

IESBA

Alignment of Part 4B with ISAE 3000

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and Task Force Chair

IESBA CAG Meeting
New York
March 4, 2019

Objectives of the Project

- To review Part 4B of the revised and restructured Code for any revisions needed to align with the revised ISAE 3000
- No intention to re-open any discussion or to challenge the concepts of ISAE 3000 (Revised)



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Objectives of the Session

- To update the IESBA CAG on developments since the approval of the project proposal in September
- To enable the IESBA CAG to provide comments on the draft Exposure Draft (ED) (Agenda Item C-1)

Developments since the September meeting of IESBA

- The TF met on several occasions between September and December to continue to identify the issues for Part 4B arising from the Project and to develop the aligned Part 4B
- The TF also requested comments from designated IAASB representatives on the draft issues paper and the draft ED and discussed in a conference call and by email with them their views and comments on the material

Outline of the discussion

1. Independence considerations concerning direct engagements
2. Key changes proposed in the draft ED
 - a) Changes in key terminology (incl. definition of assurance client)
 - b) Impact of these changes on the independence requirements
 - c) Proposed deletion of R900.18, R900.19 and R900.20; proposed revision to 900.19 A1

Outline of the discussion

3. Other changes proposed in the draft ED
 - a) Split of Assurance engagements between Parts 4A and 4B
 - b) Examples of assurance engagements – paragraph 900.1
 - c) Source of guidance on Assurance Engagements (§ 900.7 – 900.11)
4. Evaluation of Objectivity

1. Independence considerations concerning direct engagements

- IAASB was questioned in 2013 as to whether direct engagements are compatible with independence, either because:
 - There might be a self-review threat if the practitioner is responsible for measuring or evaluating the underlying subject matter and obtaining assurance to express a conclusion; or
 - The practitioner might participate in the development of the criteria

1. Independence considerations concerning direct engagements

- Generally the practitioner obtains assurance while performing the measurement/evaluation and does not re-evaluate work previously performed. Hence self-review does not arise
- The practitioner might participate in the development of criteria, but generally in conjunction with other parties as appropriate
- ISAE 3000 (Revised) addresses situations where intended users or the engaging party do not acknowledge suitability of criteria




1. Independence considerations concerning direct engagements

- General requirement (R900.15): *A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement*
- When considering whether to accept a direct engagement, the practitioner needs to take into account how the criteria are to be determined and how the practitioner will be obtaining assurance to enable the conclusion to be provided
- The TF proposes that a brief discussion on these matters is included in the explanatory memorandum to accompany the ED and a future staff publication might be considered also

2. Key changes proposed in the draft Exposure Draft

- a) Changes in key terminology, including definition of Assurance Client
- b) Impact of the revised Assurance Client definition on the independence requirements
- c) Proposal to delete paragraphs R900.18, R900.19 and to rework and relocate paragraph 900.19 A1

2a. Changes in key terminology

- ISAE 3000 (Revised) terminology changes:
 - Assertion-based  Attestation engagements
 - Direct reporting  Direct engagements
 - Subject matter  Underlying subject matter
- The term ‘responsible party’ now used only for the party responsible for the underlying subject matter (SM)
- Additional role defined of ‘measurer or evaluator’ (who may or may not be responsible for the subject matter information (SMI))

2a. Definition of Assurance Client

- Assurance Client is a term used throughout Part 4B
- TF proposes to define the Assurance Client as follows:

“The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party)”
- Definitions of attestation engagement, direct engagement, responsible party and measurer or evaluator as per ISAE 3000 have also been included in the glossary
- TF proposes to amend R900.14 to clarify that independence is required of the assurance client(s) and then to reproduce the definition of assurance client as application material at 900.14 A1

2b. Impact of the revised Assurance Client definition on the independence requirements

- Lack of clarity and logic in existing independence requirements
- TF proposes a simplification to require independence both of the responsible party and also (in an attestation engagement) of the measurer or evaluator where that party is taking responsibility for the SMI. This is explained in the new paragraph 900.14 A2
- In most cases, the responsible party and the measurer or evaluator are part of the same organization
- This is achieved with minimal textual changes to Part 4B through the amended definition of Assurance Client

2c. Proposal to delete paragraphs R900.18, R900.19 and R900.20

- Paragraphs R900.18, R900.19 and R900.20 currently summarize independence requirements which are set out in detail in the subsequent sections
- The TF believes these paragraphs are unclear and unnecessary given the proposed simplification of the independence requirements and proposes that they be deleted
- 900.19 A1 (situation where the parties responsible for the underlying SM and SMI are different) has been reworked and relocated in 900.14 A2

Matters for consideration

- Do IESBA CAG members believe that the definition of Assurance Client is clear and appropriate for use in Part 4B?
- Do IESBA CAG members have any comments on the other proposed changes?



3. Other changes proposed in the draft Exposure Draft

- a) Split of assurance engagements between Parts 4A and 4B
- b) Examples of assurance engagements – paragraph 900.1
- c) Source of guidance on assurance engagements – paragraphs 900.7 to 900.11

3a. Split of assurance engagements between Parts 4A and 4B

- Part 4B covers ‘assurance engagements other than audit and review engagements’
- In addition to addressing engagements covered by ISAE 3000 (Revised), Part 4B also covers audits of specific elements, accounts or items of a financial statement which are conducted under ISA 805 (Revised)
- The TF decided to make the split between Parts 4A and 4B clearer in Part 4B by inserting an additional sentence in the definition of Financial Statements in the Glossary

3b. Examples of assurance engagements – paragraph 900.1

- The TF believes that it is helpful to illustrate a more extensive range of assurance engagements for which the independence requirements in Part 4B are applicable
- Therefore, the TF included more examples of the types of assurance engagements that fall within the scope of the Part, as set out in paragraph 900.1

3c. Source of guidance on assurance engagements – paragraphs 900.7 to 900.11

- Paragraphs 900.7 to 900.11 in the extant Code are intended to provide a summary of the key elements of the different types of assurance engagements. Based on advice from representatives of the IAASB, the TF believes that it is more appropriate for the user to refer to the definitive source of that material
- Accordingly, in the draft Exposure Draft most of this material has been removed other than a brief description in paragraph 900.7 of an assurance engagement and a reference to where further guidance can be obtained, i.e. ISAE 3000 (Revised) and the Assurance Framework

Matters for consideration

- Do IESBA CAG members agree that the split of assurance engagements between Part 4A and Part 4B will be clarified by inserting the additional words to the definition of Financial Statements and by adding more examples at the start of Part 4B?
- Do IESBA CAG members agree that it is preferable to refer users of Part 4B to guidance on assurance engagements included in the IAASB materials, rather than include additional guidance in the Code?

4. Evaluation of objectivity

- Some Board members questioned in December whether it is sufficiently clear in Part 4B that the firm needs to evaluate the firm's objectivity in the particular circumstances of the engagement, in addition to applying the requirements for independence.

4. Evaluation of objectivity

- The TF notes that a great deal of thought was given to the need to apply the fundamental principles, including objectivity, at the time when Part 4A and Part 4B were developed as part of the Restructuring of the Code Project
- In particular, paragraph 900.5 addresses this issue in the same way as paragraph 400.5 with respect to audit and review engagements
- The TF believes, therefore, that the matter raised is already addressed in Part 4B and does not propose any revisions to Part 4B

Proposed Timeline

Indicative Timing	Milestone
March 2019	<ul style="list-style-type: none">• Discussion of draft Exposure Draft with IESBA CAG• Second read and approval of draft Exposure Draft by IESBA
April 2019	<ul style="list-style-type: none">• Publication of Exposure Draft
September 2019	<ul style="list-style-type: none">• Consideration of responses by IESBA• First read of proposed revised Part 4B
December 2019	<ul style="list-style-type: none">• Approval of revised Part 4B of the Code (to become effective in June 2021)



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