

## IAASB PROJECT PROPOSAL—IESBA CODE CONFORMING AMENDMENTS

### I. Subject

1. This project considers the implications of the revised International Ethics Standards Board for Accountants' (IESBA's) Code of Ethics for Professional Accountants (including International Independence Standards) (revised IESBA Code) on the IAASB's International Standards.<sup>1</sup>

### II. Background and Relevant Considerations

2. The IAASB's International Standards (the International Standards) refer to the IESBA Code in various ways ranging from simple references to the title to detailed references to specific paragraphs in the Code as it existed before April 2018.
3. The revised IESBA Code is effective from June 15, 2019. The IESBA's Basis for Conclusions, *Improving the Structure of the Code of Ethics for Professional Accountants*, indicates that the IESBA was careful to not inadvertently change the meaning of the Code or weaken it.
4. A project to update the IAASB Handbook (the Handbook) for the revised IESBA Code is necessary to address inconsistencies between the International Standards in the Handbook at present and the revised IESBA Code. The purpose of making the revisions is solely to align the extant wording with the revised IESBA Code and not to reevaluate or discuss the merits of each reference, thus ensuring that the International Standards can continue to be applied effectively together with the revised IESBA Code.
5. The IAASB does not believe it would not be effective to make the changes on a piecemeal basis (i.e., wait until substantive changes are made to each standard to update references to the revised IESBA Code), as some of the affected standards may not be updated on a timely basis.
6. As noted to the Board in June 2019, the impending effective date of the restructured and revised IESBA Code and the need to include the final changes in the 2020 IAASB Handbook means that the project to make conforming amendments to the IAASB's standards is being undertaken on an expedited basis, with a shortened consultation period.

### III. Outline of Proposed Amendments to the IAASB's International Standards

7. An analysis<sup>2</sup> of the references in the Handbook to the Code or ethical requirements more generally indicates that extant ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and ISA 220, *Quality Control for an Audit of Financial Statements* contain the most Code- and ethics-related references of all the

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<sup>1</sup> The IAASB's International Standards comprise the International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standards on Related Services (ISRSs), and International Standards on Quality Control (ISQCs)

<sup>2</sup> Staff was assisted by Mr. Jui and Ms. Bester to classify possible changes according to their nature, including how the changes would be applied

material in Volumes 1–3 of the Handbook. The IAASB issued EDs proposing changes to those two standards on February 8, 2019.<sup>3</sup> The IAASB will decide on a suitable effective date for both standards prior to finalizing the QM standards in 2020.

8. Based on the analysis, it was concluded that proposed ISQM 1 and proposed ISA 220 (Revised) did not warrant different treatment from other International Standards simply because they are currently under revision. In addition, the current expected effective date for those standards would mean a period of over two years with outdated references in those standards if they are not updated.
9. Limited amendments to Volumes 1–3 of the Handbook include changes to the Glossary of Terms and the following standards: ISA 200,<sup>4</sup> ISA 210,<sup>5</sup> ISA 240,<sup>6</sup> ISA 250 (Revised),<sup>7</sup> ISA 260 (Revised),<sup>8</sup> ISA 300,<sup>9</sup> ISA 600,<sup>10</sup> ISA 610 (Revised 2013),<sup>11</sup> ISA 620,<sup>12</sup> ISA 700 (Revised),<sup>13</sup> ISA 720 (Revised),<sup>14</sup> ISA 800,<sup>15</sup> ISA 810<sup>16</sup>, IAPN 1000,<sup>17</sup> ISRE 2400 (Revised),<sup>18</sup> ISAE 3000 (Revised),<sup>19</sup> ISAE 3402,<sup>20</sup> ISAE 3410,<sup>21</sup> ISAE 3420,<sup>22</sup> ISRS 4400<sup>23</sup> and ISRS 4410 (Revised).<sup>24</sup>
10. With respect to ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, no amendments have been proposed although general updates to this standard are needed to reference relevant ethical requirements in the same manner as the other standards.

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<sup>3</sup> The EDs are: ED-ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements and ED-220, Quality Management for an Audit of Financial Statements. ED-ISQM2, Engagement Quality Reviews was also issued at the same time

<sup>4</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>5</sup> ISA 210, *Agreeing the Terms of the Audit Engagements*

<sup>6</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>7</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>8</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>9</sup> ISA 300, *Planning and Audit on Financial Statements*

<sup>10</sup> ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of the Component Auditor)*

<sup>11</sup> ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

<sup>12</sup> ISA 620, *Using the Work of and Auditor's Expert*

<sup>13</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>14</sup> ISA 720 (Revised), *The Auditors Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

<sup>15</sup> ISA 800 (Revised), *Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>16</sup> ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*

<sup>17</sup> IAPN 1000, *Special Considerations in Auditing Financial Instruments*

<sup>18</sup> ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

<sup>19</sup> ISRE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>20</sup> ISRE 3402, *Assurance Reports on Controls at a Service Organization*

<sup>21</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>22</sup> ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro-Forma Financial Information included in a Prospectus*

<sup>23</sup> ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (Previously ISA 920)*

<sup>24</sup> ISRS 4410 (Revised), *Compilation Engagements*

However, given that this standard has not been updated for conforming amendments in relation to other recent projects of the IAASB, it is proposed that no changes are made as it may give the appearance that the standard is up to date.

#### **IV. Project Objectives, Scope, Focus and How They Serve the Public Interest**

11. The project objectives are to:
  - (i) Identify any actual or perceived inconsistencies between the IAASB's International Standards and the changes made by IESBA in issuing the revised IESBA Code;
  - (ii) Develop conforming amendments to the International Standards to address such inconsistencies to the extent considered appropriate to:
    - a. Enable the International Standards to continue to be applied effectively together with the IESBA Code; and
    - b. Ensure that the International Standards and the IESBA Code will be able to operate in conjunction with each other without conflict.
12. These amendments are expected to be limited, as developing them does not involve re-consideration of the objectives, requirements and application material of the International Standards, in their own right.
13. The amendments will generally involve little or no judgment in preparing them as there are no, or very limited, options for amending the wording. This project will not address other potential amendments to International Standards that may have been considered in a project to achieve improvements in those Standards in the immediate term.
14. The project will focus on conforming amendments to the Glossary of Terms and the following standards ISQC 1,<sup>25</sup> ISA 220<sup>26</sup>, ISA 200, ISA 210, ISA 240, ISA 250 (Revised), ISA 260 (Revised), ISA 300, ISA 600, ISA 610 (Revised 2013), ISA 620, ISA 700 (Revised), ISA 720 (Revised), ISA 800, ISA 810 , IAPN 1000, ISRE 2400 (Revised), ISAE 3000 (Revised), ISAE 3402, ISAE 3410, ISAE 3420, ISRS 4400 and ISRS 4410 (Revised).
15. It is in the public interest that the IAASB's and the IESBA's standards be able to operate in concert and without confusion due to the many jurisdictions that utilize both. It is also important that the International Standards acknowledge and do not potentially undermine the enhancements that are made to the revised IESBA Code—either through being inconsistent or through failing to draw appropriate attention to the revised requirements in the IESBA Code. Equally, it would not be in the public interest for practitioners to be placed in a situation where the IESBA Code required one approach but the ISAs, either in the requirements or the application material, did not support or recognize that approach.

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<sup>25</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>26</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

## **V. Outline of the Project**

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

16. The proposed amendments fall into one of the following four categories:
- a) Proposed amendments to reflect structural changes to, and the applicability of, the IESBA Code;<sup>27</sup>
  - b) Proposed amendments to the framework for addressing threats to compliance with the fundamental principles to the IESBA Code;<sup>28</sup>
  - c) Updates to the title of the IESBA Code; and
  - d) Proposed amendments to align with terminology used in the IESBA Code<sup>29</sup>.

### **Impact Analysis Considerations**

17. The primary benefit of this project is the avoidance of actual or perceived inconsistencies between the International Standards and the IESBA Code and to clarify and emphasize key aspects of the proposed revised IESBA Code in the International Standards. Due to the anticipated limited nature of the amendments, the project is not expected to have a significant positive or negative impact on the cost of engagements covered by the International Standards beyond that necessary to implement the new IESBA Code. Conversely, failing to make the limited amendments may lead to confusion in practice regarding the interaction between the IESBA Code and IAASB's International Standards and, accordingly, may increase costs.

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

18. The project has implications for national standard setters (NSS) who have adopted the International Standards or elements thereof and auditors who use the International Standards or used them as the basis for their audit or other assurance engagement methodology.

## **VII. Development Process, Project Timetable and Project Output**

### **Development Process and Project Timetable**

19. Given the limited nature and scope of the anticipated amendments to the International Standards and the importance of providing stakeholders with an opportunity to consider the proposed amendments to the International Standards, this project will be undertaken on an expeditious basis as outlined in the proposed project timetable below. In particular, it is proposed that the amendments to the International Standards be issued for a 45-day comment period, given the need to include the final changes in the 2020 IAASB Handbook.<sup>30</sup>

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<sup>27</sup> See paragraph R100.4 of the IESBA Code

<sup>28</sup> See paragraph R120.7 and R120.10 of the IESBA Code

<sup>29</sup> See paragraph R100.4 of the IESBA Code

<sup>30</sup> Under the Due Process and Working Procedures, the exposure period for a draft international pronouncement issued by the IAASB will ordinarily be no shorter than 90 days. A shorter exposure period may be set, for example, when in the public interest there is a need to conclude on a matter more quickly, the ED is relatively simple or short, or when the IAASB decides to re-expose all or only part of a draft international pronouncement.

Timing	Action
August 2019	IAASB staff finalize Project Proposal, Issues Paper and ED with proposed amendments
September 2019	Obtain input from IESBA
	Obtain CAG input on Project Proposal and issues identified therein
October 2019	Project Proposal, Issues Paper and ED with proposed amendments sent to IAASB for 14 day review
	Teleconference to obtain IAASB approval of project proposal and ED, with a 45-day comment period
	Finalize the conforming amendments and issue ED for 45-day comment period
Q1 2020	Teleconference to obtain CAG input on significant matters from comment letters or notification to CAG that no significant matters were raised
	Respond to comments received
	Teleconference to obtain IAASB approval of final conforming amendments
	Include in the 2020 Handbook

#### Expected Effective Date

20. The effective date for the final conforming amendments is a matter for the board to determine. However, it is anticipated that, given the limited nature of the amendments that will be proposed, the amendments can go into effect almost immediately.