

## PROJECT PROPOSAL— ALIGNMENT OF PART 4B WITH ISAE 3000 (REVISED)

### I. Subject

1. The alignment of Part 4B<sup>1</sup> of the revised and restructured Code ('Code') with International Standard on Assurance Engagements 3000 (Revised) ('ISAE 3000 (Revised)'<sup>2</sup>).

### II. Background and Relevant Developments

2. In its [Proposed Strategy and Work Plan, 2019 – 2023](#), the IESBA announced that it had made a commitment to review Part 4B of the Code for any changes needed to make the provisions in that section consistent with the revised assurance terms and concepts in ISAE 3000 (Revised). The need for this review had been identified during the restructuring of the Code but was outside the remit of the Structure project. To avoid delaying completion of that project, the IESBA agreed to defer the review of Part 4B until after completion of the restructuring of the Code.
3. In March 2009, the IAASB commenced a project to revise ISAE 3000 (originally issued in 2004). The main objectives of the revision were to incorporate enhanced requirements and guidance in the light of experiences with applying ISAE 3000, and to adopt the IAASB's clarity drafting conventions. The IAASB project proposal at the time noted that conforming amendments may be needed to the Assurance Framework<sup>3</sup> and other ISAEs, although it should not entail revisiting conceptual matters settled at the time the Assurance Framework was issued.
4. The main changes that were subsequently made sought to clarify the distinction between the types of assurance engagement and to identify more clearly the parties to an assurance engagement and their roles and responsibilities. These are also the changes that are most relevant to the IESBA in addressing the independence requirements.

### III. Project Objective and Scope, and How the Project Serves the Public Interest

#### Project Objective

5. The objective is to:

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<sup>1</sup> Part 4B comprises the independence standards for assurance engagements other than audit and review engagements (as defined in the Code), (referred to in Part 4B as 'assurance engagements').

<sup>2</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

<sup>3</sup> The IAASB issued its International Framework for Assurance Engagements (Assurance Framework) solely to facilitate understanding of the elements and objectives of an assurance engagement and the engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and ISAEs (altogether the IAASB's assurance standards) apply. The Assurance Framework is not a Standard. Accordingly, it does not establish any requirements (or basic principles or essential procedures) for the performance of audits, reviews, or other assurance engagements. Practitioners should instead apply the relevant assurance standards when performing assurance engagements.

- (a) Align the terms and concepts used in Part 4B with the terms and concepts in ISAE 3000 (Revised)<sup>4</sup>; and
  - (b) Make any consequential amendments that are necessary to ensure the clarity and consistency of the resulting requirements and guidance.
6. The Project will not challenge the technical validity of the concepts of ISAE 3000 (Revised) since these have already been established by the IAASB.

### Project Scope

- 7. Appropriate revisions to the Code are to be made to align terms and concepts with ISAE 3000 (Revised).
- 8. Preliminary research has identified certain related matters which warrant further consideration beyond the purely factual alignments. The Project will seek to provide further clarification of the independence provisions applicable to the various parties to an assurance engagement in the light of the revised terms and concepts in ISAE 3000 (Revised). This may involve re-visiting the definition of Assurance Client for the purposes of the Code. This clarification will reflect the differences between attestation and direct engagements as amended by ISAE 3000 (Revised).
- 9. Preliminary research has also identified that there might be certain minor textual changes that should be considered in Part 4B which are of a clarifying and consistency nature, rather than purely changes to align with ISAE 3000 (Revised).
- 10. The Project will also review the use of application guidance in Part 4B, including how both ISAE 3000 (Revised) and the Assurance Framework are referenced in Part 4B.
- 11. Paragraph 900.21 A1<sup>5</sup> of Part 4B provides a discussion of how a firm might apply the independence requirements of the Code where there are multiple responsible parties. The project will reconsider

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<sup>4</sup> ISAE 3000 (Revised) establishes the terms, concepts and required methodology for assurance engagements other than audits or reviews of historical financial information.

<sup>5</sup> The text of paragraph 900.21 A1 is as follows:

*"Multiple Responsible Parties*

900.21 A1 In some assurance engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in this Part to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

- (a) The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible.
- (b) The degree of public interest associated with the engagement.

If the firm determines that the threat created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that responsible party."

this paragraph in conjunction with Interpretation 2005-01<sup>6</sup> which was developed primarily to provide further guidance on this paragraph.

#### **How the Project Serves the Public Interest**

12. The public interest is served by Part 4B of the Code being consistent with ISAE 3000 (Revised) and being clear on the applicable independence requirements.

### **IV. Outline of the Project**

#### **Issues that Will Be Addressed**

13. The primary purpose of the Project will be to ensure that the terminology in Part 4B relating to the two types of assurance engagement (attestation and direct engagements) and the parties to an assurance engagement is consistent with ISAE 3000 (Revised).
14. The Project will seek to provide additional clarification where appropriate of the concepts used in Part 4B. The Project will also examine whether further clarification would be appropriate with regards to the compatibility of direct engagements with the independence concepts in Part 4B and, if so, whether a staff publication should, for example, be issued at the same time as the exposure draft of the proposed changes to Part 4B arising out of the Project.
15. The Project will also consider whether the relative independence provisions for the two types of assurance engagement are clear and consistent. In particular, this will focus on the consistency of the provisions for the professional accountant to be independent of the responsible party across the different types of assurance engagement.
16. It is likely that some of the changes discussed above will require more discussion as to their practical implications (for example, in those situations (which may be uncommon) where the party responsible for the subject matter information (the 'measurer or evaluator') is external to the party responsible for the underlying subject matter (the 'responsible party').

#### **Impact Analysis Considerations**

17. It is not envisioned that the amendments to Part 4B which are likely to be appropriate would result in significant implementation costs at the national or accounting firm levels for those who comply with the current provisions of the Code.
18. Further consideration of the need for additional explanatory material will be given in the light of comments raised on exposure of the draft amendments to Part 4B arising out of this Project.

### **V. Implications for any Specific Persons or Groups**

19. The project has particular implications for:
  - National standard setters (NSS) and IFAC member bodies that have adopted the Code, or used it as a basis or a benchmark for their own ethical standards.
  - Members of the Forum of Firms.

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<sup>6</sup> Interpretation 2005-01 provides guidance on the application of the independence requirements now contained in part 4B of the Code (formerly section 291 of the Code) to assurance engagements that are not financial statement audit engagements.

- Other firms that are subject to the requirements of the Code.
- National regulators that use the Code's provisions as a benchmark or as a basis for the development of their independence rules.
- Professional accountants who, as a group, are obliged to comply with the Code.
- Competent practitioners who are not professional accountants in public practice whom ISAE 3000 (Revised) permits to apply the ISAE, but who must also apply appropriate ethical standards.

## VI. Development Process, Project Timetable and Project Output

### Development Process, Including Coordination with IAASB

20. It is anticipated that the project will follow the normal development process of the IESBA where changes to the Code are required.
21. The project will involve coordination with the IAASB to ensure that the revisions to Part B are consistent with the terms and concepts in ISAE 3000 (Revised). The established principles of IAASB-IESBA coordination will apply.
22. The project approach will include appropriate dialogue with NSS, IFAC member bodies or others able to influence ethical standards in this area so that, to the extent possible, consistent requirements and guidance are developed.

### Project Timetable

23. The indicative timing for the project up until the issuance of an Exposure Draft is as follows:

Indicative Timing	Milestone
September 2018	<ul style="list-style-type: none"><li>• Discussion of project proposal with IESBA CAG</li><li>• Approval of project proposal by IESBA</li></ul>
December 2018	<ul style="list-style-type: none"><li>• Discussion with IESBA of the proposed changes to the Code</li><li>• First read of the Exposure Draft</li></ul>
March 2019	<ul style="list-style-type: none"><li>• Discussion of Exposure Draft with IESBA CAG</li><li>• Approval of Exposure Draft by IESBA</li></ul>

### Project Output

24. The output of the project will be a revised Part 4B aligned with ISAE 3000 (Revised) together with explanatory material, as appropriate.

## VII. Resources Required

25. A project Task Force will be established, consisting of five individuals, including an IESBA member as Chair. Additionally, a representative of IAASB will act as a liaison to the Task Force to assist in an

understanding of ISAE 3000 (Revised) and the background to the revisions made to the Standard in 2013.

26. IESBA Staff will provide support to the project Task Force.

### **VIII. Relevant Sources of Information that Address the Matter Being Proposed**

27. Relevant sources of information include:

- ISAE 3000 (Revised), including the [Basis for Conclusions](#) issued by IAASB in December 2013 to accompany the publication of ISAE 3000 (Revised).
- Examples of attestation and direct assurance engagement reports to be obtained from appropriate sources.
- Standards issued by NSS which cover assurance engagements other than audits and reviews of historical financial information.