IESBA Meeting Highlights and Decisions

December 2018

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This summary of decisions of the International Ethics Standards Board for Accountants (IESBA) was prepared for information purposes only. Except for documents approved for public exposure and issuance of final pronouncements, decisions reported on technical matters are tentative, reflect only the current status of discussions on projects, and may change after further deliberation by the IESBA.

A podcast recording that provides a short audio summary of the main outcomes of the December 2018 IESBA meeting is also available on the IESBA website.

Proposed Future Strategy and Work Plan

The IESBA approved for issuance, subject to confirmation by the Public Interest Oversight Board (PIOB) that due process has been followed, the IESBA Strategy and Work Plan, 2019-2023 (SWP).

The SWP is expected to be issued by April 2019.

Technology

The IESBA approved Terms of Reference for its Technology Working Group, which is charged with identifying and assessing the ethical implications of developments in technology for the global accountancy profession and recommending appropriate responses to the IESBA.

The IESBA’s Technology initiative is multi-phased. As part of Phase 1, the Working Group will focus on engaging with a broad range of stakeholders as part of its information gathering activities, including in relation to artificial intelligence, robotic process automation, data analytics and big data. The IESBA anticipates considering the Working Group’s final report in Q4 2019, which will inform the IESBA’s future work and deliverables in relation to Technology.

The Working Group will present an update on its activities at the March 2019 IESBA meeting.

Non-Assurance Services (NAS)

Following approval of the project proposal at its September 2018 meeting, the IESBA considered the NAS Task Force’s initial views about possible revisions to Section 600, Provision of Non-Assurance Services to an Audit Client in the International Independence Standards. Among other matters, the Board deliberated the following topics:

- Whether the revised and restructured Code should prohibit firms from providing NAS to audit clients that are public interest entities (PIEs) when such NAS create or might
create self-review threats.

- Whether there should continue to be a distinction in the NAS provisions in the Code for audit clients that are PIEs and audit clients that are not PIEs.
- Whether there should be clarifications to explain the application of the concept of materiality in the NAS provisions in the Code.
- Whether the Code should include more explicit provisions regarding auditor communication with those charged with governance (TCWG) about NAS matters, including, for example, whether pre-approval should be obtained from TCWG for the provision of NAS to audit clients.

The IESBA will progress its deliberations, including proposed changes to Section 600 of the Code, at its March 2019 meeting.

Fees

The Board received a brief update on the activities of the Fees Task Force since approving a project proposal on the topic at its September 2018 meeting, including the planned approach to and timeline for the project.

The IESBA will consider issues and Task Force proposals, including possible revisions to the fee-related provisions in the Code, at its March 2019 meeting.

Emerging Issues and Outreach

The IESBA received an update on the activities of its Emerging Issues and Outreach Committee (EIOC), including developments in the external environment the EIOC had identified for IESBA attention. Among other matters, the IESBA agreed to a recommendation from the EIOC to commission additional IESBA Staff Frequently Asked Questions (FAQs) on Long Association in response to some questions that have been received from stakeholders regarding how to apply certain aspects of the revised Long Association provisions that are now effective.

The IESBA also noted some questions that have arisen regarding application of the independence requirements in a group audit context. The IESBA agreed to consider them as part of its coordination with the International Auditing and Assurance Standards Board (IAASB) on the latter’s project to revise International Standard on Auditing (ISA) 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors). This project is scheduled to resume in 2019.

The IESBA will receive its next update from the EIOC in June 2019.

Revised and Restructured Code Rollout

The IESBA received an update on the status of the “rollout” initiatives aimed at promoting awareness, adoption and implementation of the revised and restructured Code. Among other matters, the IESBA was briefed on the status of adoption of the new Code; discussed the highlights from Q4 2018 outreach activities to promote the new Code; and exchanged views about its and IFAC’s roles in promoting awareness and adoption of the Code.

The IESBA also agreed to the Rollout Working Group’s proposal to launch a bi-monthly
series of short publications that highlight key aspects of the Code, in particular the revisions and restructuring changes released in 2018. The publications will be authored by IESBA members or others knowledgeable about the revised and restructured Code.

The IESBA will receive a further update from the Rollout Working Group at its March 2019 meeting.

**e-Code**

The IESBA received a demonstration on a staged website for a proposed e-Code, which is an electronic version of the revised and restructured Code. The proposed e-Code leverages technology to demonstrate the “building blocks” nature of the Code. It is designed to improve the user experience of the Code and to help facilitate consistent application and better enforcement.

The IESBA provided input on the development of features including: a visual illustration of the integrated nature of the Code; pop-ups for easy access to definitions; links to non-authoritative material such as FAQs and Bases for Conclusions; and a smart search function.

The IESBA anticipates launching the first phase of the e-Code by June 2019 to coincide with the effective date of the revised and restructured Code. The IESBA will receive a further progress report at its March 2019 meeting.

**Role and Mindset Expected of Professional Accountants (formerly Professional Skepticism)**

The IESBA discussed preliminary Task Force proposals for enhancements to the Code, including: (i) a draft introduction at the front of the Code setting out the role of professional accountants in society, their responsibility to act in the public interest and the overarching objective expected of them; and (ii) proposed revisions to Sections 100 and 120 relating to organizational culture and tone at the top, and the exercise of professional judgment.

The IESBA will consider a revised draft of the proposed changes to the Code and further proposals relating to other elements of the project scope, including potential new application material in support of the fundamental principles and new material addressing bias, pressure and other impediments, at its March 2019 meeting.

**Alignment of Part 4B with ISAE 3000 (Revised)**

The IESBA provided input on an initial draft of the proposed changes to Part 4B, *Independence for Assurance Engagements other than Audit and Review Engagements* of the Code to align it to changes to terms and concepts in the IAASB’s International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*.

Among other matters, the IESBA considered: a proposed new definition of “assurance client;” the impact of the revised “assurance client” definition on the independence requirements; the deletion of a number of provisions no longer needed because of the change in the definition of assurance client; and the withdrawal of the material in the extant code that explains the various types of assurance engagement. The IESBA also agreed to withdraw Interpretation
The IESBA will consider a revised draft of the proposed changes to Part 4B with a view to approving an exposure draft at its March 2019 meeting.

**IAASB-IESBA Coordination**

The IESBA received an update on its coordination activities with the IAASB during the quarter, and in particular significant ethics and independence matters considered in the IAASB’s development of proposed ISQM 1,\(^1\) ISQM 2,\(^2\) and ISA 220 (Revised)\(^3\) (i.e., the Quality Management (QM) standards). These significant matters relate to: responsibility for independence within a firm; independence considerations in a network context; considerations relating to the objectivity of the engagement quality reviewer; and whether to use the Code’s concept of a PIE instead of the concept of an entity that may be of significant public interest.

IAASB representatives participated in the session and provided context and explanations relating to the respective IAASB Task Forces’ consideration of each significant matter raised. The IESBA agreed to recommend to the IAASB that the explanatory memoranda accompanying the QM exposure drafts include discussion of the significant ethics and independence matters and related specific questions to stakeholders. The IESBA liaison representatives and staff will coordinate their input on such material with their IAASB counterparts accordingly.

The IAASB approved the QM exposure drafts at its December 2018 meeting. The IESBA will receive a further update on IAASB-IESBA coordination activities in due course.

**IESBA Working Processes**

In anticipation of soon embarking on its new Strategy and Work Plan 2019-2023 and in the spirit of continual improvement, the IESBA held a discussion group session among its members and official observers to gather views and suggestions on how to further improve the effectiveness and efficiency of its working processes. The discussions focused on how the IESBA might achieve greater strategic focus in its deliberations, how it might further improve on the relevance of its standards to stakeholders, how it might improve on the timeliness of its standard setting, and how efficiencies might be achieved at the Board, Task Force/Working Group and staff levels.

The IESBA will consider the key takeaways from this session at its March 2019 meeting.

**Next Meeting**

The next meeting of the IESBA will be held in New York, USA on March 11-13, 2019.

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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 which relates to quality management at the firm level*

\(^2\) Proposed ISQM 2, *Engagement Quality Reviews*

\(^3\) Proposed International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*