

IAASB-IESBA Coordination Update

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Member

IESBA Board Meeting
September 2019
New York

Objectives

- To receive a high level overview on the status of IAASB-IESBA coordination activities
- To share views on, or reactions to preliminary proposals from IAASB's:
 - ISQM 2 Task Force on the role of engagement quality reviewer
 - ISQM 1 Task Force on matter of SPI/PIE
 - ISA 220 Task Force on the definition of “engagement team”
and
 - ISRS 4400 Task Force on Independence requirements (Pre – Condition and Disclosure)

Acting on Coordination – Q3 Activities

- Teleconferences and email exchanges at TG/WG level
 - Quality Management 2 Task Force: July & August 2019
 - ISA 220 Task Force: August 2019
 - ISA 600 Task Force: August 2019
 - ISRS 4400 Task Force: July & August 2019
 - Alignment to Part 4 B Task Force: August 2019
 - Fees Task Force: June & July 2019
- 3 IAASB – IESBA Planning Teleconferences for Joint Sept 2019 Plenary



Coordination is a concerted effort from all

QM Package: Matters Identified by IAASB Task Force

Triage Approach:

- Specific question not asked though commented in the EM
 - propose coordination with IESBA **AFTER** the September 2019 Board meeting
- Specific question asked in EM, for Quarter 3 it is not anticipated to be an area of focus for IAASB TF
 - propose coordination with IESBA **AFTER** the September 2019 Board meeting
- Area where respondents' comments vary significantly
 - propose coordination with IESBA in **QUARTER 3**

ISQM 2: Questions included in Exposure Draft

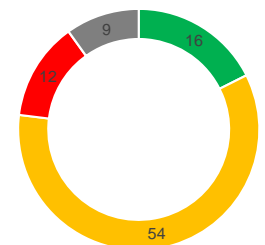
Q4(a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

Q4(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

ISQM 2: Q4(a) included in Exposure Draft

What They Heard in Responses to ED-ISQM 2

- Need for a cooling-off period requirement in ISQM 2 or in the IESBA Code.
- Flexibility of cooling-off period depending on the nature and circumstances of the engagement.
- Guidance on cooling-off period in paragraph A5 of ED-ISQM 2 would become a de facto requirement.
- More guidance consistent with the provisions of the IESBA Code will be needed to drive consistent implementation.
- Some apparent confusion about whether the IESBA Code already addresses this particular cooling-off circumstance.

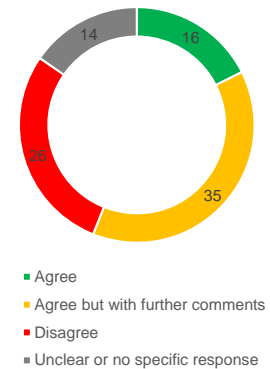


- Agree
- Agree but with further comments
- Disagree
- Unclear or no specific response

ISQM 2: Q4(b) included in Exposure Draft

What They Heard in Responses to ED-ISQM 2

- Comments on the location of any guidance (or requirement) for a cooling-off period for an individual moving into an EQ reviewer role were about evenly split between a preference for ISQM 2 or the IESBA Code.
- Comments that cooling-off period should be addressed in ISQM 2 in the absence of a requirement in the IESBA Code.
- Suggestion that the guidance could reside in either location as long as appropriate cross-references were provided while others noted that there was no harm in having the guidance in both places.



IESBA Liaison: Initial Feedback ISQM 2 TF

- Cooling off requirement inconsistent with the Code
- Conceptual Framework approach of identifying and evaluating threats
 - At a minimum refer to the identification of self-review and familiarity threats to objectivity created by an EP moving directly into the EQR role
 - If significant, the proposal to address it through various actions including cooling off
- Compliance with RER in application material
 - Policies and procedures ordinarily would include limitations on eligibility of the individual to serve in the EQR role
 - For listed entities, such limitation might include a two year cooling off period

ISQM 2 Task Force Recommendation Agenda Item 7B

Objectivity (including “Cooling-off” Period)

- Option 1
 - Addressed in IESBA Code
 - Option 1.1: Threats to objectivity and possible safeguards addressed in IESBA Code, but not a specific cooling-off period limitation
 - Option 1.2: Threats to objectivity and possible safeguards addressed in IESBA Code, including a specific cooling-off period limitation
- Option 2
 - Not Addressed in IESBA Code
 - Relevant application material would need to be developed

Matters for IESBA Consideration

- Views on, or reactions to, the IAASB Task Force’s preliminary options
- Initial feedback provided by Ms. Soulier and staff to the Task Force
- Whether there are other options that should be considered

ISQM 1: Question included in Exposure Draft

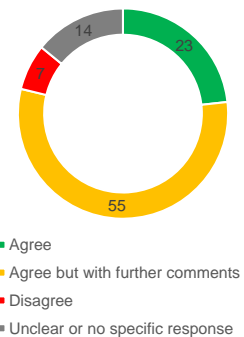
Question 11 in the EM to ED-ISQM 1 asked respondents:

Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject an engagement quality review?

ISQM 2: Q11 included in Exposure Draft

What They Heard in Responses to ED-ISQM 1

- The concept of significant public interest (SPI) cannot be consistently defined and therefore may be confusing or may result in inconsistent application of the requirements.
- Need to describe, or provide guidance about, how SPI relates to public interest entity (PIE) in the IESBA Code.



ISA 220: Question included in Exposure Draft

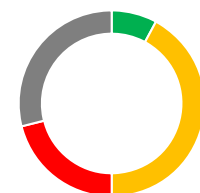
- Does ED-220 deal adequately with the modern auditing environment, including the use of different audit delivery models and technology?
- ED-220 proposed changing the definition of an engagement team:

Engagement team – All partners and staff performing the audit engagement, and any individuals who perform audit procedures on the engagement, including individuals engaged by the firm or a network firm, ~~who perform audit procedures on the engagement~~. This The engagement team excludes an auditor’s external expert engaged by the firm or a network firm. ~~The term “engagement team”~~ and also excludes individuals within the client’s internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013).

ISA 220: Q4 included in Exposure Draft

What They Heard in Responses to ED-220 on the Engagement Team Definition

- Consistency with the IESBA code
- Clarity of the definition
- Practical implications of the definition



- Agree
- Agree but with further comments
- Needs clarity
- Disagree

ISA 220 Task Force Recommendation Agenda Item 7C

Definition of Engagement Team

- Option 1
 - Proceed with revised Engagement Team Definition as per ED-220
- Option 2
 - Deal with QM consideration re Component Auditors in ISA 600
 - Retain the definition of engagement team in extant ISA 220

Matters for IESBA Consideration

- Views on, or reactions to, the IAASB Task Force's options for the way forward
- Whether there are other options that should be considered

ISRS 4400: Independence matters discussed

- **Independence (Pre condition)**
 - **Views from Respondents to ED-4400**
Significant majority agreed that there should not be a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective).
- **Independence (Disclosure)**
 - **Views from Respondents to ED-4400**
Majority agreed with the enhanced transparency regarding the practitioner’s independence. However, many respondents disagreed with the requirement to state that the practitioner is not independent when there is no requirement for the practitioner to be independent. These respondents suggested that, as long the practitioner is not required to be independent, a simple statement that the practitioner is not required to be independent is sufficient.

Independence (Disclosure): TF Proposed Views

		Is practitioner required to be independent?	
		Yes	No
Is practitioner independent?	Unknown (i.e., not determined)	N/A: Practitioner is not able to report until the practitioner has determined independence.	AUP Report under ED-4400: Statement that the practitioner is not required to be independent. AUP Report under the revised disclosure approach: Statement that the practitioner is not required to be independent and accordingly, makes no assertion about independence.
	Yes	AUP Report under ED-4400: Statement that the practitioner is independent and the independence criteria against which the practitioner determined independence. AUP Report under the revised disclosure approach: No Change from ED-4400.	AUP Report under ED-4400: Statement that the practitioner is independent and the basis therefor. AUP Report under the revised disclosure approach: Statement that the practitioner is not required to be independent and accordingly, makes no assertion about independence.
	No	N/A: Practitioner is not able to report (or perform the engagement) because the practitioner is not independent.	AUP Report under ED-4400: Statement that the practitioner is not required to be independent and is not independent. AUP Report under the revised disclosure approach: Statement that the practitioner is not required to be independent and accordingly, makes no assertion about independence.

Matters for IESBA Consideration

- Views on, or reactions to, the IAASB Task Force's options for the way forward
- Whether there are other options that should be considered

Other Matters – IAASB Conforming Amendments Project Proposal

- **Amendments are of a mechanical nature**
- **Four categories of changes**
 - Category 1: Proposed amendments to reflect structural changes to, and the applicability of, the IESBA Code
 - Category 2: Proposed amendments to the framework for addressing threats to compliance with the fundamental principles to the IESBA Code
 - Category 3: Updates to the title of the IESBA Code
 - Category 4: Proposed amendments to align with terminology used in the IESBA Code



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