



INTERNATIONAL FEDERATION OF ACCOUNTANTS

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Agenda Item 5

Committee: Ethics
Meeting Location: New York
Meeting Date: February 2-3, 2004

Quality Control ED

Objectives of Agenda Item

1. To discuss the portions of the proposed QC ISQC and ISA 220 that relate to ethics and to determine whether there are any further comments that should be raised with the QC Task Force.

Background and Issues

At the September 2003 meeting, the Ethics Committee discussed the Quality Control exposure draft (ED) which had been issued by the IAASB. The Committee was concerned that the ED paraphrased and interpreted the Code, used some different definitions and in cases extended the requirements of the Code.

Marilyn Pendergast and Jan Munro attended a portion of the October QC Task Force meeting to express the views of the Committee and subsequent to this meeting submitted the Committee's formal response to the ED (Agenda Paper 5-C). The meeting was very productive and the Task Force indicated the intent had been to "operationalize" the Code. This has resulted in some inadvertent inconsistencies with the Code. It was agreed that all efforts would be made to remove inappropriate inconsistencies.

At the invitation of the QC Task Force, Ethics staff attended the next QC Task Force meeting and participated in a subsequent conference call.

In December 2003, the Ethics Committee discussed the latest draft of the QC documents which were subsequently presented for discussion at the December IAASB meeting. The Committee welcomed the changes that had been made to eliminate inconsistencies but continued to be concerned with two issues:

- the level of detail contained in the QC documents could, inappropriately, lead readers to believe that all relevant information on independence is contained in the QC documents and that it was not necessary to refer to the Code. Also the level of detail would mean that the QC documents would need to be revised as and when changes were made to the Code; and
- the discussion regarding rotation of engagement partners for engagements other than audits of listed entities could be read as establishing a presumption that such individuals should be subject to rotation requirements.

The Committee communicated these concerns to the QC Task Force in a letter dated December 4, 2003 (Agenda Paper 5-D).

On December 8, 2003, there was a conference call between the Ethics Chair and staff and the QC Chair and staff to discuss the second letter.

The IAASB discussed the QC documents at their December meeting and the QC Task Force met on January 5-6, with a follow-up conference call on January 19 to finalize the documents. Marilyn Pendergast and Jan Munro participated in the conference call. The documents (Agenda Papers 5-A and 5-B) will be presented to the IAASB for approval at its February meeting.

Changes made

Several changes have been made to the QC document to respond to comments received on exposure and to address concerns raised by the Ethics Committee. In particular, the following changes have been made:

Definitions – several changes have been made to the definitions:

Engagement partner – is more descriptive of the activities conducted by the engagement partner – the Code focused on signing the report rather than the process involved in determining whether the engagement has been completed such that a report could be issued.

Engagement team – this now refers to professionals performing an engagement, including any experts contracted by the firm in connection with that engagement.

Firm – this includes “other entity of professional accountants.”

Listed entity – consistent with Code.

Network firm – consistent with Code.

As discussed at the December Ethics conference call, it is proposed that the Code will be conformed to the definition noted above.

ISCQ paragraph 19 states that the paragraphs dealing with independence in the ISQC need to be read in conjunction with the Code.

ISQC paragraph 22 has been conformed with the Code and a bullet on evaluating the significance of threats identified has been added.

ISQC paragraph 27 has been deleted, and paragraph 26 amended, to make it clear that the firm is required to set out criteria to determine the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time. This “operationalizes” paragraph 8.150 of the Code which states:

“Using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat.”

ISQC paragraph 73 – the sentence referring to an immediate family member of the engagement quality control reviewer has been deleted. Also the ISQC does not refer to rotation of the reviewer because this is a matter to be considered for the Code. (See Agenda Item 4)

ISA 220 has similar changes.

Material Presented

Agenda Paper 5-A	Proposed ISQC 1 – mark-up from ED
Agenda Paper 5-B	Proposed Revised ISA 220 - mark-up from ED
Agenda Paper 5-C	Letter from Marilyn Pendergast responding to IAASB QC ED – dated October 8, 2003
Agenda Paper 5-D	Letter from Marilyn Pendergast to Ana Maria Elorrieta, Chair of Quality Control Task Force - dated December 4, 2003

Action Requested

1. Ethics Committee members are to consider the changes that have been made to the QC documents and to determine whether there are any remaining items that should be communicated to the QC Task Force.

It is hoped that Ana Maria Elorrieta, QC Task Force Chair, will be able to participate in the discussion by conference call.