

Agenda Item 2-A (Updated)

Definition of “Those Charged With Governance”— Report-Back on IESBA CAG Discussion

Background

1. At the March 2013 meeting, the Board discussed significant responses to the Exposure Draft (ED), *Proposed Change to the Definition of “Those Charged with Governance.”* The Board agreed in principle, subject to consultation with the IESBA CAG, the following final changes to the Code in relation to the definition:

- As originally exposed, amending the definition of “those charged with governance” as follows to fully align it with that in ISA 260,¹ except for the last sentence of the definition in ISA 260 which is specific to that standard:

“The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.”

- Amending Section 100² as follows through the addition of an overarching provision, applicable to the entire Code, that would effectively establish that communication with those charged with governance may be with a subgroup of them:

Communicating with Those Charged with Governance

100.25 When communicating with those charged with governance in accordance with the provisions of this Code, the professional accountant or firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity's governance structure with whom to communicate. If the firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the professional accountant or firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

- Given the importance of communicating all breaches of independence requirements to those charged with governance, reiterating the principles in paragraph 100.25 in Section 290³ by retaining the subparagraph proposed to be added to paragraph 290.28 as originally exposed but aligning that subparagraph with the wording in paragraph 100.25:

Those Charged with Governance

290.28 Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in

¹ Section 260, *Communication with Those Charged with Governance*

² Section 100, *Introduction and Fundamental Principles*

³ Section 290, *Independence—Audit and Review Engagements*

the firm’s opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm’s judgments in identifying and evaluating threats to independence,
- (b) Consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level, and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

In complying with requirements in this section to communicate with those charged with governance, the firm shall determine, having regard to the nature and importance of the particular circumstances and matter to be communicated, the appropriate person(s) within the entity’s governance structure with whom to communicate. If the firm communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, the firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

Outcome of IESBA CAG Discussion

- 2. At the April 2013 CAG meeting, CAG representatives considered the significant comments received on the ED in relation to the following main issues and how the Board had addressed those comments:
 - (a) Definition of “management;”
 - (b) References to “or a subgroup thereof;” and
 - (c) Need for additional guidance on the meaning of those charged with governance.
- 3. CAG representatives also considered the changes to the Code the Board had agreed in principle as set out above.
- 4. In relation to comments from some respondents to the ED suggesting that the term “management” be defined in the Code given that the ISAs already define that term (issue (a) above), a CAG representative expressed agreement with the Board that a consideration of this matter would be beyond the scope of the project and that the Board should not undertake to develop such a definition at this time. Nevertheless, the representative suggested that the Board note the matter for future consideration.
- 5. CAG representatives otherwise did not have any comments or concerns regarding how the Board had addressed the significant comments from respondents on the issues above, and the related changes to the Code the Board agreed at the March 2013 meeting.

Task Force Recommendation

- 6. In the light of the outcome of the CAG discussion, **the Task Force recommends that the Board approve the proposed changes to the Code relating to the definition of “those charged with governance” as agreed at the March 2013 meeting.**

Effective Date

7. The Board had proposed in the ED that the amended definition of "those charged with governance" be effective one year after approval of the final change to the Code. The Task Force recommends that the Board adopt this effective date for the changes to the Code set out above, with early adoption permitted.

Due Process Matters

SIGNIFICANT MATTERS IDENTIFIED BY THE TASK FORCE

8. In the Task Force's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its considerations thereon, have all been reflected in the issues papers presented to the Board at its meetings. In the Task Force's view, there are no significant matters it has discussed in this project that have not been brought to the IESBA's attention.

CONSIDERATION OF THE NEED FOR RE-EXPOSURE

9. The Task Force believes that the changes to the Code relating to the definition of "those charged with governance" set out above:
 - (a) Are in response to matters raised by respondents to the ED;
 - (b) Are consistent with the original objective of the project to align the definition in the Code with that in the ISAs; and
 - (c) Do not fundamentally or substantively change the original proposals that were exposed.
10. Accordingly, the Task Force believes that re-exposure is not necessary.