

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

### How this Paper is Organized

This paper addresses matters pertaining to Phase 2 of the Structure of the Code project and includes:

- Background
- Issues and Task Force (TF) proposals
  - Matters pertaining to restructuring Section 800<sup>1</sup>
  - Matters regarding Part 4B<sup>2</sup>
  - Other matters

### I. Background

1. At its June 2016 meeting, the Board considered a second draft of proposed Section 800, and a first draft of certain sections within proposed Part 4B.<sup>3</sup> The Task Force has reflected on the Board’s input and have developed further revisions as deemed appropriate.
2. **Agenda Item 3-E** includes the Task Force’s proposals. A disposition of the IESBA’s feedback is included in paragraph 5 for Section 800; no feedback was received on the text of Part 4B.
3. A mapping table showing the comparison of the Task Force’s proposals in Sections 800 and Part 4B to the related provisions in the extant Code is included in **Agenda Item 3-F**.
4. The proposals in Sections 800 and Part 4B reflect the drafting guidelines for restructuring the Code set out in **Agenda Item 3-J**. The proposals also include, when appropriate, conforming amendments arising from Phase 1 of the Safeguards project.

### II. Matters Pertaining to Restructuring Section 800

#### *Disposition of IESBA June 2016 Comments*

5. The Task Force has set out in the table below its responses to various matters raised by IESBA members at the June 2016 IESBA meeting.

| #   | Matter Raised  | Task Force Response                   |
|-----|--|---------------------------------------|
| (a) | Consider changing paragraph R800.3 to a positive statement by replacing the words “shall not be eligible unless” to “shall be eligible if” | See revised text in paragraph R800.3. |

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

<sup>2</sup> Part 4B, *Independence – Other Assurance Engagements* (i.e., Extant Part B, Section 291, *Independence – Other Assurance Engagements* )

<sup>3</sup> The following sections within Part 4B were presented to IESBA at its June 2016 meeting: Sections 910, *Financial Interests*; 911, *Loans and Guarantees*; 920, *Business Relationships*; 921, *Family and Personal Relationships*; 922, *Recent Service with an Assurance Client*; 923, *Serving as a Director or Officer of An Assurance Client*; 924, *Employment with an Assurance Client*; and 999, *Reports that Include a Restriction on Use and Distribution*.

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|     | because the paragraph effectively defines an eligible restricted use report.  |   |
| (b) | <ul style="list-style-type: none"> <li>• Consider revising the ordering of the conditions in paragraph R800.3 because they not seem to flow in a logical manner. It would be better if the firm’s obligation to communicate came before the obligations of the user.</li> <li>• The condition in paragraph R800.3 (c) might be more appropriate as application material.</li> </ul> | <p>The conditions in paragraph R800.3(a) and (b) were reordered.</p> <p>The Task Force does not believe that the condition in paragraph R800.3(c) is application material. Revisions have been made to clarify the requirement.</p> |
| (c) | Paragraph 800.3 A2 permits firms to make their engagement letters available to lenders. However it does not address whether the firm has an obligation to ensure that this communication did in fact occur.   |   |
| (d) | Consider whether there is a need for clarification about compliance with the fundamental principles and independence, in particular at paragraphs R800.7, and R800.8.   | New introductory text has been included at paragraph 800.2. Also, revisions have been made to paragraphs R800.6-R800.8 as deemed appropriate.   |
| (e) | Revisit the use of the phases “...do not need to...”; “...may choose not to...”; “...do not need to” and “...may be disregarded...” as used in paragraphs R800.6–R800.8. Are their meanings the same? Consider the using the same term for the sake of consistency.   | The Task Force has used the words “...does/do not need to...” in paragraphs R800.6–R800.8.  |
| (f) | Consider whether there should be a distinction between “...shall determine...” and “...the firm shall evaluate and address...” as used in paragraph R800.9  | The Task Force believes that the words “...the firm shall evaluate and address...” should be used in order to align to Phase 1 of the Safeguards project.   |

*Independence Requirements for Audits of Single Financial Statements and Specific Elements*

6. There has been some uncertainty among practitioners whether the Code is intended to apply to an audit of single financial statements. The Task Force confirmed that the independence requirements and application material set out in Part 4A of the Code is applicable for audits of single financial statements (e.g., a balance sheet or income statement). For audits of specific elements, accounts or items of a financial statement, the independence requirements and application material set out in Section 999 are applicable. A sentence emphasizing this point has been included in paragraph 999.2.

**Matter for IESBA Consideration**

1. Do IESBA members have any specific comments or suggestions regarding the Section 800 text presented by the Task Force?
2. Do IESBA members have any specific comments or suggestions regarding paragraph 999.2 regarding audits of specific elements accounts or items of financial statement?

**III. Matters Regarding Part 4B**

7. Section III of **Agenda Item 3-E** includes the Task Force's proposals for restructuring certain paragraphs within Section 291 of the extant Code, except for extant provisions related to:
  - Long Association (LA) of senior personnel with an assurance client;<sup>4</sup> and
  - Providing non-assurance services to an assurance client.<sup>5</sup>
8. At the June 2016 IESBA meeting, an IESBA member inquired why the phrase "...and the assurance client or its management..." which was used in paragraph 291.118 of the extant Code, was not included in the paragraph 920.1.
9. The Task Force believes that the material is covered appropriately in paragraphs 920.1 and R920.3. This clarification is now reflected in the mapping table for Part 4B in **Agenda Item 3-F**.

*ISAE 3000 (Revised)* <sup>6</sup> *Conforming Amendments*

10. At the June 2016 IESBA meeting, the Board agreed to restructure to the material in extant Section 291 as drafted. The IESBA noted that conforming amendments might be needed Section 291 in light of the IAASB's 2013 release of ISAE 3000 (Revised) and the related amendments to the International Framework for Assurance Engagements. The IESBA agreed that a consideration of those conforming amendments is outside the Structure of the Code project scope and should form part of matters for future IESBA consideration. Accordingly, this issue is included in **Agenda Item 3-I**, *List of Matters for Future Board Attention*.

**Matter for Consideration**

3. Do IESBA Members have any specific comments or suggestions regarding the text of Sections 900 to 999 presented by the Task Force?
4. Do IESBA Members have any comments regarding conforming amendments arising from the Safeguards project?

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<sup>4</sup> Extant Part B, *Long Association of Senior Personnel with an Assurance Client*, paragraph 291.137. See proposed restructured LA proposals at **Agenda Item 5-G**.

<sup>5</sup> Extant Part B, *Provision of Non-assurance Services to an Assurance Client*, paragraphs 291.138–291.148

<sup>6</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

#### **IV. Other Matters**

##### *Next Steps and Forward Timetable*

11. Following the September 2016 Board meeting, in addition to addressing input received from the Board and IESBA Consultative Advisory Group in September 2016, the Task Force and Staff plan to perform a consistency and editorial review of the combined restructured text.
12. The Task Force plans to seek the Board's approval of Structure ED-2 at the December 2016 IESBA meeting. A forward timeline with the timing of the Structure related work-streams is included at **Agenda Item 3-G**.