

AGENDA PAPER

Item Number: 8
Date of Meeting: 23 February 2023
Subject: Proposed revisions to APES 110 for Engagement Team – Group Audits Independence

Action required **For discussion** **For noting** **For information**

Purpose

To obtain the Board's approval to issue the Exposure Draft *Proposed Revisions to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Relating to the Definition of Engagement Team and Group Audits*, subject to the Board's feedback and review comments.

Background

In March 2020, the International Ethics Standards Board for Accountants (IESBA) commenced a project to review the definition of Engagement Team and independence considerations for group audits in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the International Code).

The objective of IESBA's project was to amend the International Code to:

- align the definition of Engagement Team with the revised definition in ISA 220 (Revised) *Quality Management for an Audit of Financial Statements* whilst maintaining the international independence standards (IIS) as clear and appropriate and only applying to individuals within the revised definition who must be independent in the context of an audit engagement; and
- revise the IIS to be robust, comprehensive and clear when applied to group audits, including regarding the independence of component auditors outside the group auditor firm's network.

In February 2022, the IESBA issued an Exposure Draft [Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#) (IESBA Group Audit Exposure Draft), which closed for comments on 31 May 2022. IESBA received forty-nine submissions from a wide range of stakeholders, including two Monitoring Group members, regulators, national standard setters (including APESB), professional accounting and other professional bodies and firms.

At the December 2022 IESBA Board meeting, the IESBA approved the final standard, [Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#). Public Interest Oversight Board (PIOB) approval for the standard is being sought at an out of session PIOB Board meeting in the coming weeks. Once PIOB approval has been received, the IESBA will issue the final standard.

Matters for Consideration

To maintain alignment with the International Code, Technical Staff propose to issue for exposure Revisions to APES 110 Relating to the Definition of Engagement Team and Group Audits. Technical Staff note that although the PIOB has not yet approved IESBA's final standard, it is not expected that this process will change the content of the standard as finalised by the IESBA.

The proposed key amendments in the exposure draft are summarised below:

- align the definition of Engagement Team in APES 110 with the definition in ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information* and ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* issued by the Auditing and Assurance Standards Board (AUASB);
- new defined terms, including Group Audit Client and Component Audit Client, aligned to the definition of Audit Client;
- guidance on the types of experts included in the definitions of Engagement Team and Audit Team;
- new proposed Section 405 *Group Audits* on independence principles and considerations for individuals and firms in a Group Audit context including requirements and application material on:
 - communication between the Group Auditor Firm and Component Auditor Firm to complement requirements in ASA 600 (Revised) *Special Considerations-Audits of a Group Financial Report*;
 - Independence for Group Audit Team members within, or engaged by, a Group Auditor Firm and its Network and Group Audit Team members within, or engaged by, a Component Auditor Firm outside the Group Auditor Firm's Network;
 - Independence for the Group Auditor Firm and Component Auditor Firms outside the Group Auditor Firm's Network (including the period when Independence is required);
 - when an entity becomes an Audit Client during or after the period covered by the Group Financial Statements;
 - addressing breaches of independence requirements by a Component Auditor Firm, including when within and outside the Group Auditor Firm's Network;
 - Component Auditor Firms outside the Group Auditor Firm's Network holding financial interests in, and having loans involving, the Group Audit Client;
 - requirements for Component Auditor Firms where the Component Audit Client is not a Public Interest Entity (PIE), but the Group Audit Client is a PIE;
 - changes at a Component Auditor Firm or a Component;
 - Group Auditor Firm's communication to Those Charged with Governance; and

- conforming and consequential amendments to Sections 360, 510, 540, 605, 800, 900, 940 and 990 and paragraphs 400.30 A1 to 400.31 A1.

The proposed exposure draft for Revisions to APES 110 Relating to the Definition of Engagement Team and Group Audits is presented as clean and marked-up versions at Agenda Items 8(a) and (b), respectively.

Proposed Difference in APES 110 to the IESBA Final Standard

[APESB's submission](#) in June 2022 on the IESBA Group Audit Exposure Draft recommended that Engagement Team be retained across all parts of the International Code and to include explanatory material to the definition of Engagement Team explaining that in Part 3 of the International Code, the term applies to both assurance and non-assurance services.

However, IESBA's final standard for *Revisions to the Definitions of Engagement Team and Group Audit* includes amendments to paragraphs 300.8 A2, 310.8 A3, R310.12, R310.13 and 320.3 A3 changing Engagement Team to 'team'.

Technical Staff believe IESBA's amendments to the wording in the definition of Engagement Team can be applied to both assurance and non-assurance services in APES 110. Further, other APESB pronouncements addressing non-assurance services use Engagement Team, which covers non-assurance services.

Technical Staff do not recommend changing Engagement Team to 'team' from an Australian perspective in paragraphs 300.8 A2, 310.8 A3, R310.12, R310.13 and 320.3 A3, and therefore, these amendments have not been included in the proposed Exposure Draft at Agenda Items 8(a) and (b).

Technical Staff also propose including an explanation to the definition of Engagement Team in APES 110, noting that in Part 3, Engagement Team refers to individuals performing procedures on assurance and non-assurance services.

Stage 1 and Stage 2 in the Exposure Draft

It is proposed that revisions to the Code will become effective in two stages (full details are included in the Transitional Provisions section of the Exposure Draft):

- Stage 1 – changes relating to the revisions to the definition of Engagement Team and Group Audit are proposed to be effective from 1 January 2024; and
- Stage 2 – changes to the definitions of Audit Client and Group Audit Client arising from proposed revisions to the definitions of Listed Entity and Public Interest Entity, which are proposed to be effective from 1 January 2025.

Subject to the outcome of the Exposure Draft process, Technical Staff are of the view that the Stage 2 amendments could be incorporated as part of the Definitions of Listed Entity and Public Interest Entity standard proposed to become effective from 1 January 2025. This staged approach will reduce the complexity of future compilations of APES 110 due to the varying effective dates.

The majority of the IESBA changes will become effective from 1 January 2024, requiring APESB to act promptly. As such, Technical Staff propose to issue the exposure draft for public comment period of 60 days.

Recommendation

That the Board approve, subject to the Board's feedback and review comments and the issue of IESBA's final standard, the release of the proposed Exposure Draft *Proposed Revisions to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Relating to the Definition of Engagement Team and Group Audits*.

Materials Presented

Agenda Item 8(a) Draft ED Revisions to APES 110 on ET and GA (Marked-up)

Agenda Item 8(b) Draft ED Revisions to APES 110 on ET and GA (Clean)

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Date: 15 February 2023