Meeting: IESBA Meeting

Meeting Location: New York

Meeting Date: December 3-5, 2018

IAASB-IESBA Coordination

Objectives

1. To:
   (a) Receive an update on the status of IAASB-IESBA coordination activities, in particular with respect to matters identified by IESBA representatives on proposed ISQM 1, proposed ISQM 2 and proposed ISA 220 (Revised); and
   (b) In relation to proposed ISQM 2, consider specific matters regarding the topic of the objectivity of engagement quality reviewers (EQRs).

IESBA Representatives

2. In September 2018, the IESBA agreed to dedicate additional resources to assist Ms. Sylvie Soulier, IESBA Liaison to the IAASB, to review and provide input on the ethics and independence provisions in the proposed IAASB standards noted above. IESBA representatives comprise:

   ISQM 1
   • Andrew Pinkney, IESBA Technical Advisor
   • Jens Poll, IESBA Member

   ISQM 2
   • Mike Ashley, IESBA Member

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1 Proposed International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
2 Proposed ISQM 2, Engagement Quality Reviews
3 Proposed International Standard on Auditing (ISA) 220 (Revised), Quality Management for an Audit of Financial Statements
4 The responsibilities of the IAASB-IESBA liaison include:
   • Acting as primary contact to the liaison member on the IAASB, Ms. Megan Zietsman.
   • Presenting periodic updates on IAASB’s activities to the IESBA.
   • Presenting IESBA developments or views on particular topics or issues to the IAASB.
   • Reporting back the feedback received from the IAASB.
   • Acting as a sounding board to IAASB staff on cross-over topics or issues for which no coordination process has yet been established.
• Denise Canavan, IESBA Technical Advisor

ISA 220
• Sundeep Takwani, IESBA Technical Advisor

Background

3. The IAASB considered revisions to drafts of proposed ISQM 1, ISQM 2, and ISA 220 (Revised) (i.e., the QM standards) at its September 2018 meeting. Approval of these proposed standards for exposure is scheduled for the December 2018 IAASB meeting.

Activities since September 2018 IESBA Meeting

4. Since the September 2018 IESBA meeting, the IESBA representatives and Staff have liaised with the IAASB’s various Task Forces and Staff to provide input on the Task Forces’ respective work streams. In particular:
   - The IAASB-IESBA Joint Working Group (JWG) on ISQM 2 held a teleconference in October 2018 to discuss the IAASB’s and IESBA’s feedback on the JWG’s proposals relating to the objectivity of the EQR and to determine a way forward.
   - In early November 2018, representatives and staff of the IAASB and IESBA held a joint teleconference to discuss the IESBA representatives’ comments on drafts of the proposed ISQM 1 and ISA 220 (Revised).

5. In October 2018, Ms. Soulier briefed the Planning Committee on the activities pertaining to IAASB-IESBA coordination. A key matter discussed was the approach that the IESBA should take with respect to potential consequential or conforming amendments to the Code as a result of the proposed QM standards, and the timing of any Exposure Draft of changes to the Code.

6. The Planning Committee took the view that a consideration of potential revisions to the Code arising from the proposed QM standards should be deferred. It is was agreed that it would be more efficient and effective to consider the potential changes to the Code after the proposed QM standards are finalized. This approach would also allow the IESBA more time to fully analyze the implications for the Code, and minimize the risk that the IESBA might need to re-expose any changes to the Code if the QM standards were to be substantively revised to respond to the feedback from respondents to the Exposure Drafts.

Matters Raised by IESBA Representatives on Proposed QM Standards

7. The comments raised by the IESBA representatives with the IAASB representatives were triaged as follows:
   (a) Significant Matters – Matters deemed to be of a “policy” or fundamental nature. In particular:
      • How proposed ISQM 1 addresses independence considerations in a network context; and
      • Whether ISQM 1 should use the concept of “… entities that may be of significant public

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5 Relates to quality management at the firm level
6 Relates to engagement quality reviews, including the eligibility requirements relating to the EQ reviewer
7 Relates to quality management at the engagement level
interest…” rather than leverage the Code’s defined concept of a “public interest entity.”

- Specifically, the draft Exposure Draft of ISQM 2 proposes to require an engagement quality review for audits of entities that the firm determines to be of “significant public interest,” in addition to audits of listed entities (for which it is already required under extant ISA 220).

- Proposed ISQM 1 also refers to entities that may be of “significant public interest” in various places, for example, in the context of the need to exercise professional judgment in applying the requirements of the proposed standard, and in relation to communications to external parties about the firm’s system of quality management. The wording used is consistent with proposed ISQM 2 (and similar references in the ISAs) in relation to the characteristics of such entities (i.e., a large number and wide range of stakeholders or due to the nature and size of its business).

(b) **Substantive Matters** – Potential inconsistencies with the Code, or drafting suggestions from the IESBA representatives that they believed would address such inconsistencies.

(c) **Editorial suggestions** – Clarifications or other drafting suggestions for IAASB Staff or Task Force consideration.

**Matters for IESBA Consideration**

8. At the December 2018 IESBA meeting, the IESBA Liaison member to the IAASB, Ms. Sylvie Soulier, will outline the significant matters that were raised with the IAASB representatives on the proposed QM standards. The IAASB Liaison member to the IESBA, Ms. Megan Zietsman, and the IAASB Task Force Chairs for the ISQM 1 and 2 projects, Ms. Karin French and Mr. Imran Vanker, respectively, will attend the session (in person or via teleconference) to provide context and explanations relating to the respective IAASB Task Forces’ consideration of those matters.

9. IESBA members will then have an opportunity to share any reactions or ask any questions in light of that presentation.

10. In relation to proposed ISQM 2, IESBA members will also be asked to provide views about the IESBA-specific matters set out in **Agenda Item 5-A** regarding the topic of the objectivity of EQRs.

**Proposed ISQM 1 (Revised)**

**Responsibility for Independence**

11. In finalizing the Structure of the Code project, the IESBA determined that it should liaise with the IAASB in seeking to respond to calls from certain regulatory stakeholders for the issue of responsibility for independence within a firm to be addressed more clearly and robustly. At the time, pending further consideration of the matter by the IAASB, the IESBA agreed that it would limit reference to the issue of responsibility for independence in the Code to the following statement in Section 400:

> “…many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for

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8 Proposed ISQM 1, paragraph A21
ease of reference. Firms assign responsibility for a particular action to an individual or a group of individuals (such as an audit team), in accordance with ISQC 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.”

12. Proposed ISQM 1 takes a principles-based approach to the matter by requiring the individual(s) assigned ultimate responsibility and accountability for the firm’s system of quality management to:

   - Establish structures, reporting lines, and appropriate authorities and responsibilities, including assigning operational responsibility for the following matters to personnel who fulfill the requirements in paragraph 28:
     - The system of quality management as a whole; and
     - Specific aspects of the system of quality management, as appropriate to the nature and circumstances of the firm, which shall include operational responsibility for compliance with independence requirements and the monitoring and remediation process.
     [Emphasis added]

13. Proposed ISQM 1, paragraph 28, establishes criteria for those assigned operational responsibility for the matters set out above, with guidance as to what is meant by operational responsibility provided in application material.

14. During the session, the IESBA representatives will brief the Board on their feedback to the ISQM 1 Task Force on this matter. The IAASB representatives will have an opportunity to explain the Task Force’s and the IAASB’s thinking regarding the approach taken in proposed ISQM 1 on the matter.

**Matter for Consideration**

1. IESBA members are asked for any reactions in light of the discussion on this matter.

**Proposed ISQM 2 (Revised)**

15. **Agenda Item 5-A** summarizes the key issue relating to the objectivity of the EQR, the JWG’s recommendations and the proposed way forward with respect to the Code. **Agenda Item 5-A** includes IESBA-specific matters for the IESBA to consider.

**Matter for Consideration**

2. IESBA members are asked for views on the matters for consideration in **Agenda Item 5-A**.

**Proposed ISA 220 (Revised)**

16. There are no significant matters specific to proposed ISA 220 (Revised) that warrant IESBA attention at this time.

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10 Proposed ISQM 1, paragraph 27(a)(iii)a–b

11 See proposed ISQM 1, paragraphs A35 to A37 (see **Agenda Item 5-B**).
Proposed ISRS 4400 (Revised)\textsuperscript{12}

17. Following due coordination with IESBA representatives, the IAASB approved for exposure proposed ISRS 4400 (Revised) in September 2018. As part of the finalization of the Exposure Draft for release, IESBA representatives provided feedback regarding how certain independence-related matters were described in the IAASB Staff-prepared Explanatory Memorandum.

18. The IAASB released its Exposure Draft of proposed ISRS 4400 (Revised), \textit{Agreed-Upon Procedures Engagements} on November 17, 2018, inviting public comment by March 15, 2019.

\textbf{Other Coordination Work Streams}

19. During Q4 2018, the following work streams involved some coordination between IAASB and IESBA representatives:

(a) Alignment of Part 4B of the Code to ISAE 3000 (Revised) – IAASB representatives provided input on the proposed revisions to Part 4B to align it to the terms and concepts in ISAE 3000 (Revised). A report-back on the coordination work is included in the agenda material for the Part 4B session at the December 2018 IESBA meeting.

(b) Role and Mindset – The Chair of the Role and Mindset Task Force and IESBA Staff will meet via teleconference with the Professional Skepticism Working Group Chairs and Staff of the IAASB and IAESB on November 27, 2018. The Chair of the IESBA Task Force will brief the Board as appropriate on the outcome of those discussions during the session for this project at the December 2018 IESBA meeting.

\textbf{Material Presented}

\textit{For Discussion}

Agenda Item 5-A ISQM 2 – IESBA-Specific Issues and Recommendations

\textit{For Reference}\textsuperscript{13}

Agenda Item 5-B Proposed ISQM 1 (Clean)

Agenda Item 5-C Extract of Proposed ISQM 1 (Clean) Related to Engagement Quality Reviews (included with ISQM 2 agenda material)

Agenda Item 5-D Proposed ISQM 2 (Clean)

Agenda Item 5-E Proposed ISA 220 (Revised) (Clean)

\textsuperscript{12} Proposed ISRS 4400 (Revised), \textit{Agreed-upon Procedures Engagements}

\textsuperscript{13} Proposed QM standards posted for the IAASB December 2018 meeting