

**PROJECT PROPOSAL—
QUALITY MANAGEMENT-RELATED
CONFORMING AMENDMENTS TO THE CODE**

I. Subject

1. Conforming amendments to the Code arising from the finalization of the quality management standards promulgated by the International Auditing and Assurance Standards Board (IAASB).

II. Background

2. The IAASB issued its suite of quality management standards in December 2020. This suite of standards comprises:
 - [International Standard on Quality Management \(ISQM\) 1](#), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*;
 - [ISQM 2, Engagement Quality Reviews](#); and
 - [International Standard on Auditing 220 \(Revised\)](#), *Quality Management for an Audit of Financial Statements*
3. As a result of the finalization of those standards, it is necessary to make certain conforming amendments to the Code because the Code refers to ISQC 1,¹ which ISQM 1 replaces, as well as concepts and terminology in ISQC 1. In addition, the [Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#) (EQR revisions), issued in January 2021, also refer to terminology and concepts in ISQM 2 which will need to be reflected in the Glossary to the Code.
4. Consequential and conforming changes to the Code as a result of the finalization of ISA 220 (Revised), in particular revisions to the definition of an engagement team, are being addressed in the Engagement Team – Group Audits Independence project.

III. Project Objectives, Focus, Scope and Outline**Project Objective and Focus**

5. The objective of this project is to develop conforming amendments to the Code so that the Code is aligned and interoperable with ISQM 1 and ISQM 2.
6. The project is focused on relevant provisions in Parts 1,² 3,³ 4A⁴ and 4B⁵ of the Code that refer to ISQM 1 or ISQM 2, or terms and concepts used or defined in those two quality management standards.

¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

² Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework

³ Part 3 – Professional Accountants in Public Practice

Project Scope and Outline

7. This is a limited scope project addressing only the development of appropriate conforming amendments to the Code as a result of the finalization of ISQM 1 and ISQM 2.
8. Specifically, the project will seek to:
 - Align terms and concepts in ISQC 1 that are referred to in the Code to the revised terms and concepts in ISQM 1; and
 - Reflect within the Glossary terminology and concepts in ISQM 2 referred to in the January 2021 EQR revisions to the Code.
9. The review will encompass the recent revisions to the Code pertaining to Role & Mindset and the Non-assurance Services and Fee-related provisions of the Code.
10. Substantive matters that go beyond strict conforming amendments and which might call for reconsideration of concepts and principles in the Code will not be addressed as part of this project. They might, however, be considered as part of the IESBA's development of its future strategy and work plan.

IV. How the Project Serves the Public Interest and Impact Analysis

How the Project Serves the Public Interest

11. The public interest will be served by ensuring that the provisions in the Code are fully aligned with ISQM 1 and ISQM 2, thereby supporting the consistency and interoperability of the Code with those IAASB standards.

Impact Analysis Considerations

12. There will be some implementation costs at the national and firm levels, including translation, to adopt those conforming amendments into national ethics standards and to reflect them in firm policies and methodologies.
13. It is not anticipated that there will be further costs at a firm level beyond those that relate to the implementation of ISQM 1 and ISQM 2.

V. Implications for any Specific Persons or Groups

14. This project will be coordinated with the IAASB under the established process of coordination between the two Boards.
15. The project has implications for, in particular:
 - (a) National standard setters and IFAC member bodies that have adopted the Code or used it as a basis or a benchmark for their own ethics and independence standards; and

⁴ Part 4A – Independence for Audit and Review Engagements

⁵ Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements

- (b) Firms that are subject to the requirements of the Code and/or national ethics standards based on the Code.

VI. Development Process, Project Output and Project Timetable

Development Process

16. The project will follow due process (except as noted below) with an expedited timeline.
17. As the project is limited to developing appropriate conforming amendments to align terminology, references and concepts in the Code to ISQM 1 and ISQM 2, it will not be necessary to formally consult with the CAG.

Project Output

18. The output of the project will be conforming amendments to the relevant sections of the Code.

Project Timetable

19. Subject to the IESBA's approval of the project proposal, this project will commence immediately.
20. The table below provides indicative timing for the project.

Indicative Timing	Milestone
June 2021	<ul style="list-style-type: none">• IESBA consideration and approval of project proposal• IESBA approval of ED
July 2021	<ul style="list-style-type: none">• Issuance of ED with a 60-day comment period
December 2021	<ul style="list-style-type: none">• Full review of responses to the ED• IESBA approval of the conforming amendments to the Code

Effective Date

21. Subject to the Public Interest Oversight Board's (PIOB's) approval of the final conforming amendments, it is anticipated that the effective dates of those changes to the Code will be aligned with the effective dates of ISQM 1 and ISQM 2 as appropriate, i.e.:
- For conforming amendments aligned to ISQM 1, effective as of December 15, 2022.
 - For conforming amendments aligned to ISQM 2, effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022; and effective for other assurance and related services engagements beginning on or after December 15, 2022.

VII. Resources Required

22. IESBA Staff will develop the proposed conforming amendments, working closely with the IESBA member liaison to the IAASB.