

Responsibility

Background

In response to the IESBA exposure draft on Network Firms, one respondent (APB) noted that in some cases the Code is not clear whether the responsibility for a particular requirement rests with a firm, a network firm, an individual, or all the parties concerned. The respondent further noted that it had taken the view that clarity as to responsibilities is a key element in ensuring that standards are applied in practice.

Discussion

In some respects Section 290 of the Code is drafted differently from the other sections of the Code. The other sections of Part B impose obligations on a professional accountant. For example:

“Before accepting a new client relationship, a professional accountant in public practice should consider whether acceptance would create any threats to compliance with the fundamental principles.” (§210.1)

“If the company or entity seeking the opinion will not permit communication with the existing accountant, a professional accountant in public practice should consider whether, taking all circumstances into account, it is appropriate to provide the opinion sought.” (§230.3)

Section 290, however, is structured differently. It contains requirements which are to be met by the firm, network firms, members of the assurance team, partners in the firm etc. For example:

“If a firm, or a network firm, has a direct financial interest in a financial statement audit client of the firm the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level.” (§290.113)

“When an immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement, or was in such a position during any period covered by the engagement, the threats to independence can only be reduced to an acceptable level by removing the individual from the assurance team.” (§290.136)

Also, in some cases, it might be unclear who should take responsibility for a particular action. For example:

“Members of assurance teams, firms and network firms are required to apply the conceptual framework contained in Section 100 to particular circumstances under

consideration. In addition to identifying relationships between the firm, network firms, members of the assurance team and the assurance client, consideration should be given to whether relationships between individuals outside of the assurance team and the assurance client create threats to independence.” (¶290.11)

“When threats to independence that are not clearly insignificant are identified, and the firm decides to accept or continue the assurance engagement, the decision should be documented. The documentation should include a description of the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.” (¶290.27)

“Performing valuation services for a financial statement audit client that are neither separately, nor in the aggregate, material to the financial statements...may create a self-review threat that could be reduced to an acceptable level by the application of safeguards. Such safeguards might include...In determining whether the above safeguards would be effective, consideration should be given to...” (¶290.177)

The above style contrasts with the APB, For example:

“The audit engagement partner should ensure that his or her consideration of the auditors’ objectivity and independence is appropriately documented on a timely basis.” (ES1¶54)

“The audit firm, any partner in the audit firm, a person in a position to influence the conduct and outcome of the audit or an immediate family member of such a person should not hold...any direct financial interest in an audit client or an affiliate of the audit client...” (ES2¶7)

“The audit engagement partner should ... assess the threats to the auditor’s objectivity and independence arising from immediate family, close family and other personal relationships on the basis of information reported to the firm by persons in a position to influence the conduct and outcome of the audit.”

Action requested

Members are asked to consider the point raised and provide direction to the Task Force as to whether, when redrafting Section 290, attention should be paid to indicating specific responsibility for actions.