Objectives

- Receive an update on the status of IAASB-IESBA coordination activities
  - Proposed ISQM 1
  - Proposed ISQM 2
  - Proposed ISA 220 (Revised)
  - Proposed ISRS 4400 (Revised)
- Consider specific matters regarding the topic of the objectivity of engagement quality reviewers (EQRs)
Triage of Matters Identified by IESBA Reps

1. Significant Matters – Matters that are fundamental in nature or “policy”
   - Boards to be briefed on issue(s) raised by IESBA reps
   - IAASB reps to provide context and explain TF/IAASB thinking
   - Consider merit of seeking respondents’ views on the matters in Explanatory Memos?

2. Substantive Matters – Potential inconsistencies/drafting suggestions
   - QM Task Forces to consider
   - Follow up at staff level planned post-IAASB ED approval (Jan 2019)

3. Editorial suggestions – for TFs to consider; no follow up required

Significant Matters Relating to Proposed ISQM 1

1. Addressing issue of responsibility for compliance with independence requirements within a firm
   - General reference in Part 4A of the Code to firms assigning responsibility for a particular action to an individual or group of individuals (e.g. an audit team) in accordance with ISQC 1
   - Principles-based approach taken in proposed ISQM 1 re assignment of operational responsibility for compliance with independence requirements
2. How proposed ISQM 1 has addressed independence considerations in a network context, e.g.:
   - § 59: suggestion to recognize that requirements applicable to the network could affect the firm’s QM system, including the network’s compliance with independence standards
   - § A67 re communication policies/procedures: network considerations appear not to have been recognized
   - § A148: network or network firms treated as external parties?
3. Use of concept of “…entities that may be of significant public interest” in draft QM EDs vs. the Code’s defined concept of a PIE
   – E.g. §A161: referring to entities that are “of significant public interest” in relation to compliance with independence requirements
Proposed ISQM 1

Matter for IESBA Consideration

Views on significant matters raised?
ISQM 2 – JWG Activities

- JWG established to deal with issues relating to threats to compliance with objectivity wrt EQRs
- JWG recommendations considered by IAASB and IESBA Sept 2018
- Oct 2018 JWG teleconference
  - Debriefed Sept 2018 meetings and exchanged views about way forward
  - Agreed to resume discussions after comments letters on proposed ISQM 2 received

IESBA-specific Matters Relating to ISQM 2

Recap of JWG Recommendations

1. Establish req’t in proposed ISQM 1 for firms to establish policies or procedures that prohibit, or limit the eligibility of, individuals who served as EP for certain engagements to act as EQR
2. Include question in EM about the need for a “cooling off” period for individuals being considered as EQRs if they served as an EP
3. Include new AM in the Code to help illustrate how to identify threats that might be created when an EP who previously served on the audit engagement is put forward as the EQR
4. Commission Joint IAASB and IESBA Staff publication
Changes Subsequent to JWG Discussions

• Proposed ISQM 2 (Agenda Item 5-D)
  – Establishes AM for situations in which a former EP steps into an EQR role (§ A6)
  – Includes new requirement and supporting AM to assist EQRs in identifying threats to compliance with fundamental principle of objectivity (§ 16(c) and A16)

Nature of Threat re EP Moving to EQR Role

• A view from an IESBA rep that the more relevant threat to address is familiarity, not self-review or self-interest
IAASB Reps’ Perspectives

IESBA-specific Matters Relating to ISQM 2

Matters for IESBA Consideration

Views on:

1. Approach taken in proposed ISQM 2 re matter of “cooling off” (§ A5-A6), in particular to address the situation of an individual moving from EP directly into an EQR role (§ A6)?

2. AM in proposed ISQM 2 re identification of threats to objectivity (§ A16)?
   – In light of the new ISQM 2 guidance, whether it is necessary to add illustrative example(s) of threats that might be created in a situation involving an EP moving to an EQR role?

3. Nature of threat (familiarity, self-review or self-interest) that should be addressed re EP moving to EQR role?
Proposed ISA 220 (Revised)

- No significant matters

Proposed ISRS 4400 (Revised)

- No significant matters
- ED issued November 2018
  - Comments due March 15, 2019
Consequential/Conforming Amendments to the Code

- Timing of consequential/conforming amendments to the Code
  - Important to signal as part of IESBA’s current project timetable
  - Initial project scoping to commence immediately after IAASB EDs released; to be further informed by feedback on IESBA-specific matters in QM EDs
  - Target approval of proposed changes to Code to coincide with finalization of QM standards?
  - Ideally align effective dates for QM standards and changes to the Code

Next Steps

- IESBA Reps to provide input on EMs for QM EDs
  - Including any IESBA-specific questions
- Release of EDs anticipated Jan 2019
- Continued coordination at TF/WG, Board liaison and staff levels post-ED up until finalization
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