majority of respondents felt that the principles and examples contained in Section 8 were clearly presented.

Specific comments for clarity were:

- The structure is such that it can be difficult to determine which activities and relationships are prohibited;
- The application to all assurance engagements creates complexity – many of the examples have three sections: applicable to all assurance clients, applicable to audit clients and applicable to non-audit clients;
- 8.169 – The phrase “the services provided are collectively immaterial to the division or subsidiary” is not clear. This should not imply that it is acceptable to do all the bookkeeping activities for a material subsidiary. It is presumably intended to imply that it might be possible to perform a minor element of such a service?<sup>1</sup>
- 8.189 – It is not clear whether secondees may undertake activities that would otherwise be impermissible if provided directly by the firm as a client service.
- 8.200 – This paragraph dealing with executive recruitment might reasonably be stronger in terms of what activities would create a significant threat (which no safeguard would overcome) when provided to listed audit clients (eg active recruitment of directors).

*With the exception of the footnoted item comments are considered in Agenda Paper 3 or 3-A*

**Question 2 The application of the principles to specific situations (8.100 – 8.211) provides examples of some “prohibited” situations where the threat created by the activity or relationship would be so significant no safeguard could reduce the threat to an acceptable level (e.g. 8.111). Did you use the same approach and structure in describing these “prohibitions”?**

The majority of respondents adopted the approach used in the Code to describe “prohibitions”. One respondent commented that this approach is the most practical means of demonstrating how the principles apply.

Three respondents used a different approach:

- AICPA stated that the AICPA Code is primarily rules based however, the rules themselves are based on specific threats and safeguards as identified in the AICPA conceptual framework for independence standards – it is planned to incorporate the Conceptual Framework into the AICPA Code and have members use it in making decisions when no specific guidance exists in the Code;

<sup>1</sup> Comment still to be considered by the TF

- CA Canada adapted the IFAC standard to conform to the presentation that is required under CA rules of professional conduct. The prohibitions use “clearer, and perhaps stronger, language” for example it states simply a member or firm shall not perform an assurance engagement for an entity if a member of the firm serves as an officer or director of the entity;
- JICPA stated that the framework approach has been adopted but it has not yet adopted the examples of specific situations.

*Clarity of prohibitions discussed in Agenda Paper 3*

**Question 3 a Member Bodies When implementing Section 8 did you include any additional examples that are not contained in 8.100 – 8.211?**

The majority of member bodies did not include any additional examples but a significant minority did. (approximately 40% of member bodies). The additional example cited were:

- AICPA –
  - Alternative practice structures,
  - Relationships with entities included in governmental financial statements;
  - Guidance on non-assurance services includes examples on investment advisory services, business risk advisory services, and payroll or other disbursement services;
  - Prohibiting a covered member from having a loan to or from a non-financial institution client regardless of materiality;
  - Prohibiting a member from designing or implementing a client’s financial information system.
- CA Canada –
  - Because the North American capital markets are closely aligned and many Canadian companies are listed on US stock exchanges, the Canadian independence standard includes the prohibitions mandated by the SEC for auditors of public companies;
  - A firm is precluded from performing an audit (or review engagement) if a partner or professional employee of the firm who is not a member of the engagement team owns 0.1% or less of the securities of the entity unless that person controls the entity. (Note the SEC permits ownership of 5% of the securities of the entity.)
  - The Canadian standard requires a member or student who has a relationship or interest or who has provided a professional service that is precluded by the rules to notify a designated partner in the firm of the relationship, interest or service. The Canadian standard also requires firms to ensure that their partners and employees do not perform a service and remain free of any interest or relationship that would impair the firm’s independence.
  - The Canadian standard relating to documentation of independence considerations is more rigorous than that required in the IFAC standard.
- CGA Canada – has adopted SEC requirements for audits of listed entities with market capitalization or total assets in excess of \$10,000,000
- JICPA
  - Examples of joint venture participation are added
  - Restraints are imposed not only on accepting entertaining or gifts from audit clients but also on offering entertaining or gifts to them.

- NIVRA
  - The (draft revised) Code of Independence covers the issue of the provision of services to owners of the audit firm (no services allowed). The EC Recommendation is followed on this matter. The IFAC Code of Ethics doesn't deal with this issue.
  - The EC Recommendation considers the threat posed by the auditor being a member of an entity which holds 20% of the voting rights in the client or vice versa. The (draft revised) Code of Independence has adopted this consideration. This kind of threat is not directly considered by the IFAC Code of Ethics.
  - The (draft revised) Code of Independence prohibits members of the audit firm (although it's broader than that) to undertake supervisory roles in assurance clients. The IFAC Code of Ethics doesn't deal with this issue.
  - Prohibition on joining the audit firm within two years of leaving the audit client;
  - Non-audit services (all differences are because of EU Recommendation) decision-making for client is prohibited; provision of IT services – criteria to be met are more restrictive; litigation support services prohibited if the matter is expect to have a material impact on the client's financial statements and a significant degree of subjectivity is inherent in the case; recruiting senior management more restrictive criteria.
- MIA
  - Definition of public interest entity (PIE)
  - Malaysian Companies Act prohibits auditor from receiving or making a loan or guarantee to/from an audit client
  - Employment with assurance client – two year cooling off period required before lead engagement partner can join board of assurance client
  - Partner or employee of the firm prohibited from serving as liquidator, receiver, receiver and manager, or special administrator of an assurance client
  - Partner rotation provisions for listed entities extended to public interest entities
  - Partner rotation period is five on/ two off
  - Restrictions on non-assurance services extended to include “any other activity barred by law...”
  - Non-assurance service restrictions for listed entities extended to public interest entities
  - Internal audit – description of internal audit added, and for listed entities and PIEs firm or network firm prohibited from providing internal audit services where it is reasonably foreseeable that for the purposes of the audit the firm would need to place a significant degree of reliance on the internal audit work performed or the firm would need to undertake the role of management
  - IT services – for listed entities and PIEs firm or network firm should not accept engagement to design, provide or implement financial information technology services for an audit client where the systems concerned would be important to any significant part of the accounting systems or to the production of the financial statements or the engagement would lead to the firm taking decisions which are properly the responsibility of management
  - Legal services – not included because in Malaysia legal services can only be provided by advocates and solicitors. Members of the MIA who are not admitted as advocates and solicitors cannot provide legal services. As such it was felt that these provisions were superfluous
  - Fees and pricing – in the case of the audit of listed entities and PIEs if for two consecutive years the total fees from assurance and non-assurance engagements

was more than 15% of total firm fees the firm should withdraw from or decline the engagement

- Effective date – changed to apply to assurance engagements for which the financial period commences on or after July 1, 2004

*Task Force conducted a detailed review of Section 290 to determine which areas should be revisited. Review is presented in Agenda Paper 3-A*

**Question 3 b Firms Section 8 provides examples of how the framework is to be applied in certain circumstances. Do you believe additional examples should be provided?**

The majority felt no additional example were necessary. Two firms commented that additional examples would be useful:

- Application of the principles to network situations;
- Application of the principles to non-listed engagements and small firms; and
- Guidance on the use of third-party outsourcing service providers to provide non-assurance services to assurance clients.

*Task Force conducted a detailed review of Section 290 to determine which areas should be revisited. Review is presented in Agenda Paper 3-A*

**Question 3 b Member Bodies When implementing Section 8 did you exclude any of the examples contained in 8.100 – 8.211?**

Several member bodies stated that they excluded certain examples. In the majority of cases the reason for the exclusion was that such activities were prohibited by legislation or such activities did not exist. For example:

- Czech – position of Company Secretary does not exist therefore the examples were excluded
- JICPA – excluded provision of taxation services, litigation support services and legal services because these are prohibited by law.

Also CA Canada provided an exemption from the listed entity requirements to listed entities with market capitalization or total assets under \$10,000,000.

*Task Force conducted a detailed review of Section 290 to determine which areas should be revisited. Review is presented in Agenda Paper 3-A*

**Question 4 Member Bodies When implementing Section 8 did you modify any of the examples contained in 8.100 – 8.211 (for example, by adopting different requirements for audits of listed entities)?**

The responses to this question have been incorporated into the response to question 3.

**Question 5 Have you or another standard setter in your jurisdiction provided, or do you plan to provide, additional guidance for members in government?**

Four member bodies (AICPA, Czech, JICPA and NIVRA) stated that either guidance for members in government had been issued or discussions had commenced.

*The comments will be passed to the members in Government TF.*

**Question 6 Paragraph 8.23 refers to audit clients that may be of significant public interest. When implementing Section 8 did you, or do you plan to, provide any additional guidance in this area?**

Several member bodies commented that additional guidance was provided or planned but did not indicate what that guidance was or might be.

One member body included the following definition of a public interest entity:  
“public interest entity means an entity which is of significant public interest because, as a result of the type of business, size or corporate status, that entity has a wide range of stakeholders. Such entities possess certain authority or enjoy a particular position in society where public accountability can be deemed to exist wherein it is likely that there may be sufficient stakeholders who base their resource allocation decisions upon their knowledge of such entities. Such entities include listed entities, non-listed public companies falling within the purview of the regulatory authorities such as the Securities Commission or Bank Negara Malaysia, or statutory bodies or government controlled entities that are of significant public interest, whose financial statements are audited by external auditors.”

*Application to public interest entities considered in Agenda Paper 3*

**Question 7 When you implemented the requirements did you expose for comment the proposed requirements and were any changes made as a result of comments received?**

- Canada – concern re standards overload from smaller firms

*As discussed in Agenda Paper 3 TF believes a user-friendly guide would be useful.*

**Question 8 Are there any other comments that you wish to make?**

- Any easy to read guidance document would be useful – aimed particularly at smaller firms and sole practitioners.
- The current Code could give the impression that anything is allowed if the auditor only applies the appropriate safeguards.

*As discussed in Agenda Paper 3 TF believes a user-friendly guide would be useful.  
Use of safeguards discussed in Agenda Paper 3.*