Meeting: IESBA Meeting

Meeting Location: New York

Meeting Date: September 17–20, 2018

Agenda Item

IAASB-IESBA Coordination

Objectives

1. To receive an update on the status of IAASB-IESBA coordination activities.

2. To provide input on ethics and independence matters on the proposed texts arising from the IAASB’s Quality Control (QC) and Agreed-Upon-Procedures (AUP) projects.

Activities since June 2018 Meeting

3. At the June 2018 meeting, Ms. Sylvie Soulier briefed IESBA members on the coordination activities with the IAASB during Q1 in relation to:
   - The IAASB’s Quality Control project (i.e., proposed revisions to ISQC 1,\(^1\) and ISA 220\(^2\) and a proposed new ISQC 2\(^3\)); and
   - The IAASB’s AUP project (i.e., proposed revisions to ISRS 4400\(^4\)).

   Key IAASB representatives presented to the IESBA during a May 18, 2018 webcast.

4. Since the June 2018 IESBA meeting, the IESBA Staff and the IESBA Liaison member, Ms. Soulier provided input on the various IAASB work streams via email and as appropriate, by teleconference.\(^5\) Ms. Soulier and her counterpart on the IAASB, Ms. Megan Zietsman will meet in person with other Task Force Chairs and Staff on September 12, 2018 to discuss open issues.

Professional Skepticism and Part 4B and ISAE 3000 Alignment

5. The coordination efforts relating to the Professional Skepticism and Alignment of Part 4B\(^6\) with ISAE 3000 (Revised)\(^7\) initiatives are being progressed at the Working Group level. Accordingly, the Chairs

---

\(^1\) Proposed International Standard on Quality Control (ISQC) 1 (Revised), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

\(^2\) Proposed International Standard on Auditing (ISA) 220, Quality Control for an Audit of Financial Statements

\(^3\) Proposed ISQC 2, Engagement Quality Reviews

\(^4\) Proposed International Standard on Related Services (ISRS) 4400, Agreed-upon Procedures Engagements

\(^5\) Appendix 1 includes a summary of the IAASB-IESBA representatives’ interactions. The IESBA representatives are supported by Mr. Ken Siong, IESBA Senior Technical Director and Ms. Diane Jules, IESBA Deputy Director.

\(^6\) International Independence Standards, Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements

\(^7\) International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information
of those Working Groups will brief the IESBA as appropriate.

Overview of IESBA Feedback

6. The comments raised by IESBA representatives can be categorized as follows:
   - Clarifications about how to interpret and refer to the appropriate provisions in the Code (e.g., the provisions in the conceptual framework). This included drafting suggestions to better align the IAASB’s proposed texts to the material in the revised and restructured Code.
   - Suggestions that are intended to achieve consistency, for example:
     - When terms or concepts that are defined or described in the Code are used or referred to in the IAASB’s proposed texts in a different way; or
     - When new material is added in the IAASB’s proposed texts that might create confusion or inconsistent application with material that is included in the Code.
   - Drafting suggestions to improve the overall tone and presentation of material in the IAASB’s proposed texts in relation to ethics and independence, or broader overlapping concepts such as the description of public interest responsibilities.

7. At the September 2018 IESBA meeting, Ms. Soulier will summarize the significant comments and will explain how they were/are being considered by the IAASB’s Task Forces.

Proposed ISQC 1 (Revised)

8. The IAASB will consider a third read of proposed ISQC 1 (Revised) at its September 2018 meeting and anticipates approving an ED for exposure in December 2018.

9. The scope of proposed ISQC 1 (Revised) relates to quality management at the firm level and is complemented by:
   - Proposed ISA 220 (Revised) which relates to quality management at the engagement level; and
   - Proposed ISQC 2 which addresses engagement quality (EQ) reviews, including the eligibility requirements relating to the EQ reviewer.

10. Agenda Item 8-A includes the September 2018 draft of proposed ISQC 1 (Revised). Examples of ethics and independence issues that warrant further discussion include:
   - Whether the approach and proposed text relating to responsibilities for ethics and independence are specific enough to respond to the IESBA stakeholders’ concerns⁸ (see paragraphs 21, A10; 26, A14 to A22, 36-37, and A55-A61).
   - The appropriateness of the provisions related to service providers in paragraphs 66-67 and A174-179, in particular the application material in paragraph A175 for considering the ability of the firm to fulfill relevant ethical requirements in relation to the use of resources.
   - Whether the description/definitions of terms that are common to Code or critical to the application of the provisions in the Code are clear, for example:

---

⁸ Appendix 2 to this paper includes relevant extracts of the International Organization of Securities Commissions’ (IOSCO) January 2015 comment letter and the IESBA’s related decision in finalizing the Structure of the Code project.
• Firm (paragraph 20h).
• Relevant ethical requirements (paragraph 20q).
• System of quality management (paragraph 20t).

- The merits and drawbacks of duplicating material in the IAASB’s proposed texts when it is already included in the Code, for example:
  - The new application material in paragraph A55A relating to how firms might adopt more restrictive policies than what is called for under the Code in relation to: (i) offering and accepting gifts and hospitality from a client even when the value is trivial and inconsequential; and (ii) the provision of certain non-assurance services to audit clients.
  - Acceptance and continuance of client relationships (paragraphs 38-39 and A62-A72 versus the material in Section 320).
  - Network firms (paragraphs 60-65 and A165-173 versus the material in Section 400).

### Matters for Consideration

1. IESBA members are asked for views on proposed ISQC 1 (Revised) in **Agenda Item 8-A**.

### Proposed ISQC 2 (Revised)

11. At its September 2017 meeting, the IAASB and the IESBA members established a joint working group (JWG), to be chaired by an IAASB member with representatives from the IAASB and IESBA. It was agreed that the purpose of the JWG will be to develop recommendations on how the overlapping issues relating to EQ review would be dealt with.

12. The IAASB will consider a second read of proposed ISQC 2 (Revised) at its September 2018 meeting and anticipates approving an ED for exposure in December 2018.

13. **Agenda Item 8-B** is a summary of the key overlapping issue relating to the objectivity of the EQ reviewer and the JWG’s recommendations for the IAASB’s standards and the Code. In relation to the Code, the appendix to **Agenda Item 8-B** includes suggested revisions to the Code, which would involve adding examples to Part 3 of the Code with respect to the EQ reviewer.

14. **Agenda Item 8-C** is the current draft of proposed ISQC 2 (Revised). In addition to the issues in Agenda Item 8-B, IESBA members are asked for views about the use the word “significant” as a qualifier for “public interest entity.”

### Matters for Consideration

2. IESBA members are asked for views on:
   - (a) The issues and recommendations included in **Agenda Item 8-B**; and
   - (b) Proposed ISQC 2 (Revised) in **Agenda Item 8-C**.

---

9 Part 3 – Professional Accountants in Public Practice, Section 320, *Professional Appointments*

10 International Independence Standards, Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*, paragraph 400.50 A1 to 400.54 A1
Proposed ISA 220 (Revised)

15. **Agenda Item 8-D** includes proposed ISA 220 (Revised) which will be considered by the IAASB at its September 2018 meeting. The IAASB anticipates approving the proposed ISA 220 (Revised) ED for exposure in December 2018.

16. Ms. Soulier plans to provide input on the proposed text to the Chair and Staff of the ISA 220 Task Force during an in-person meeting on September 12, 2018. In particular, Ms. Soulier will provide input on the provisions relating to relevant ethical requirements, including independence requirements in paragraphs 9-10A and A4-A4F).

17. Ms. Soulier will also seek to better understand the rationale for:
   - The revision to the description of engagement partner – the word “person” is replaced with “individual” in “…partner or other individual designated by the firm…”
   - New application material in relation to engagement team to:
     - Recognize evolving structures of audit teams (may be in different locations, may have specialized roles) and the use of service delivery centers.
     - Clarify that all individuals who perform audit procedures on the engagement should be members of the engagement team recognizing that individuals who are involved in the audit engagement may not necessarily be “engaged” directly by the firm or located in the same place as the engagement team (e.g., service delivery centers). The change is intended to clarify that regardless of where individuals are located, or how they are related to the firm, if they are performing audit procedures, then their work needs to be appropriately directed, supervised and reviewed.

18. In relation to the clarifications relating to engagement team, it is anticipated that extensive discussion is needed to better understand the intent and potential implications for the Code arising from the proposed application in paragraphs A2JA and A19D of proposed ISA 220 (Revised). On a preliminary basis, IESBA representatives believe that as drafted, this application material will in effect expand the definition of engagement team to include component auditors.

19. It is noted that the ISA 220 Task Force believes that the definition of engagement team should continue to exclude both an auditor’s external expert and individuals within the client’s internal audit function who provide direct assistance on the audit.

Matters for Consideration

3. IESBA members are asked for views on proposed ISA 220 (Revised) in **Agenda Item 8-D**.

AUP

20. **Agenda Item 8-E** includes the proposed revisions to ISRE 4000, a revised draft that incorporates input from an August 2018 IAASB teleconference. The IAASB anticipates approving the proposed ISRE 4400 (Revised) ED for exposure at its September 2018 meeting.

21. The revised proposals incorporate the input from IESBA representatives and relate to:
   - The requirement and related application material for complying with relevant ethical requirements (paragraphs 18 and A11-A13).
The requirement and related application material for the AUP report to identify the relevant ethical requirements, including a statement as to whether the relevant ethical requirements contain independence requirements pertaining to independence and whether the practitioner is, or is not, independent (paragraph 29(f)).

Matters for Consideration
4. IESBA members are asked for views on proposed ISRE 4400 (Revised) in Agenda Item 8-E.

Material Presented

<table>
<thead>
<tr>
<th>Agenda Item 8-A</th>
<th>Proposed ISQC 1 (Revised) as of September 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agenda Item 8-B</td>
<td>EQCR Joint Working Group Issues and Recommendations</td>
</tr>
<tr>
<td>Agenda Item 8-C</td>
<td>Proposed ISQC 2 as of September 2018</td>
</tr>
<tr>
<td>Agenda Item 8-D</td>
<td>Proposed ISA 220 (Revised) as of September 2018</td>
</tr>
<tr>
<td>Agenda Item 8-E</td>
<td>Proposed ISRE 4400 (Revised) as of September 2018</td>
</tr>
</tbody>
</table>
## Summary of IAASB-IESBA Representatives’ Interactions

<table>
<thead>
<tr>
<th>Project/ Key IAASB Personnel</th>
<th>Summary of IAASB-IESBA Member Interactions</th>
<th>IESBA Representatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISQC 1 – IAASB Task Force chaired by IAASB Member Ms. Karin French</td>
<td>• Input via email and two teleconferences</td>
<td>Ms. Soulier and Messrs. Michael Ashley and Andrew Pinkney</td>
</tr>
<tr>
<td>ISA 220 – IAASB Task Force chaired by IAASB Deputy Chair Ms. Megan Zietsman</td>
<td>• Staff-level input provided; in-person discussion planned with Task Force Chair on September 12, 2018</td>
<td>N/A</td>
</tr>
<tr>
<td>ISQC 2 – Joint Working Group Chaired by IAASB Member Mr. Imran Vanker</td>
<td>• Joint Working Group discussion and input via email</td>
<td>Ms. Soulier and Messrs. Michael Ashley and Andrew Pinkney</td>
</tr>
<tr>
<td>AUP – IAASB Task Force chaired by IAASB Member Mr. Ron Salole</td>
<td>• Initial input provided via teleconference in Q4 2017 and then via email on revised proposals</td>
<td>Ms. Soulier</td>
</tr>
</tbody>
</table>
Appendix 2

Extract of IOSCO January 2015 Comment Letter and Recap of Response in Finalizing the Structure of the Code Project

Extract of IOSCO Comment Letter

General Comments

1. We support the Board’s project as we believe the IESBA should pursue an approach to clearly differentiate between requirements and guidance within the Code and identify with greater specificity the individuals within the firm who have responsibility for compliance with the Code. We believe addressing these matters could be a positive, initial step in improving the enforceability of the Code. This said, we would like to be clear that changes to the structure alone are not sufficient to improve the effectiveness of the Code in addressing its enforceability or improving the auditor’s professional conduct, including with respect to independence, in the execution of their work.

2. We believe that the Board’s project to undertake a review of the threats and safeguards in the Code if performed in tandem with the structure of the Code project would be more effective in improving the substance and enforceability of the Code and enhancing the auditor’s professional conduct. As such, we believe the Board should establish a process whereby issues relevant to both projects could be effectively shared and addressed.

3. We have included in our letter below some additional observations that we believe will assist the Board in making the structure of the Code project effective.

Identification of a Firm’s or Individual Professional Accountant’s Responsibility

4. We note that the Paper states:

“IESBA has considered the input from IOSCO and other stakeholders on the issue of responsibility. In the view of IESBA, a global code should be sufficiently flexible to accommodate different circumstances that firms need to take into account when prescribing the specific responsibility of individuals within the firm for actions related to independence. Responsibility may differ depending on the size, structure and organization of a firm and the culture in which it operates.”

5. While we recognize the Board is tasked with writing a global code, we believe the Code should establish provisions that are appropriate for auditors serving the public capital markets with appropriate, limited exceptions for auditors with smaller operations serving less developed markets. While we believe it is beneficial for the Code to recognize audit firms and practices of varying sizes and structures, we are concerned that establishing provisions with an undue emphasis on accommodating audit firms with small operations increases the risk of compromising on requirements necessary to guard the public interest particularly regarding the capital markets. For example, in our letter to the Board dated 30 January 2012 regarding the IESBA’s Exposure Draft, Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code, we stated that:

“When a breach of an independence provision is uncovered we believe that the firm’s assessment and determination of the outcome of the breach should be elevated within the firm to, for example, the firm’s quality control function and/or firm leadership, thus not left solely
to members of the audit engagement team or local office management. This approach can provide a fresh perspective on the issue at hand, promote consistency of application and can help minimize what may be the engagement team’s bias for continuing the audit engagement. We suggest that such a consultation requirement be included in the Code.”

6. We continue to strongly uphold this view. In this regard, if the Board simply includes “a requirement in the Code for a firm to establish relevant policies and procedures to assign responsibility…” as is currently being considered to accommodate firms of different sizes, we are concerned that this open-ended approach lacks specificity and does not address the fundamental threat we identified of potentially having an individual in the local office tasked with resolving a local engagement team’s breach of an independence requirement. Audit firms serving the capital markets should have sufficient resources and personnel to enable issues such as these breaches to be addressed by the appropriate members of senior management most qualified to objectively deal with the breach.

7. We also encourage the Board to work with the IAASB to ascertain that the final outcome in the Code regarding assigning responsibility to specific individuals who are responsible for addressing compliance and independence issues does not conflict with ISQC 1 or the ISAs.

Recap of IESBA Decisions in Finalizing Structure of the Code Project11

IESBA Decisions

8. The IESBA reaffirmed its view that the Code should refer to ISQC 1 and agreed to retain the following material in paragraph 400.4 of the restructured Code:

“…ISQC 1 requires a firm to establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, (including network firm personnel), maintain independence where required by relevant ethics requirements…. 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 ease of reference…..”

9. The IESBA also:

(a) …

(b) …

(c) Reaffirmed that all individual PAPPs and their firms are subject to the independence provisions in Parts 4A and 4B of the restructured Code (see paragraphs 400.4 and 900.3).

10. The IESBA notes that the IAASB has a current project to revise ISQC 1 and is committed to continuing its liaison and coordination activities with the IAASB in this regard.

---

11 This material is drawn from paragraphs 44-46 of the April 2018 Structure of the Code Basis for Conclusions document.