

STAFF GUIDANCE NOTE 02/2016

Playing any part in management or decision making

A statutory auditor has long been prohibited from taking on management responsibilities (e.g. leading, directing, controlling an audited entity's business activities or personnel or making decisions for the entity) under existing international and national codes of independence in the UK and other jurisdictions. These prohibit the statutory auditor from 'acting as management' or 'doing anything that is the responsibility of management'.

The prohibition in the Regulation of '... playing any part in the management or decision-making of the audited entity' is included in the Ethical Standard at paragraph 5.167R (b) and should be interpreted as including situations in which the auditor is overseeing, directing or supervising the personnel of an audited entity, or in which the auditor makes decisions for that audit entity or plays a part in management's decision making. Where this is the case, then the auditor would be playing a 'part in the management or decision making of the audited entity' and would be in breach of the Ethical Standard. The auditor should also be aware of the perception risk and consider whether acting in a certain way would lead an objective, reasonable and informed third party to conclude that the auditor's independence had been compromised.

The European Commission's Q&A published in September 2014 states that: "Services that involve 'taking any part in the management or decision-making of the entity' include working capital management, providing financial information, business process optimization, cash management, transfer pricing, creating supply chain efficiency and the like."

Accordingly, in the context of providing a service that is not prohibited by Article 5, the auditor should refrain from taking any part in making decisions, should avoid any activities that involve overseeing, directing or supervising the personnel of an audited entity, and should avoid giving any approvals on behalf of management during the course of the engagement. Where an audit firm seconds junior staff on a short term basis to an audited client, the requirements of paragraphs 2.39 to 2.44 of the Ethical Standard will also apply.

To avoid the risk that the auditor may, or may be seen to be, involved in decision making, and consistent with the IESBA principles and the SEC rules, the engagement partner must always be satisfied that the audited entity's management makes all judgments and decisions that are the responsibility of management. Audit Firms may wish to make this clear in their engagement letters with audit clients.