Alignment of Part 4B with ISAE 3000 (Revised) –
Proposed Revisions to the Code

Introduction

1. The purpose of this paper is to seek the views of the IESBA on the revisions that the Part 4B Task
   Force (TF) proposes to the Code to reflect terms and concepts used in ISAE 3000 (Revised). The
   revisions are set out in the draft Exposure Draft text included as Agenda Item 12-B.

2. This paper is structured into the following sections below:
   I. Background
   II. Independence considerations concerning direct engagements
   III. Key changes proposed in the draft Exposure Draft
   IV. Other changes proposed in the draft Exposure Draft
   V. Other matters for the attention of the IESBA

   Appendix: Summary of the Task Force’s Proposals regarding Independence Requirements and
   Application Material

3. The TF has shared a draft of this paper and Agenda Paper 12-B with representatives of the
   International Auditing and Assurance Standards Board (IAASB). The TF also held a conference call
   to provide the representatives with the TF’s further explanation on a number of points and to discuss
   the views further. The TF is grateful for the suggestions of the IAASB representatives and has
   incorporated their feedback in this paper and in Agenda Paper 12-B where the TF considered this to
   be appropriate. Matters arising from this discussion that the TF believes should be brought to the
   attention of the IESBA are included in section V of this paper.

I. Background

4. Part 4B of the Code comprises the independence standards for assurance engagements other than
   audits and reviews of historical financial statements.

5. At the September Board meeting, the IESBA approved the project proposal to review Part 4B of the
   Code for any changes needed to make the provisions in that Part consistent with the revised
   assurance terms and concepts in ISAE 3000 (Revised).

6. In 2013, ISAE 3000 was revised in particular to clarify the distinction between the types of assurance
   engagement and to identify more clearly the parties to an assurance engagement and their roles and
   responsibilities. These are also the changes that are most relevant to the IESBA in addressing the
   independence requirements.
Definition of an Assurance Engagement

7. An assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (i.e. the outcome of the measurement or evaluation of an underlying subject matter against criteria).

8. ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement for engagements conducted under that Standard. The International Framework for Assurance Engagements (the ‘Assurance Framework’) provides a general description of assurance engagements.

New Terminology Used in ISAE 3000 (Revised)

9. ISAE 3000 (Revised) introduced a change in terminology in the two types of assurance engagement from ‘assertion-based’ and ‘direct reporting’ engagements in the original ISAE 3000 to ‘attestation’ and ‘direct’ engagements in the revised Standard. In changing the terminology, the IAASB has clarified that the distinction between the two types of assurance engagement is based on who is undertaking the measurement or evaluation of the subject matter (now referred to as “underlying subject matter” to avoid confusion with the term “subject matter information”) against the criteria.

10. Moving from the term “assertion-based engagements” to “attestation engagements” and “direct reporting engagements” to “direct engagements” involved taking one of the two types of direct reporting engagements (where a measurer or evaluator, other than the practitioner, measures or evaluates the underlying subject matter and makes an assertion as to the subject matter information that is not available to intended users) and including that type of engagement under attestation engagements. Direct engagements now only include the other type of engagement, where the practitioner directly measures or evaluates the underlying subject matter. This results in a reclassification, but no substantive change in concepts.

11. ISAE 3000 (Revised) includes requirements and guidance for attestation engagements only, rather than for both attestation engagements and direct engagements. Nonetheless, in the introduction, ISAE 3000 (Revised) notes that the ISAE may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.

Attestation Engagements

12. In an attestation engagement, a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information (the outcome of the measurement or the evaluation) in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. The practitioner’s conclusion addresses whether the subject matter information is free from material misstatement\(^1\).

13. An example of an attestation engagement is where a practitioner provides a conclusion on a statement by management of effectiveness of internal controls (the ‘subject matter information’) that results from management of the organization (the ‘measurer or evaluator’) evaluating the internal

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\(^1\) Paragraph 12 of ISAE 3000 (Revised)
control process (the ‘underlying subject matter’) against an appropriate benchmark (either established within or outside the organization) (‘suitable criteria’). In this case, management is responsible for the internal control process itself (the ‘responsible party’) and is also the measurer or evaluator. In some cases, however, the measurer or evaluator might be external to the organization, such as an external consultant.

**Direct Engagements**

14. In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria. In addition, the practitioner applies assurance skills and techniques to obtain sufficient appropriate evidence about the outcome of the measurement or evaluation of the underlying subject matter against the criteria. The practitioner may obtain that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it before or after such measurement or evaluation. In a direct engagement, the practitioner’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria and is phrased in terms of the underlying subject matter and the criteria. In some direct engagements, the practitioner’s conclusion is, or is part of, the subject matter information.²

15. If the practitioner were to measure or evaluate and obtain assurance on the effectiveness of internal controls as a direct engagement, the practitioner’s description of internal controls, together with the assurance conclusion on effectiveness, would comprise the ‘subject matter information’. The practitioner acts as the measurer or evaluator in evaluating and obtaining assurance about the effectiveness of the internal control process (the ‘underlying subject matter’) for which the entity is responsible (the ‘responsible party’) against an appropriate benchmark (either established within or outside the organization) (‘suitable criteria’).

16. Direct engagements are more commonly performed in the public sector, for example where auditors-general or equivalent have a statutory mandate to provide assurance reports on matters of public interest, such as performance audits on aspects of public administration. An example might be assurance on whether a government finance department has implemented government policy in an efficient and effective manner. In this context, the assurance report can be lengthy and might also be discursive. However, direct engagements are assurance engagements and must satisfy all the elements of an assurance engagement, including the existence of suitable criteria and an assurance conclusion.

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² Paragraph 13 of ISAE 3000 (Revised)
II. Independence Considerations Concerning Direct Engagements

17. As reported to the Board in June, questions were asked of the IAASB by certain stakeholders at the time it was preparing the revisions to ISAE 3000 as to whether direct engagements are compatible with the independence of the practitioner, either because:

- There might be a self-review threat where the practitioner is responsible for measuring or evaluating the underlying subject matter and obtaining assurance for the purposes of expressing a conclusion; or
- The practitioner may participate in the development of the criteria.

18. The TF notes that discussions on the independence implications of direct engagements took place between the IAASB and the IESBA planning committee at the time that ISAE 3000 was being revised.

19. It seems generally the case that the practitioner does not first perform the evaluation or measurement and then obtain assurance on it: rather, the practitioner obtains assurance while performing the measurement and evaluation. In these circumstances the practitioner is not required to re-evaluate work previously performed by the practitioner for the purposes of providing the assurance opinion. Accordingly, a self-review threat does not generally arise.

20. It might be that the practitioner participates in the development of the criteria, but this is likely to be in conjunction with the intended user(s) or engaging party and possibly the party responsible for the underlying subject matter. In order to comply with ISAE 3000 (Revised), the practitioner needs to be satisfied as to the suitability of the criteria, and the criteria are required to be made available to the intended users. The Standard also states that it is desirable for the intended users or the engaging party to acknowledge that specifically developed criteria are suitable for the intended users’ purposes. The absence of such an acknowledgement might affect what is to be done to assess the suitability of the criteria, and the information provided about the criteria in the assurance report.³

21. It is relevant to note that the Code requires the professional accountant to apply the conceptual framework to identify, evaluate and address threats to independence. Specifically, in the case of Part 4B, R900.15⁴ states: ‘A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.’ This would, therefore, apply in the case of considering whether the practitioner could accept a direct engagement in the particular circumstances, taking into account how the suitable criteria are to be determined and how the practitioner will be obtaining assurance to enable the conclusion to be provided. In making these considerations, the professional accountant will need to apply the guidance in ISAE 3000 (Revised) as to the prerequisites for an assurance engagement.

22. As referred to in the Project Proposal, it seems appropriate for the IESBA to respond to questions that have arisen in the past concerning direct engagements and independence in preparing its exposure draft of changes to Part 4B of the Code. Accordingly, the TF proposes that a brief discussion on these matters should be included in the explanatory memorandum to accompany the exposure draft. However, the TF does not recommend that responses should be invited on this point.

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³ Paragraphs 24 and A50 of ISAE 3000 (Revised)
⁴ All references to paragraph numbers in the subheadings are to the extant Code
23. There may additionally be merit in including a discussion of the independence considerations arising from direct engagements in a future staff publication which might provide additional guidance on ethical considerations when performing such assurance engagements.

Matters for Consideration

1. Do IESBA members have any comments on the proposal to include a summary of the independence considerations arising from direct engagements in the explanatory memorandum and maybe also in a subsequent staff publication?

2. Do IESBA members have any views on the discussion above in relation to direct engagements?

III. Key Changes Proposed in the Draft Exposure Draft

Changes in Key terminology, Including Definition of Assurance Client – Per Glossary

24. The change in terminology used in ISAE 3000 (Revised) requires corresponding changes in the Code, in particular in the two types of assurance engagement (changed from ‘assertion-based’ to ‘attestation’ engagement and from ‘direct reporting’ to ‘direct engagement’).

25. ISAE 3000 (Revised) states that all assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. Additionally, depending on the engagement circumstances, there may also be a separate role of measurer or evaluator or engaging party. In ISAE 3000 (Revised), the term ‘responsible party’ is used only for the party responsible for the underlying subject matter and the term ‘measurer or evaluator’ is reserved for the party who evaluates the underlying subject matter against the criteria to produce the subject matter information. The terminology included in the draft Exposure Draft (Agenda item 12-B) has been aligned where appropriate with these terms as they are now used in ISAE 3000 (Revised).

26. The TF also considers that the change in terminology in ISAE 3000 (Revised) requires a change in the definition of Assurance Client in the Code. The TF believes that, although the term ‘assurance client’ is not used in ISAE 3000 (Revised) or in other IAASB material, it is nevertheless preferable to use this term in Part 4B for ease of reference when describing the specific independence requirements with respect to the party or parties from whom the practitioner is required to be independent. The term is also the equivalent of the term ‘audit client’ used in Part 4A.

The proposed revised definition of Assurance Client in the Exposure Draft is as follows:

Assurance client The responsible party (entity or individuals) and, in an attestation engagement, the entity or individuals responsible for the subject matter information (who might be the same as the responsible party).

27. The definitions of ‘responsible party’ and ‘measurer or evaluator’ have also been included in the glossary of proposed revised Part 4B as they appear in ISAE 3000 (Revised).

28. The TF believes that it is critical for the user to understand the requirement to be independent of the assurance client (which might be more than one party). The TF therefore proposes to amend R900.14 to clarify that independence is required of the assurance client and then to reproduce the definition of assurance client as application material at 900.14 A1.
29. This proposed approach differs from that taken in the equivalent paragraph in Part 4A which states: ‘A firm performing an audit engagement shall be independent’ (paragraph 400.11). However, the TF believes that this departure is justified because in the case of an assurance engagement, it is not necessarily intuitive from which entity, or entities, the firm is required to be independent.

Matters for Consideration

3. Do IESBA members believe that the definition of ‘assurance client’ is clear and appropriate for use in Part 4B?
4. Do IESBA members have any comments on the amendment proposed to R900.14?
5. Do IESBA members have any comments on the other proposed terminology changes?

Impact of the Revised Assurance Client Definition on the Independence Requirements in Sections 910 to 924

30. The clear distinction between the roles of the different parties has implications for the Code in so far as concerns the parties from whom the professional accountant has to be independent and the requirements for independence, both in an attestation and a direct engagement.

31. The TF has obtained examples of assurance engagements and discussed them with appropriate individuals. The TF believes that the extant Code is unclear as to the independence requirements of the practitioner with respect to the different parties to an assurance engagement and may have potentially inconsistent requirements for attestation and direct engagements.

32. The TF proposes that the practitioner should be independent as provided in Part 4B of the responsible party (i.e. the party responsible for the underlying subject matter). Additionally, in an attestation engagement, the practitioner should also be independent of the measurer or evaluator (where different from the responsible party) in the situation where that party is responsible for the subject matter information. The measurer or evaluator is generally likely to be part of the same organization as the responsible party.

33. An example is when a party engages a practitioner to perform an assurance engagement regarding a report it has prepared about its own sustainability practices, where that party has itself performed the measurement or evaluation of its sustainability practices. Alternatively, the measurer or evaluator might be external (for example where a third party is appointed by a regulator to perform the measurement or evaluation of the underlying subject matter prepared by another party). If that party is appointed on the basis that it is responsible for the subject matter information, then the TF proposes that the practitioner should be independent of that party as well as the responsible party. This is achieved through the revised definition of Assurance Client (see above) and the application material in 900.14, A2.

34. In the extant Code, there are different independence requirements, as summarized in paragraphs R900.18, R900.19 and R900.20, between assertion-based and direct reporting engagements with respect to interests and relationships between the firm and the party responsible for the underlying subject matter. This is achieved in the extant Code through providing a different definition of
Assurance Client for assertion-based and direct reporting engagements,\(^5\) such that when applied to the detailed requirements for independence of the assurance client in the later sections, different requirements apply depending on the type of assurance client and whether the parties responsible for the underlying subject matter and the subject matter information are one and the same.

35. Accordingly, in the case of direct reporting engagements the specific prohibitions on interests and relationships with the assurance client (referred to in R900.20, but set out in detail in the sections that follow), apply to the party responsible for the underlying subject matter. In the case of an assertion-based engagement, however, these specific prohibitions apply to the party responsible for the subject matter information and only to the party responsible for the underlying subject matter when both parties are the same entity. In this latter situation, the TF’s proposals as set out in the draft Exposure Draft will not affect the independence requirements. However, in the case where the party responsible for the underlying subject matter is different from the party responsible for the subject matter information, the TF’s proposed revised definition of ‘assurance client’ will mean that the specific prohibitions in the extant Code on certain interests and relationships will apply also to the party responsible for the underlying subject matter. To this extent, the TF’s proposals represent a strengthening of the Code’s requirements.

36. For example, paragraph R910.4 prohibits the firm or an assurance team member or any of that individual’s immediate family from having a direct financial interest or a material indirect financial interest in the assurance client. In the extant Code, the ‘assurance client’ means, in the case of an assertion-based engagement, the party responsible for the subject matter information and who might be responsible for the subject matter. Therefore, if the party responsible for the subject matter information were not also responsible for the underlying subject matter, this requirement would not apply to the party responsible for the underlying subject matter. This is different from a direct reporting engagement where the requirements apply to this party. Under the TF’s proposals, these requirements would apply to both parties in the case of an attestation engagement. This effect is achieved through the TF’s proposed revised definition of Assurance Client.

37. The TF believes that it is more common in an attestation engagement for the same entity to be responsible both for the underlying subject matter and the subject matter information. For this reason, the TF does not believe that the changes in the independence requirements that the TF is proposing will represent a significant strengthening of the Code. The TF also believes that its proposed approach to the independence requirements is clearer and more logical than the extant Code which itself represents a strong argument for making the changes.

38. The TF has also reviewed the requirements and application material which relate to a financial or business relationship held by an assurance team member in the assurance client as well as the provisions with regards to personal or family relationships that such individuals might have with a director or officer, or, in an attestation engagement, with an employee at the assurance client who is in a position to exert significant influence over the subject matter information of the assurance

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\(^5\) The definition of ‘assurance client’ in the extant is as follows:

‘The responsible party that is the person (or persons) who:

a) In a direct reporting engagement, is responsible for the subject matter; or

b) In an assertion-based engagement, is responsible for the subject matter information and might be responsible for the subject matter.’
engagement. Similarly, the TF has also reviewed the provisions which relate to recent or current roles of relevant individuals as a director of officer of the assurance client. In doing so, it is particularly relevant to compare the provisions with the equivalent paragraphs in Part 4A of the Code. The impact of the TF’s proposals with respect to the definition of assurance client is that the independence requirements and application material that relate to financial and business relationships with the assurance client or relationships with or service as directors and officers of the assurance client will also extend to the party responsible for the underlying subject matter. The TF does not believe, however, that it is appropriate to extend the requirements that apply to employees in a position to exert significant influence over the subject matter information to employees in a position to exert significant influence over the underlying subject matter. In making this recommendation, the TF notes that this maintains the consistency of these provisions with the equivalent provisions in Part 4A relating to audit and review engagements.

39. A list of the requirements and application material where the TF’s proposed revised definition of assurance client affects the application of the independence requirements is set out in the appendix to this paper, together with a list of those provisions where the TF is not recommending any change.

### Matters for Consideration

6. Do IESBA members have any comments on the amendment proposed to 900.14 A2?

7. Do IESBA members have any comments on the application of the TF’s proposals to the detailed independence requirements and application material as explained above and summarized in the appendix?

### Proposal to Delete Paragraphs R900.18, R900.19 and R900.20 and to Rework and Relocate Paragraph 900.19 A1

40. The extant Code sets out a summary of the independence requirements for the different types of assurance engagements in paragraphs R900.18, R900.19 and R900.20. The TF does not believe that these paragraphs are clear and questions whether it is appropriate to create stand-alone requirements which merely summarize the detailed requirements which follow in sections 905 to 950. The Task Force is not aware of any similar requirements elsewhere in the Code. Further, the TF believes that the main reason why these requirements are included in the extant Code is to draw a distinction between the requirements applying to assertion-based engagements and direct reporting engagements. The TF is, however, proposing a closer alignment of the provisions for the two types of engagement under ISAE 3000 (Revised), at least so far as the party responsible for the underlying subject matter is concerned. Therefore, the case for needing these summary requirements is considerably reduced.

41. In the light of these considerations, the TF proposes to delete these summary requirements.

42. Under the TF’s proposal the important explanatory material in 900.19 A1, addressing the situation where the parties responsible for the underlying subject matter and subject matter information are different, has been reworked and relocated in 900.14 A2 (as explained above).

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6 Part 4A – Independence for Audit and Review Engagements
Matter for Consideration
8. Do IESBA members have any comments on the proposal to delete paragraphs R900.18, R900.19 and R900.20?

IV. Other Changes Proposed in the Draft Exposure Draft

Split of Assurance Engagements between Parts 4A and 4B

43. Part 4B covers ‘assurance engagements other than audit and review engagements’. For the purposes of the Code, however, ‘assurance engagements’ extend beyond engagements covered by International Standards on Assurance Engagements (in particular ISAE 3000 (Revised)), and include audits of specific elements, accounts or items of a financial statement which are conducted under ISA 805 (Revised). This type of engagement is listed in 900.1 as an example of one falling within the scope of Part 4B, but it is perhaps unclear from the Code as drafted why this is the case.

44. Although audits of specific elements, accounts or items of a financial statement are audit engagements under IAASB Standards, they are not audit engagements as defined in the Glossary to the Code because they do not relate to financial statements as defined in the Glossary. The TF questions whether this is entirely clear from a reading of Part 4B and suggests that it might be helpful to add a sentence to the end of the definition of Financial Statements in the Glossary to clarify the intention of the Code, as follows:

‘The term does not refer to specific elements, accounts or items of a financial statement, the audit of which is conducted under International Standard on Auditing 805 (Revised).’

45. The IESBA should be aware that, as noted at the time of restructuring the Code, the definition of Financial Statements in the Glossary already departs from the equivalent definition in the IAASB literature.

46. The TF proposes, as in the extant Code, to continue to shorten the term ‘assurance engagements other than audit and review engagements’ to the short form ‘assurance engagements’ for the purpose of the requirements and application material in Part 4B. This is appropriate in order to avoid constant repetition of the full term. However, the TF proposes to move the explanation of the use of the term ‘assurance engagements’ down from 900.1 to 900.8 because the earlier paragraphs use ‘assurance engagements’ in the general sense of such engagements as defined in the Glossary.

47. The TF has discussed the split of ‘assurance engagements’ between Part 4A and 4B with the IAASB representatives and matters arising from that discussion for the Board’s attention are included in section V of this paper.

Examples of Assurance Engagements – Paragraph 900.1

48. The TF believes that it is helpful to illustrate a more extensive range of assurance engagements for which the independence requirements in Part 4B are applicable. Therefore, the TF proposes to...

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7 ISA 805 (Revised) - Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
include more examples of the types of assurance engagements that fall within the scope of the Part, as set out in paragraph 900.1.

Source of Guidance on Assurance Engagements – Paragraphs 900.7 to 900.11

49. The extant Code includes material in paragraphs 900.7 to 900.11 which is intended to provide the user of the Code with a convenient summary of the key elements of the different types of assurance engagements. Based on advice from representatives of the IAASB, however, the TF believes that it is more appropriate for the user to refer to the definitive source of that material in IAASB literature. Accordingly, in the proposed revised text in the Exposure Draft most of this material has been removed other than a brief description in paragraph 900.7 of an assurance engagement and a reference to where further guidance can be obtained.

50. The TF understands that the Assurance Framework no longer carries the force of a Standard following the revisions to the IAASB material. However, it is still the most convenient source of a description of assurance engagements in general, i.e. covering all assurance engagements within the scope of Part 4B. The TF, therefore, believes that it is still appropriate to refer to the Assurance Framework as a secondary point of reference after ISAE 3000 (Revised).

Multiple Responsible Parties – Paragraph 900.21 A1

51. Paragraph 900.21 A1 of Part 4B provides a discussion of how a firm might apply the independence requirements of the Code where there are multiple responsible parties. Essentially it permits the firm not to apply all of the provisions of the section to a responsible party if it determines that the threat created by an interest or relationship with that responsible party would be trivial and inconsequential in the context of the engagement. The TF believes that it is not common for there to be multiple responsible parties. On the other hand, the TF cannot imagine that a situation would arise where there are multiple measurers or evaluators (different from the responsible parties) who are responsible for the subject matter information, and accordingly does not propose to include any provisions with respect to these parties.

52. Such a situation might, for example, be where a practitioner is to provide an assurance conclusion on a statement made by an internet portal provider of aggregated data for a particular industry sector. The situation envisioned is that the portal provider is responsible for compiling and evaluating the data to produce a summary (subject matter information), presented according to the requirements of the industry regulatory body, from raw data (the underlying subject matter) provided by the different operators in that industry. In this case, there would be a single party responsible for the subject matter information and multiple responsible parties. Paragraph 900.21 A1 might be relevant in the situation where a firm’s relationship with one of the responsible parties is determined to be trivial or inconsequential in the context of an assurance engagement.

53. The TF believes that this application material on multiple responsible parties is more appropriately included within the introductory paragraphs from R900.14 onwards, as it is relevant to the consideration of the parties from whom independence is required. The TF therefore proposes to move the extant paragraph 900.21 A1 to a new paragraph, 900.16 A1.

54. The TF believes that the principle in this paragraph is clear. Interpretation 2005-01 was originally developed primarily to provide guidance on this paragraph. However, the TF is not aware that this Interpretation has been found to be useful in practice and therefore proposes to withdraw it. The TF also noted that the interpretation is no longer included in the 2018 Handbook of the Code of Ethics.
Matters for Consideration

9. Do IESBA members believe that the split of assurance engagements between Part 4A and Part 4B would be clarified by inserting additional words to the definition of Financial Statements with respect to certain engagements falling under ISA 805, as illustrated in the Glossary in Agenda Item 12-B?

10. Do IESBA members believe that the examples of assurance engagements included in paragraph 900.1 are helpful in clarifying the scope of Part 4B?

11. Do IESBA members believe that it is preferable to refer users of Part 4B to guidance on assurance engagements included in the IAASB materials, rather than include additional guidance in the Code?

12. Do IESBA members have any comments regarding the provision now proposed for inclusion in paragraph 900.16 A1 for circumstances where there are multiple responsible parties?

13. Do IESBA members have any views on the proposal to withdraw Interpretation 2005-01?

14. Do IESBA members have any comments on any of the other changes being proposed in the draft Exposure Draft?

V Other Matters for the Attention of the IESBA

55. The TF would like to bring the following matters to the attention of the IESBA which are outside the scope of the current project.

Split of Assurance Engagements Between Parts 4A and 4B

56. The IAASB representatives asked the TF for further clarification of the split of assurance engagements in the Code between Parts 4A and 4B, questioning why audit engagements on specific elements, accounts or items of a financial statement are included in Part 4B and not Part 4A.

57. The TF referred back to minutes of the Board discussions at the time of finalizing section 291 (the equivalent of Part 4B prior to the restructuring of the Code) in 2008. The IESBA had originally proposed in the exposure draft of section 291 issued in December 2007 that audits of specific elements, accounts or items of a financial statement be included in Part 4A, in the same way as all other audit (and review) engagements. However, the IESBA received a number of comments from respondents to the exposure draft which were duly considered by the Board. These respondents were concerned that if IESBA included these engagements in section 290 of the Code this would result in broader independence requirements than they considered appropriate for those services, in terms of application to the firm and network, partners of the firm, and members of firm management. After discussion by the Board and with the CAG, the Board agreed that the position taken in the exposure draft was, on balance, too stringent. It could, for example, require network firm independence in the case of audit reports on costs incurred for determination of various royalties that are payable under statute or an agreement. Consequently, the independence requirements relating to audits of one or more specific elements, accounts or items of a financial statement were moved to Section 291.
58. The IAASB representatives noted the IESBA’s position, but pointed out that ISA 805 was finalized shortly after the finalization of the Code at the end of 2008 and it was revised and strengthened again in 2015.

59. The TF is not aware that the IESBA has reconsidered its position on the audit of specific elements, accounts or items of a financial statement since the Board discussion of 2008, and it is possible that factors might have changed in light of IAASB’s revisions to ISA 805 or other matters that would lead to the Board making a different determination on the independence requirements for these engagements.

60. The IAASB representatives did note that it is rare for a firm other than the auditor to be appointed to conduct an audit of a specific element, account or item of a financial statement. In the case where the auditor is appointed to perform such an audit, the requirements of Part 4A would apply. Accordingly, this may be something of an academic issue.

**Reports that Include a Restriction on Use and Distribution**

61. The Code permits modifications to the independence requirements for certain eligible engagements that include a restriction on use and distribution of the relevant reports. These are set out for audit and review engagements in section 800, and for assurance engagements other than audit and review engagements in section 990.

62. The IAASB representatives questioned why the Code requires the report to be restricted both as to use and distribution before it is eligible for the modifications permitted. The TF noted from the Board meeting minutes of October 2008 that the Board had been keen to track the IAASB proposals on special purpose financial statements which at that time were intending to require audit reports on special purpose financial statements to be restricted as to use and distribution. The IAASB representatives, however, pointed out that in the course of finalizing ISA 800 it became clear that there are few jurisdictions where it is possible as a matter of law to restrict both use and distribution of an audit report, even in connection with special purpose financial statements. Accordingly, ISA 800 no longer requires either restriction as to use or distribution, but does require an appropriate emphasis of matter paragraph to be included in the audit report.

63. The TF expressed the view that, notwithstanding how ISA 800 later evolved, the Board’s intention is to restrict the eligibility of the independence modifications in sections 800 and 990 to situations where the audit or non-audit assurance report is restricted both as to use and distribution. This seems clear from the conditions that have to be met within those sections. If those conditions cannot be met, then the independence modifications are not available to the firm.

64. The IAASB representatives noted the TF’s explanation of the Board’s position.
Appendix

Summary of the Task Force’s Proposals regarding Independence Requirements and Application Material

Requirements of the Code regarding independence of the assurance client

Under the TF’s proposal, the following requirements and application material will apply additionally in an attestation engagement with respect to the party responsible for the underlying subject matter (as well as to the party responsible for the subject matter information), where different from the party responsible for the subject matter information:

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<tr>
<th>Part 4B ref.</th>
<th>Topic</th>
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<tbody>
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<td>R910.4</td>
<td>Financial interests held by the firm, assurance team members and immediate family</td>
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<td>R910.5</td>
<td>Financial interests in an entity controlling an assurance client</td>
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<td>R910.6</td>
<td>Financial interests held as trustee</td>
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<td>R910.7</td>
<td>Financial interests received unintentionally</td>
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<td>910.8 A1</td>
<td>Financial interests of close family</td>
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<tr>
<td>910.8 A5</td>
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<tr>
<td>R911.4</td>
<td>Loans and guarantees with an assurance client</td>
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<tr>
<td>R911.5</td>
<td>Loans and guarantees with an assurance client that is a bank or similar institution</td>
</tr>
<tr>
<td>R911.6</td>
<td>Deposit or brokerage accounts</td>
</tr>
<tr>
<td>R911.7</td>
<td>Loans and guarantees with an assurance client that is not a bank or similar institution</td>
</tr>
<tr>
<td>R920.4</td>
<td>Business relationships</td>
</tr>
<tr>
<td>920.5 A1</td>
<td>Buying goods or services</td>
</tr>
</tbody>
</table>

Requirements of the Code regarding independence of directors and officers of the assurance client

Under the TF’s proposal, the following requirements and application material will apply additionally in an attestation engagement with respect to directors and officers of the party responsible for the underlying subject matter (as well as to the directors and officers of the party responsible for the subject matter information), where different from the directors and officers of the party responsible for the subject matter information:

<table>
<thead>
<tr>
<th>Part 4B ref.</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>R921.5(a)</td>
<td>Immediate family of an assurance team member</td>
</tr>
</tbody>
</table>
Alignment of Part 4B with ISAE 3000 (Revised) – Issues Paper
IESBA Meeting (December 2018)

<table>
<thead>
<tr>
<th>Part 4B ref.</th>
<th>Topic</th>
<th>Part 4A equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>921.6 A1</td>
<td>Close family of an assurance team member</td>
<td>521.6A1</td>
</tr>
<tr>
<td>R921.7(a)</td>
<td>Other close relationships of an assurance team member</td>
<td>R521.7</td>
</tr>
<tr>
<td>921.8 A1(a)</td>
<td>Relationships and partners and employees of the firm</td>
<td>R521.8</td>
</tr>
<tr>
<td>R922.3(a)</td>
<td>Recent service with an assurance client during the period covered by the assurance report</td>
<td>R522.3</td>
</tr>
<tr>
<td>922.4 A1</td>
<td>Recent service prior to the period covered by the assurance report</td>
<td>R522.4 A1</td>
</tr>
<tr>
<td>R923.3</td>
<td>Service as director or officer</td>
<td></td>
</tr>
<tr>
<td>R923.4</td>
<td>Service as company secretary</td>
<td></td>
</tr>
<tr>
<td>924.3 A1</td>
<td>Employment with an assurance client – general</td>
<td>R524.3 A1</td>
</tr>
<tr>
<td>R924.4(a)</td>
<td>Employment with an assurance client – former partner or assurance team member</td>
<td>R524.4</td>
</tr>
<tr>
<td>R924.5</td>
<td>Entering employment negotiations with an assurance client</td>
<td></td>
</tr>
</tbody>
</table>

Requirements of the Code regarding independence of employees of the assurance client

The TF is not proposing to extend any of the following requirements or application material to employees in a position to exert significant influence over the underlying subject matter. This maintains the existing equivalence with the audit provisions (see references below):