

# Agenda Item D-3

## Note to IESBA

The Task Force has highlighted in the margins provisions of the Code where it believes changes are needed as a result of the IAASB's approval of its Quality Management standards. The Task Force will present the proposed changes as part of the Engagement Team – Group Audits Independence project's conforming amendments package at the December 2021 IESBA meeting. Where a matter raised by IAASB Staff is beyond the scope of this project, the Task Force recommends that the Board consider it as part of a potential future project.

### Indicative Provisions Where Quality Management-related Amendments are Needed to the Code

#### INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A and 4B)

#### PART 4A –INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

#### SECTION 400

#### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

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400.53 A4 Common quality control management policies and procedures are those designed, implemented and operated/monitored across the larger structure. (Ref: Para. R400.53(c)).

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#### Commented [A1]: Reason for amendment:

IAASB staff has provided feedback that ISQM 1 recognizes that there is more to networks than merely policies or procedures. ISQM 1 refers more broadly to network requirements or network services. Policies or procedures would only cover responses. However, networks are likely to share quality objectives and quality risks. (See paragraph A175 of ISQM 1.)

In finalizing ISQM 1, IAASB has avoided substantively revising the definition of a network in ISQM 1 to avoid creating unintended consequences for the Code. So, the definition of a network in ISQM 1 continues to refer to policies or procedures. IAASB staff has suggested that consideration be given to enhancing the application material in para 400.53 A4 to better explain the meaning of "quality management policies or procedures" in the context of ISQM 1.

As this is a substantive matter that will require coordination with the IAASB's ISQM 1 TF, the Board is asked to consider addressing it as part of the Engagement-Team – Group Audits Independence (ET-GA) project.

#### Commented [A2R1]: Engagement Team - Group Audit Independence Task Force Response:

The Task Force is of the view that this matter is beyond the scope of the project and recommends the Board to review it as part of a separate project.

## SECTION 540

### LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT

#### Requirements and Application Material

##### All Audit Clients

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**R540.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Provide quality control for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.5 to R540.20 also apply.

**Commented [A3]:** IAASB Staff has provided feedback that there are potentially many people in a firm performing various functions related to the SOQM, as described in ISQM 1. Accordingly, changing "quality control" to "quality management" would give rise to a substantive question and not be a mere terminology alignment.

As this is a substantive matter which is also being considered under the ET-GA project in relation to the definition of "audit team," the Board is asked to consider having the ET-GA TF address the nature of any changes needed to this provision.

**Commented [A4R3]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

## SECTION 800

### REPORTS ON SPECIAL PURPOSE FINANCIAL STATEMENTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION (AUDIT AND REVIEW ENGAGEMENTS)

#### Requirements and Application Material

##### General

##### Financial Interests, Loans and Guarantees, Close Business Relationships, and Family and Personal Relationships

**R800.10** When the firm performs an eligible audit engagement:

- (a) The relevant provisions set out in Sections 510, 511, 520, 521, 522, 524 and 525 need apply only to the members of the engagement team, their immediate family members and, where applicable, close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 510, 511, 520, 521, 522, 524 and 525, between the audit client and the following audit team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the audit client and others within the firm who can directly influence the outcome of the audit engagement.

**Commented [A5]:** IAASB Staff has provided feedback that in ISQM 1, the term "consultation" is used more broadly, i.e., it is not limited to "technical or industry specific issues, transactions or events". They have also queried whether individuals who deal with differences of opinion are included under bullet (b)(ii).

As the feedback from IAASB Staff raises a substantive matter beyond mere conforming amendments, the Board is asked to consider having the ET-GA TF address it as part of the latter's consideration of potential amendments to the definition of "audit team".

**Commented [A6R5]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

**Commented [A7]:** As per comment on para R540.4.

**Commented [A8R7]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

## PART 4B (REVISED) – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

### SECTION 940

#### LONG ASSOCIATION OF PERSONNEL WITH AN ASSURANCE CLIENT

##### Requirements and Application Material

###### General

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**R940.4** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the assurance engagement;
- (b) Provide quality control for the assurance engagement; or
- (c) Exert direct influence on the outcome of the assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed.

**Commented [A9]:** As per comment on para R540.4.

**Commented [A10R9]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

**SECTION 990**  
**REPORTS THAT INCLUDE A RESTRICTION ON USE AND DISTRIBUTION**  
**(ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS)**

**Financial Interests, Loans and Guarantees, Close Business, Family and Personal Relationships**

**R990.7** When the firm performs an eligible assurance engagement:

- (a) The relevant provisions set out in Sections 910, 911, 920, 921, 922 and 924 need apply only to the members of the engagement team, and their immediate and close family members;
- (b) The firm shall identify, evaluate and address any threats to independence created by interests and relationships, as set out in Sections 910, 911, 920, 921, 922 and 924, between the assurance client and the following assurance team members:
  - (i) Those who provide consultation regarding technical or industry specific issues, transactions or events; and
  - (ii) Those who provide quality control for the engagement, including those who perform the engagement quality control review; and
- (c) The firm shall evaluate and address any threats that the engagement team has reason to believe are created by interests and relationships between the assurance client and others within the firm who can directly influence the outcome of the assurance engagement, as set out in Sections 910, 911, 920, 921, 922 and 924.

**Commented [A11]:** As per comment on para R800.10.

**Commented [A12R11]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

**Commented [A13]:** As per comment on para R540.4.

**Commented [A14R13]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

**Commented [A15]:** No change for now – to be addressed by ET-GA TF in the upcoming ET-GA Exposure Draft as a substantive matter.

**Commented [A16R15]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
  - (b) All others within a firm who can directly influence the outcome of the assurance engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
    - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
    - (iii) Those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

- Audit team
- (a) All members of the engagement team for the audit engagement;
  - (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
    - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
    - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
    - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
  - (c) All those within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term "audit team" applies equally to "review team."*

**Commented [A17]:** As per comment on para R800.10.

**Commented [A18R17]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

**Commented [A19]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

**Commented [A20]:** IAASB Staff has provided feedback that in ISQM 1, there was an update to these terms from extant ISQC 1: chief executive officer or the firm's managing partner (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent).

As broadening this part of the definition to include a firm's managing board of partners is a substantive matter, the Board is asked to consider having the ET-GA TF address the matter as part of its consideration of the definition of "audit team".

**Commented [A21R20]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force is of the view that the individuals who can directly influence the outcome of the audit engagement are captured and recommends no further action.

**Commented [A22]:** As per comment on para R800.10.

**Commented [A23R22]:** As above

**Commented [A24]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

**Commented [A25]:** IAASB Staff has queried whether this should be the network? ISQM 1 contemplates that there is the network, other firms in the network and other structures or organizations within the network.

TF proposal:

As this is a substantive matter, the Board is asked to consider having the ET-GA TF address it as part of its consideration of the definition of "audit team".

Indicative Provisions Where QM-related Amendments to the Code Are Needed  
 IESBA CAG Meeting (September 2021)

**Key audit partner** The engagement partner, the individual responsible for the engagement quality **control** review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.

**Network** A larger structure:  
 (a) That is aimed at co-operation; and  
 (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality **control** **management** policies **and/or** procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

**Review team** (a) All members of the engagement team for the review engagement; and  
 (b) All others within a firm who can directly influence the outcome of the review engagement, including:  
 (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);  
 (ii) Those who provide **consultation** regarding technical or industry specific issues, transactions or events for the engagement; and  
 (iii) Those who provide quality control for the **engagement**, including those who perform the engagement quality control review for the engagement; and  
 (c) All those within a **network** firm who can directly influence the outcome of the review engagement.

**Commented [A26]:** To align with para R400.53 above

**Commented [A27R26]:** As above

**Commented [A28]:** As per comment above on definition of audit team.

**Commented [A29R28]:** As above

**Commented [A30]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force will consider potential amendments to this provision in Q4 2021.

**Commented [A31]:** As per comment above on definition of audit team.

**Commented [A32R31]:** Engagement Team - Group Audit Independence Task Force Response:

The Task Force is of the view that this is beyond the scope of the project and recommends that the Board consider it as part of a potential future project.