



**International Federation of Accountants**

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## **Agenda Item**

# **6**

**Committee:** Ethics Committee  
**Meeting Location:** Helsinki  
**Meeting Date:** September 20-21, 2004

### **Communication with Those Charged with Governance**

#### **Objectives of Agenda Item**

To provide feedback to the IAASB, through its Task Force, on any ethical considerations regarding the proposed draft ED ISA 260 “Communications of Audit Matters with Those Charged with Governance”.

#### **Background and timetable**

A draft revised ISA 260 has been prepared by a joint IAASB/Australian AuASB Task Force.

The IAASB, at their meeting on 13-17 September, will have a “first read” of the draft. The Task Force intends to incorporate the feedback from the September IAASB and Ethics Committee meetings into a revised draft, which it plans to present at the December IAASB meeting for voting on as an ED.

Extracts of the draft are included in the discussion below. The full draft is available on request from [michaelnugent@ifac.org](mailto:michaelnugent@ifac.org).

The project was initiated because, as stated in the project proposal “There has been regulatory and auditing standards development in major jurisdictions resulting in a need to review current ‘best practice’ relating to communication with audit committees and to determine whether ISA 260 (and other relevant ISAs) require updating.” The draft contains a several significant changes from the current ISA 260.

One change (discussed below) relates to communication of independence matters. It is this change on which comment from the Ethics Committee is sought.

#### **Independence**

The draft introduces of a requirement to communicate annually to those charged with governance about the independence of the auditor. The relevant text is:

33. **The auditor should, in writing at least annually, communicate to those charged with governance:**
  - (a) **Any circumstances or relationships that create threats to independence, other than those that are clearly insignificant, and the related safeguards that have been applied to eliminate the threats or reduce them to an acceptable level;**

- (b) **A declaration that the assurance team, the firm and network firms are independent in accordance with the IFAC Code of Ethics and any additional requirements that apply to the engagement, and that the integrity and objectivity of the assurance team, the firm and network firms have not been compromised; and**
  - (c) **The total fees charged for audit and for non-audit services provided by the firm and network firms to the entity and its related entities in the preceding 12 months, allocated to appropriate categories. For each category, the amounts of any future services that have been contracted or bid for should also be disclosed.**
  
- 34. International Standard on Quality Control (ISQC) 1 "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" requires the firm to establish policies and procedures to enable it to identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, withdrawing from the engagement.
  
- 35. In determining the circumstances, relationships and safeguards to communicate, the auditor refers to Section 8 of the IFAC Code of Ethics, which set outs guidance, including application to specific situations, regarding:
  - (a) Threats to independence, categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and
  - (b) Safeguards created by the profession, legislation or regulation, safeguards within the assurance client, and safeguards within the firm's own systems and procedures.

### **Action Requested**

The Ethics Committee is asked to provide feedback and guidance regarding the ethics implications of the draft.