

**To:** IAESB

**From:** S. Thomadakis

Chair, International Ethics Standards Board for Accountants (IESBA)

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### **International Ethics Standards Board for Accountants (IESBA) – 2018Q4 Progress Report**

#### ***Technology***

The IESBA approved the 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 be engaging with a broad range of stakeholders and will focus its information gathering activities on 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.

#### ***Fees***

The IESBA 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 its preliminary views on how to address the fees related issues and timeline for the project.

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

#### ***Non-Assurance Services***

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.

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

Following approval of the project proposal at its September 2018 meeting, the IESBA considered the Role and Mindset Task Force's preliminary proposals to revise the Code, including: (i) a draft

introduction to be placed before Part 1 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.

#### **e-Code**

The IESBA received a demonstration on, and provided input to, a staged website for the proposed e-Code, 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 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.

#### **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 2005-01.

The IESBA will consider a revised draft of the proposed changes to Part 4B with a view to approving the revisions for exposure 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, ISQM 2, and ISA 220 (Revised) (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. A joint IAASB-IESBA plenary session is planned for September 2019.

***IESBA Working Processes***

In anticipation of the upcoming issuance of its new Strategy and Work Plan 2019-2023 and in the spirit of continual improvement, the IESBA conducted breakout group discussion 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.