

AGENDA PAPER

Item Number: 12

Date of Meeting: 31 May 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, subject to the Board’s feedback and review comments, to issue the Amending Standard *Revisions to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Relating to the Definition of Engagement Team and Group Audits*.

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 project aimed to align the definition of Engagement Team with the revised definition in ISA 220 (Revised) *Quality Management for an Audit of Financial Statements* as well as ensuring the Independence Standards were robust, comprehensive and clear when applied to group audits, including regarding the independence of component auditors outside the group auditor firm’s network.

The IESBA approved the final standard, [Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#), at their December 2022 Board meeting. The final standard required Public Interest Oversight Board (PIOB) approval before it could be finalised and released.

At the February 2023 Board Meeting ([Agenda Item 8](#)), APESB approved the issue of an Exposure Draft (ED) incorporating the IESBA Group Audit revisions into APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) subject to the release of the final standard by IESBA. The majority of the proposed revisions to APES 110 were based on the IESBA’s final standard with amendments to adapt to Australian requirements, such as amending the definition of the engagement team to align with local Australian auditing and assurance standards requirements and maintaining the use of the term engagement team for non-assurance engagements (in line with the reissued APES 320 *Quality Management for Firms that provide Non-Assurance Services*).

The IESBA released their final standard on 28 February 2023. Subsequently, APESB released exposure draft ED 01/23 [Proposed Revisions to the Code Relating to the Definition of](#)

[Engagement Team and Group Audits](#) on 21 March 2023, with a comment period that closed on 19 May 2023.

Matters for Consideration

APESB received six submissions on ED 01/23 from accounting firms and professional accounting bodies, which are tabulated in the General Comments and Specific Comments tables at Agenda Item 12 (a) and 12 (b), respectively.

Overall, stakeholders supported the proposed revisions in the amending standard and agreed with the revised definition of Engagement Team to align with Australian auditing and assurance standards. The concerns raised by stakeholders included the following:

- Retention of the definition 'Engagement Team' in Part 3 of APES 110

In the exposure draft, APESB proposed to retain the use of the definition 'Engagement Team' in Part 3 of APES 110. This was to maintain consistency with the use of the term across the suite of APESB pronouncements, particularly the reissued APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320). However, a stakeholder is concerned that this approach could create unintended consequences for Members who need to comply with the requirements of ISQM 1 issued by the International Auditing and Assurance Standards Board.

Technical Staff have considered the revisions in light of the applicable requirements in Australia and are of the view that it could create confusion for Members if the terms were not used consistently. Therefore, no changes are proposed to the amending standard consistent with the proposed ED

- Component Audit Clients that are not Public Interest Entities (PIEs)

A concern was raised that the application of the PIE independence requirements for group audits would be onerous for component auditors if the component audit client is not a PIE and is not a significant component of the group.

The IESBA specifically considered this matter during their project. It was determined that the group audit independence requirements apply to the external component auditors, even if it means they have to adopt the PIE independence requirements and the component audit client is not a PIE. Refer to paragraphs 95 to 116 of the IESBA's [Basis for Conclusions: Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#) for their detailed consideration of this matter. APESB Technical Staff note that no substantive evidence has been provided to support Australia adopting a different position in APES 110, which would be a lower standard to the International Code. As adopting a lower standard than the IESBA Code is inappropriate, no changes are proposed to the draft amending standard.

- Effective date

A concern was raised about the implementation challenges faced by practitioners due to the 6-month lead time to the effective date of 1 January 2024 for the proposals in Stage 1 of the ED.

APESB Technical Staff acknowledge the concern but note the date was chosen to ensure consistency with requirements in ASA 600 (Revised) *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)*, which is issued by the AUASB and becomes effective from 15 December 2023. It will increase

the complexity of implementation by practitioners if the requirements in the relevant auditing standards and APES 110 become effective at significantly different periods. Accordingly, technical Staff do not propose to amend the effective date of the amending standard.

- Request for guidance

Two stakeholders requested that APESB develop a “Staff Q&A” and other relevant guidance material to assist in implementing these provisions. As the IESBA is in the process of developing guidance material on this topic, APESB will wait for that to be released before considering if additional guidance material is required for Australia.

As limited changes are being proposed to the Engagement Team-Group Audit Amending Standard, Technical Staff have not replicated the full version of the Standard in this agenda paper. It is the same as the proposed revisions set out in the [exposure draft](#), apart from the matters being suggested by Technical Staff as set out below:

- Relocation of Stage 2 provisions to the amending standard on Listed Entity and PIE

The exposure draft for Engagement Team and Groups Audits incorporated two stages with different effective dates being:

- 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.

As there were no concerns raised in relation to the proposed changes in Stage 2 of the exposure draft, Technical Staff are of the view that the Stage 2 amendments should be incorporated as part of the final Definitions of Listed Entity and Public Interest Entity amending standard (PIE Amending Standard) proposed to become effective from 1 January 2025, to reduce complexity in creating future compilations of APES 110.

Technical Staff, therefore, propose to delete Stage 2 from the Engagement Team- Group Audit Amending Standard, subject to the Board approving the inclusion of these provisions in the PIE Amending Standard being considered at Agenda Item 11. The revisions to reflect this in the amending standard are set out in Agenda Paper 12 (c).

- Proposed editorial amendment

In a recent review of the APES 110, APESB Technical Staff have noted the following two matters that require amendments:

- in paragraph 360.25 A3, the term whistle-blowing has a hyphen between the words. This is not consistent with the other references in APES 110 to whistleblowing, and the hyphen needs to be removed; and
- the numbering for paragraphs 900.14 A1 to 900.17 needs to be amended. APESB followed the numbering sequence per the final standard issued by the IESBA for *Amendments to the Non-Assurance Services provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards)*. However, while preparing the Compiled Code, Technical Staff noted that in the most recent edition of the IESBA Handbook, these paragraphs were renumbered from 900.15 A1 to 900.18. Therefore, APESB Technical Staff propose to amend the numbering of these paragraphs to align with the IESBA 2022 Handbook.

APESB Technical Staff propose to include these minor editorial amendments in this amending standard.

Therefore, Technical Staff seek the Board's approval to issue the amending standard as proposed in [ED 01/23](#) on the definition of engagement team and group audits, subject to the editorials noted above, with an effective date of 1 January 2024.

Recommendation

The Board approve, subject to the Board's review comments and editorials, the issue of an amending standard *Revisions to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Relating to Definition of Engagement Team and Group Audits*.

Materials Presented

- Agenda Item 12 (a) General Comments Table ED 01/23
- Agenda Item 12 (b) Specific Comments Table ED 01/23
- Agenda Item 12 (c) Deletion of Stage 2 provisions from Amending Standard (marked-up)

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