

Structure of the Code Phase 2 (Phase 2) — Issues and Task Force Proposals

How the Project Serves the Public Interest

Through the development of a restructured Code, the project serves the public interest by:

- Enhancing understandability of the Code, thereby facilitating compliance and enforcement; and
- Improving the usability of the Code, thereby facilitating adoption, effective implementation and consistent application.

How this Paper is Organized

This paper addresses the following topics:

- I. Background
- II. Matters pertaining to Section 800¹
- III. Matters pertaining to Section 900²
- IV. Other matters

I. Background

1. At its March 2016 meeting the Board commenced its deliberations on Phase 2 by considering a first draft of proposed restructured Code Section 800. The Task Force has reflected on the Board's input on that Section and has included in section I of **Agenda Item 2-C** an updated version of Section 800 with revisions since the March 2016 IESBA meeting discussion shown in mark-up text.
2. The Task Force is also presenting draft proposed text for Section 900 to the Board for the first time in section III of **Agenda Item 2-C**.
3. A mapping table showing the comparison of the Task Force's proposals in Sections 800 and 900 to the related provisions in the extant Code is included in **Agenda Item 2-D**.
4. Those proposals in Sections 800 and 900 reflect the drafting conventions used in Exposure Draft: *Improving the Structure of the Code for Professional Accountants – Phase 1*.

II. Matters Pertaining to Section 800, Reports that Include a Restriction on Use and Distribution

Recap of IESBA Discussions and Task Force Proposals

5. At the March 2016 meeting, an IESBA member expressed the view that the summary term “qualifying restricted use report” used in Section 800 could be confused with the commonly used term “qualified audit opinion.” The term was adopted by the Task Force to improve the flow of the text and avoid unnecessary repetition of certain section numbers.

¹ Section 800, *Reports that Include a Restriction on Use and Distribution* (i.e., paragraphs 290.500 to 290.514 of the extant Code)

² Section 900, *Independence – Other Assurance Engagements* (i.e., Section 291 of the extant Code)

6. The Task Force has reflected on the input received and is proposing that the term be changed to “eligible restricted use report.” The Task Force will add the term to the Glossary with a cross reference back to the text where the term first occurs.
7. At its March 2016 meeting an IESBA member asked whether the last two sentences of paragraph 800.1 could be written as a requirement to reflect that they sent a strong signal that a professional accountant should not take certain actions. This IESBA member commented that the sentences were too important to be used as introductory material.
8. The Task Force has redrafted paragraph 800.1 and included those requirements in paragraph R800.4 as set out in Agenda Item 2-C. Additional modifications were made to set out the description of a qualifying restricted use report (now referred to as an “eligible” restricted use report) in R800.3.
9. An IESBA member expressed the view that Section 800 should include the customary requirement to apply the conceptual framework. The Task Force remains of the view that the conceptual framework applies to each and every section of the Code. However, Section 800 is somewhat of an exception because it is an exception to the provisions of Section C1. The Task Force has included, for the sake of consistency, a reference to the requirement to apply the conceptual framework in paragraph 800.4 (see Agenda Item 2-C).
10. An IESBA member commented that the use of the word “need” in paragraph 800.8 might change the meaning of the extant Code. The Task Force reflected on this comment and adjusted the text to remove the references to the word “need” (see Sections 800.7 and 800.6A1 in Agenda Item 2-C).
11. In addition, the Task Force further reflected on the draft of Section 800 presented to the Board’s March 2016 meeting and removed from the text the reference to “the significance of” any threats in certain places where the professional accountant is required to take action. This removal is because the conceptual framework requires the professional accountant to identify and evaluate threats to compliance with the fundamental principles and “address” them as necessary, but not to “address” the significance of the threats.

Matter for IESBA Consideration

1. Do IESBA members agree with the Task Force’s proposed revisions? Do IESBA members have any specific comments or suggestions regarding the Section 800 text presented by the Task Force?

III. Matters Pertaining to Section 900, Independence – Other Assurance Engagements

12. Section III of **Agenda Item 2-C** includes the Task Force’s proposals for restructuring certain paragraphs within Section 291 of the extant Code. The selected text does not yet include material that will be subject to revisions as a result of proposed restructured Sections 400³ and 600.⁴

Matter for Consideration

2. Do IESBA Members have any specific comments or suggestions regarding the Section 900 text presented by the Task Force?

³ Section 400, *Application of the Conceptual Framework to Independence*

⁴ Section 600, *Provision of Non-Assurance Services to an Audit Client*

IV. Other Matters

Updating Section 291 to Conform with ISAE 3000 (Revised)

13. At the March 2016 IESBA meeting, the Task Force indicated to the Board that it would need to liaise with the International Auditing and Assurance Standards Board (IAASB) to determine the extent of conforming changes required to extant Section 291 in light of the IAASB's 2013 release of ISAE 3000 (Revised),⁵ and the related amendments to the International Framework for Assurance Engagements.
14. IAASB Staff commented on extant Section 291. Those comments were prepared based on IAASB Staff's "intelligent read" of extant Section 291, and indicated the specific areas that in IAASB Staff's view would necessitate a conforming change as a result of ISAE 3000 (Revised). The following matters, among others, were identified by IAASB Staff as areas requiring further consideration:
 - (a) ISAE 3000 (Revised) introduces the new terms "attestation engagement" and "direct engagement" which are not exact equivalents of the terms "assertion-based engagement" and "direct reporting engagement" in extant Section 291. For example, certain types of engagement that were described as assertion-based in the superseded ISAE 3000 are scoped out of an attestation engagement under ISAE 3000 (Revised), and vice versa. The implications of those changed terms on extant Section 291 are unclear without further analysis.
 - (b) The new term "direct engagement" in ISAE 3000 (Revised) can be applied to "direct reporting" engagements but ISAE 3000 (Revised) no longer deals explicitly with them. This raises the question regarding how extant Section 291 might deal with "direct reporting" engagements, if at all. In particular, a self-review threat to independence on a "direct engagement" might warrant further examination.
 - (c) Some of the explanatory material in extant Section 291, which sought to clarify the meaning of an "assurance engagement" before the release of the amended Framework might no longer be necessary, and could be withdrawn from the Code, since there is now a greater awareness of the meaning of the term "assurance engagement." The Task Force noted that there were different views about the need for the inclusion of the explanatory material in extant Section 291 when it was originally drafted.
15. Based on its review of the identified issues, the Task Force considered that:
 - (a) The changes needed to align extant Section 291 with ISAE 3000 (Revised) and the amended Framework would likely be more substantive than just conforming amendments; and
 - (b) Determining the nature and extent of these changes would be outside the remit of the Task Force.
16. The Planning Committee considered the above issues during its April 2016 meeting and concluded that the Task Force should restructure the extant text of Section 291 as part of Structure of Code project. The Planning Committee agreed with the Task Force that the consideration of further conforming changes to align Section 291 to ISAE 3000 (Revised) is outside the remit of the Structure Task Force.

⁵ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

Next Steps

17. The Task Force anticipates that at the Board's September 2016 meeting it will present an updated version of Sections 800 and 900 that will reflect the Board's deliberations at its June 2016 meeting and the post June 2016 work of the Safeguards and Structure Task Forces.

Matter for Consideration

3. Do IESBA Members have any specific comments or suggestions regarding the matters in section IV of the paper?