

Agenda Item 5-D

Note to IESBA

This paper presents the ET-GA Task Force's proposed changes to the Code as a result of the IAASB's approval of its Quality Management standards. Explanations of the proposed changes are included in the margins. 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 work stream.

Proposed Quality Management-related Amendments 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 and procedures are those designed, implemented and operated monitored across the larger structure. (Ref: Para. R400.53(c)).

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Commented [A1]: See Agenda Item 3-B for the QM-related Conforming Amendments Task Force's proposal to revert to the extant wording "policies and procedures" and for the reason for the change.

Commented [A2]: 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 [A3R2]: ET-GA Task Force Response:

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

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;~~ Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the 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 [A4]: 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 [A5R4]: ET-GA Task Force Response:

The Task Force proposes alignment with the revisions to subparagraph (b)(iii) of the definition of "audit team".

SECTION 540

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

Requirements and Application Material

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Restrictions on Activities During the Cooling-off Period

R540.20 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or ~~provide quality control~~ perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement.

Commented [A7R6]: ET-GA Task Force Response:

The Task Force proposes alignment with the revisions to subparagraph (b)(iii) of the definition of "audit team".

Commented [A6]: Refer to agenda item 3-C #11
APESB believes the IESBA should consider additional conforming amendments to the IESBA Code to improve alignment and interoperability with ISQM 1 and 2.

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~~Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; 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 [A8]: 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 [A9R8]: ET-GA Task Force Response:

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

Commented [A10]: As per comments on para R540.4.

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~~ Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the 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 [A11]: As per comments on para R540.4.

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~~Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; 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 [A12]: As per comments on para R800.10.

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

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

- Assurance team
- (a) All members of the engagement team for the assurance engagement;
 - (b) All others within a firm, **or engaged by the 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 perform an engagement quality control review, or a review consistent with the objective of an engagement quality review, for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.**

Commented [A14]: As per proposed change to the definition of assurance team in Agenda Item 5-B.

Commented [A15]: As per comments on para R800.10.

Commented [A16]: As per proposed changes to the definition of assurance team in Agenda Item 5-B.

- Audit team
- (a) All members of the engagement team for the audit engagement;
 - (b) All others within a firm, **or engaged by the 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 perform an engagement quality control review, or a review consistent with the objective of an engagement quality review, 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.

Commented [A17]: As per proposed change to the definition of audit team in Agenda Item 5-B.

Commented [A18]: 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 [A19R18]: ET-GA Task Force Response:

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

Commented [A20]: As per comments on para R800.10.

Commented [A21]: As per proposed changes to the definition of audit team in Agenda Item 5-B.

Commented [A22]: 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.

Commented [A23R22]: ET-GA 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 work stream.

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

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 engagement~~ partners responsible for ~~the audits of certain components in a group audit such as~~ significant subsidiaries or divisions.

Commented [A24]: To align to proposals set out in agenda item 5-B

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~~ ~~and~~ procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.

Commented [A25]: To align with para 400.53 A4 above

Review team
(a) All members of the engagement team for the review engagement; and
(b) All others within a firm, ~~or engaged by the 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 perform an engagement quality review, or a review consistent with the objective of an engagement quality review, 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]: As per proposed changes to the definition of review team in Agenda Item 5-B.

Commented [A27]: See comments above on definition of audit team.

Commented [A28]: As per proposed changes to the definition of review team in Agenda Item 5-B.

Commented [A29]: See comments above on definition of audit team.