

APESB's Assurance Related Projects

Sothertons National Assurance Committee

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Presentation overview

- IESBA's proposals on Long Association
- IESBA's Code Structure Project
- IAASB's Invitation to Comment – Quality Control Matters
- IESBA's Staff Paper on downward pressure on audit fees

**IESBA's 2016 Long Association
ED - *Limited Re-exposure***

Background

- Global Financial Crisis and impact on Audit Profession.
- Regulatory response and European Union Audit reform.
- Public interest considerations to address auditor independence.
- Familiarity & self-interest threats created by Long Association of Audit Personnel.

Developments at IESBA

- Long Association of Key Audit Partners (KAPs) and auditor independence.
- A key safeguard – Rotation of Engagement Partners (EP), Engagement Quality Control Reviewer (EQCR) and other KAPs.
- December 2012 – Long Association project approved.
- August 2014 – Original ED issued.

Developments at IESBA

- November 2014 – 2014 ED comment period closed.
 - 77 global submissions received.
 - Support – maintain 7 years time-on period for KAPs.
 - Less support – rotation of KAPs on Public Interest Entities (PIEs).
 - Balanced view – restrictions on activities performed during cooling-off period.
 - Support – corresponding changes to section 291.
- February 2016 – Limited Re-exposure ED issued.

APESB's key proposals to 2014 ED

1. Not supportive of extending cooling-off period from 2 to 5 years for Engagement Partners (EP) on PIE.
2. Audit regulator or local jurisdiction's National Standards Setter (NSS) can determine if longer cooling-off period required.
3. If required, APESB supportive of increasing cooling-off period from 2 to 3 years for an EP on a PIE.
4. All PIEs should be treated similarly.

APESB's key proposals to 2014 ED

5. Cooling-off period for the EP and EQCR on a PIE should be the same and have restricted functions.
6. EP's cooling-off period on a PIE is triggered when an EP has served at least 3 years out of 7 year time-on period.
7. Define term '*senior personnel*' to include personnel involved in audit management & limit the application of long association provisions to '*senior personnel*'.

IESBA's 2016 Long Association ED

- Key aspects of IESBA's 2016 ED
- Impact of proposals subject to re-exposure
- IESBA's expected timeline

Key aspects of IESBA's 2016 ED

IESBA's 2016 ED incorporates:

- Basis for conclusions on matters not subject to Re-exposure in 2014 ED.
- Explanatory Memorandum on background & explanations on limited re-exposure of proposed changes in 2016 ED.
- IESBA Staff Q&A publication.

Matters not subject to Re-exposure

- **Rotation requirements for KAPs on PIEs**
 - Retained 7-year time-on period for KAPs on PIEs.
 - Cooling-off periods:
 - Extended to 5 years for the EP on all PIEs.
 - Retained 2 years for other KAPs (except EQCR).
 - Reconsidering a longer cooling-off period for the EQCR.

(paragraphs 290.150A, 290.150B, 290.150F)

Matters not subject to Re-exposure

- **KAP moving into an EQCR role:**
 - Requirements for the EQCR's independence & objectivity should be addressed in ISQC 1.
 - Matter to be considered under IAASB's current initiative to review ISQC 1.

Matters not subject to Re-exposure

- **Restrictions on activities during cooling-off period**
 - Not be a member of the engagement team or provide quality control.
 - Refined allowance for limited consultation on technical issues after 2 years subject to meeting certain criteria.
 - Extended scope to cover the EQCR.
 - Retained additional restrictions on activities during cooling-off period.

(paragraph 290.150E)

Matters not subject to Re-exposure

- **Long Association of Audit Team Members (exc. KAP)**
 - Removed repetitive general provisions.
(deleted paragraph 290.150D in 2014 ED)
- **Obtain Concurrence of Those Charged with Governance (TCWG)**
 - Retained allowance for a KAP to serve:
 - 1 additional year due to unforeseen circumstances.
 - 2 additional years when an entity initially becomes a PIE and the KAP has served 6 or more years.

Subject to obtaining concurrence of TCWG.

(paragraphs 290.151 and 290.152)

Matters not subject to Re-exposure

- **Strengthening the General Provisions**
 - Application of general provisions to all individuals on audit team.
 - Additional factors to consider in respect of an individual's role in an audit engagement.
 - The firm to determine the cooling-off period of individuals (other than KAPs) on the engagement team.
 - Recognition of a KAP's prior audit service in a prior firm.

(paragraph 290.148A, 290.148B, 290.149A)

Matters not subject to Re-exposure

- **Corresponding Changes to Section 291 – Other Assurance Engagements**
 - Conforming changes to Section 291.
 - Retained provisions that section is limited to assurance engagements of a recurring nature.

(paragraphs 291.137A)

Proposals subject to Re-exposure

- **New or revised proposals re-exposed:**
 - Length of cooling-off period for an EQCR on a PIE audit.
 - Recognising different jurisdictional safeguards.
 - Individual served as EP/EQCR, or combination roles, for part of 7 year time-on period.

Proposals subject to Re-exposure

- **Length of Cooling-off period for an EQCR**
 - Increased cooling-off period for an EQCR from:
 - 2 to **5 years** for listed PIEs.
 - 2 to **3 years** for non-listed PIEs.

(paragraphs 290.150A & 290.150B)

Impact of IESBA's proposals subject to Re-exposure

- **Increased length of EQCR's cooling-off period**
 - Enhances audit quality & address perception concerns.
 - Practical challenges for small firms with few partners.
 - Complexity in applying provisions to different KAPs on listed and non-listed PIEs.

Proposals subject to Re-exposure

- **Cooling-off periods recognises different jurisdictional safeguards**
 - Alternative approach for the EP and EQCR on PIEs when different jurisdictional safeguards exists.
 1. Independent regulatory inspection regime; and
 2. (a) EP and EQCR's time-on period less than 7 years; or
(b) Mandatory firm rotation or mandatory tendering.
 3. Independent standard setter has followed its due process in the determination.
 - Cooling-off period reduced from 5 to 3 years.
(*paragraph 290.150D*)

Impact of IESBA's proposals subject to Re-exposure

- **Jurisdictional Safeguards**
 - Lower impact on rotation requirements for KAPs on PIE in jurisdictions with different but robust safeguards.

Proposals subject to Re-exposure

- **EP or EQCR for part of 7 year time-on period**
 - Revised cooling-off period applies where a KAP served as EP/EQCR, or in combination roles, for either:
 - 4 or more years; or
 - at least 2 out of last 3 years.

(paragraph 290.150A & 290.150B)

Impact of IESBA's proposals subject to Re-exposure

- **EP or EQCR for part of 7 year time-on period**
 - Lower impact as a KAP is not subjected to longer cooling-off period by serving as EP/EQCR for 1 year.

Summary of proposals

KAP	Existing IESBA Code		Existing APES 110 / Corps Act		Impact of IESBA Proposal	
	Listed PIE	Non-Listed PIE	Listed PIE	Non-Listed PIE	Listed PIE	Non-Listed PIE
EP	7/2	7/2	5/2	7/2	5/3	7/5
EQCR	7/2	7/2	5/2	7/2	5/3	7/3
Other KAPs	7/2	7/2	7/2	7/2	7/2	7/2

(paragraphs 290.150A & 290.150B)

Matters for discussion

1. Do you agree with the proposed cooling-off periods for an EQCR of 5 years for listed PIEs and 3 years for non-listed PIEs? If not, what are your alternative proposals?
2. Do you agree with the reduced cooling-off period of 3 years for EP and EQCR on PIEs where other jurisdictional safeguards exists? If not, what are your alternative proposals and conditions?
3. Do you agree with the revised proposals in respect of the time that must be served as an EP/EQCR before the maximum cooling-off period is applicable? If not, what are your alternative proposals?

IESBA's Code Structure Project

How the Code is proposed to be structured

PARTS OF THE CODE

GUIDE TO THE CODE (ALL PROFESSIONAL ACCOUNTANTS)

PART A (ALL PROFESSIONAL ACCOUNTANTS)
INTRODUCTION TO THE CODE AND FUNDAMENTAL PRINCIPLES

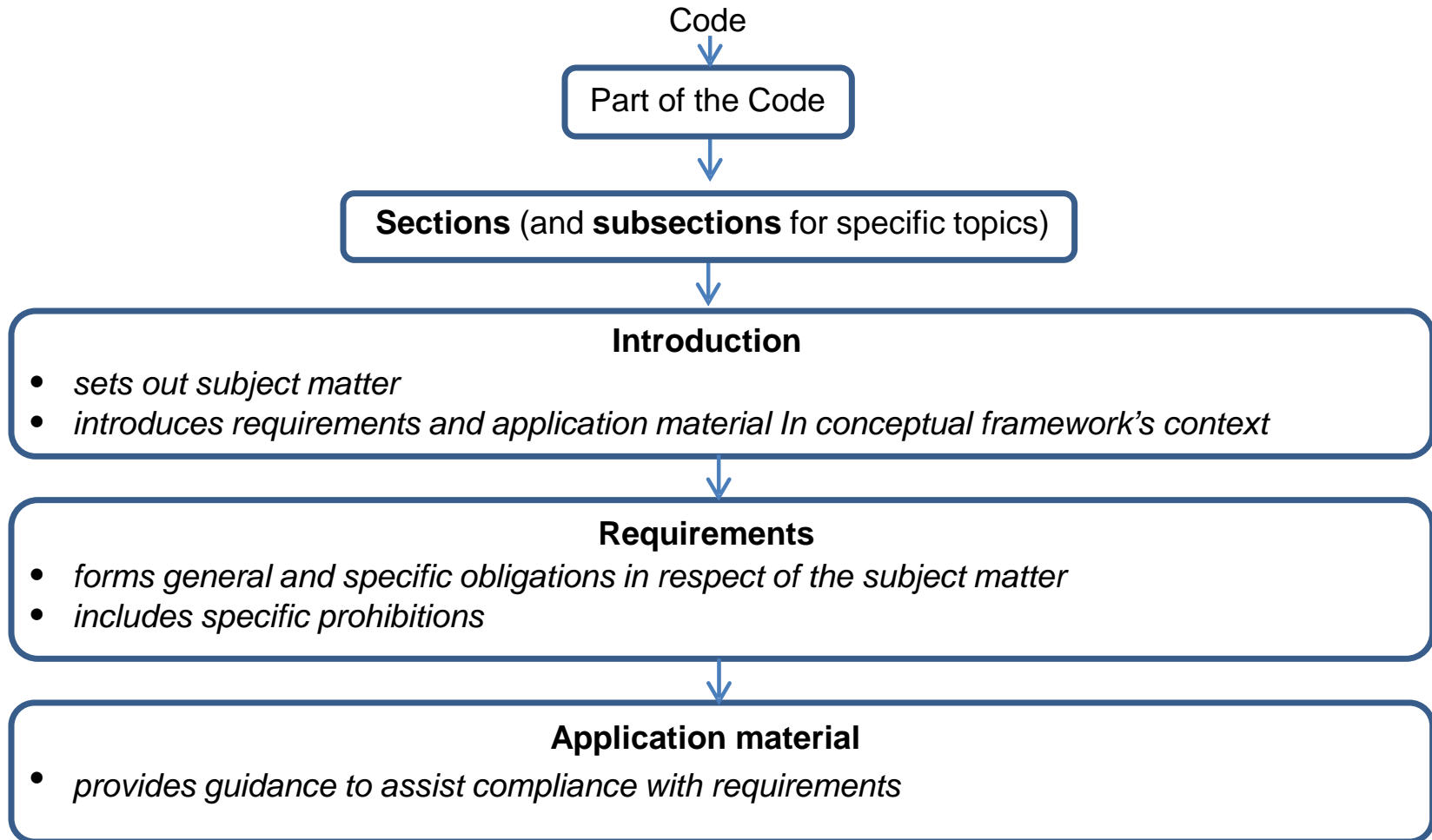
PART B
PROFESSIONAL ACCOUNTANTS IN BUSINESS

PART C
PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

INTERNATIONAL INDEPENDENCE STANDARDS
C1 – INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS
C2 – INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

GLOSSARY

How the Code is proposed to be structured



Significant Matters

1. Requirement - apply conceptual framework & comply with fundamental principles.
2. Requirements distinguished from application material.
3. Application material positioned next to requirements.

Significant Matters

4. Identification of a Firm's or an individual PA's responsibility to comply with the requirements.
5. Use of language.
6. Added Guide to the Code.

Significant Matters

7. Organised material into sections and subsections:
 - More sub-headings to facilitate navigation.
8. Independence sections moved to the end of Code:
 - International Independence Standards included in Part C as C1 & C2.
9. Reorganised Code to take advantage of future electronic features.

Other Matters

1. Definition section enhanced and presented as a glossary.
2. Clarification that 'Audit' includes 'review' for independence standards.

(Guide no. 4, C1 paragraphs 400.1 & 400.8 and Glossary)

Other Matters

3. Specific references to Network Firms.
(subsection 401)
4. New title “International Code of Ethics Standards for Professional Accountants”.

Overview of the IAASB's Invitation to Comment

Audit Quality ITC Overview

- Matters for consideration:
 - Quality Management Approach (QMA).
 - Monitoring and remediation by Firms.
 - Network quality control policies and procedures.
 - Review of Engagement Partner roles and responsibilities.
 - Engagement Quality Control Review & Reviewers.
- IAASB's timeline.

Matters for Consideration

Quality Management Approach (QMA)

- Broader approach than extant ISQC 1.
- Scalable / flexible to suit firm's environment and operations.
- Keys areas to explore:
 - Risk of not achieving quality objectives.
 - Monitoring quality from all sources.
 - Conditional requirements.
 - Scalability.
 - Audit and non-audit context.

(ITC paragraphs 50-67)

Matters for Consideration

Quality Management Approach (QMA)



Matters for Consideration

Australian Standards

APES 325

ASQC 1
APES 320

ASA 220
APES 215
APES 225



International Standards

New standard?

ISQC 1

ISA 220

Matters for Consideration

Monitoring and remediation by Firms

Possible amendments to existing requirements:

- Analysis of external findings and reviews.
- Analyse cause of audit deficiencies.
- Policies and procedures on audit deficiencies.
- Monitor remedial actions.

Application material would also be enhanced.

(ITC paragraphs 147-159)

Matters for Consideration

Network quality control policies and procedures

- No requirements in current standards for networks.
- Revisions to be considered:
 - Improve clarify around reliance on network quality control and monitoring policies & procedures.
 - Communication about inspections across a network.
 - Additional application guidance for group audit scenarios.

(ITC paragraphs 106-116)

Matters for Consideration

Review of Engagement Partner roles and responsibilities

- Changes to ISQC 1 to flow through to engagement level
- Possible amendments:
 - Clarify performance, direction, supervision & review.
 - Reinforce active involvement at all stages of engagement.
 - Guidance for engagement acceptance & continuance.
 - Mapping out key responsibilities across ISAs.
 - Guidance for multi-location audit teams.

(ITC paragraphs 69-86, 92, & 96-98)

Matters for Consideration

Engagement Quality Control (EQC) reviews & reviewers

Possible amendments:

- EQC reviews extended to entities of public interest.
- Selection of appropriate EQC reviewer clarified.
- Subject-matter experts to assist EQC reviewer.
- Specifying the nature & extent of matters within EQC review.
- Additional documentation requirements.

Is there a need for a separate EQC review standard?

(ITC paragraphs 136-146)

Matters for discussion

IAASB ITC - Quality Control Matters

1. Is the proposed QMA a viable suggestion? How would you see a QMA fitting into the Australian quality control and risk management framework for Firms?
2. What issues could arise if the QMA was applied to assurance and non-assurance engagements?
3. What are the current processes used in practice in respect of quality control deficiencies in firms? Is there a need for a formal policy and procedures in how firms deal with quality control deficiencies?
4. Is there a need for guidance on quality control matters specifically for network firms? If yes, what would this look like? Is anyone aware of examples of where quality control has been an issue across network firms?

Matters for discussion

IAASB ITC - Quality Control Matters

5. What would help with multi-location audits where Engagement Partners are located separately from the majority of the audit team and therefore the audit work– specific requirements, or additional guidance and examples?
6. Should there be a separate standard relating to EQCRs, and if yes, what should be covered in such a standard?
7. Should EQCRs be mandatory for audits of public interest entities and what public interest entities should be captured by this requirement
8. How can these requirements be made scalable for SMPs?

IESBA Technical Staff paper on downward pressure on Audit Fees

Ethical considerations - Audit Fees

IESBA Technical Staff paper

- Reasons for downward pressure on audit fees
- Key considerations in the Code
 - Compliance with the fundamental principles
 - Communication with those charged with governance
- Importance of the role of other stakeholders

Further information

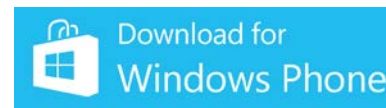
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Q & A session...