

Basis for Conclusions
Prepared by the Staff of the IESBA®
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*International Ethics Standards Board for
Accountants®*

**Revisions to Part 4B of the
Code to Reflect Terms and
Concepts Used in
International Standard on
Assurance Engagements
3000 (Revised)**



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The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the [IESBA Consultative Advisory Group](#) (CAG) and under the oversight of the [Public Interest Oversight Board](#) (PIOB).

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BASIS FOR CONCLUSIONS: REVISIONS TO PART 4B OF THE CODE TO REFLECT TERMS AND CONCEPTS USED IN INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (ISAE) 3000 (REVISED)

This Basis for Conclusions has been prepared by IESBA staff. It relates to, but does not form part of, Part 4B of the Code, which was approved by the IESBA in September 2019 with the affirmative votes of 18 out of 18 IESBA members.

Background

1. Part 4B of the Code comprises the independence standards for assurance engagements other than audit engagements and review engagements, as defined in the Code.
2. In December 2013, the International Auditing and Assurance Standards Board (IAASB) finalized a project to revise ISAE 3000 (originally issued in 2004). The objectives of the revision were mainly to incorporate enhanced requirements and guidance in the light of experiences with applying ISAE 3000, and to adopt the IAASB's clarity drafting conventions.
3. In its April 2018 consultation paper on its [proposed Strategy and Work Plan, 2019 – 2023](#), the IESBA announced that it had made a commitment to review Part 4B of the Code for any changes that were needed to make the provisions in that Part consistent with the revised assurance terms and concepts in ISAE 3000 (Revised).
4. In March 2019, the IESBA approved proposed revised Part 4B of the Code (the "Part 4B ED") for exposure. The comment period for the Part 4B ED closed on June 26, 2019. Twenty-six comment letters were received from various respondents, including regulators, oversight bodies, national standard setters, accounting firms, IFAC Member Bodies and other professional organizations.
5. In developing the Part 4B ED, the IESBA coordinated with IAASB representatives to ensure that the proposed revisions to Part 4B were consistent with the terms and concepts in ISAE 3000 (Revised).
6. This Basis for Conclusions explains the more significant issues raised by respondents to the Part 4B ED, and how the IESBA has addressed them.
7. The IESBA has also discussed this project with the IESBA Consultative Advisory Group on two occasions, including prior to the issuance of the Part 4B ED and prior to the finalization of the revised Part 4B.

Definition of an Assurance Engagement

8. An assurance engagement is defined in ISAE 3000 (Revised)¹ as an engagement in which a practitioner (referred to as a 'professional accountant in public practice' for the purposes of the Code) aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (i.e., the outcome of the measurement or evaluation of an underlying subject matter against criteria).

¹ Paragraph 12 (a) of ISAE 3000 (Revised)

9. ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement for engagements conducted under that Standard. The *International Framework for Assurance Engagements* (the 'Assurance Framework'), issued by the IAASB, provides a general description of assurance engagements.

New Terminology Used in ISAE 3000 (Revised)

10. ISAE 3000 (Revised) introduced a change in terminology in the two types of assurance engagement from 'assertion-based' and 'direct reporting' engagements in the original ISAE 3000 to 'attestation' and 'direct' engagements in the revised Standard. In changing the terminology, the IAASB has clarified that the distinction between the two types of assurance engagement is based on who is undertaking the measurement or evaluation of the subject matter (now referred to as "underlying subject matter" to avoid confusion with the term "subject matter information") against the criteria.
11. Moving from the term "assertion-based engagements" to "attestation engagements" and the term "direct reporting engagements" to "direct engagements" involved taking one of the two types of direct reporting engagements (where a measurer or evaluator, other than the professional accountant in public practice, measures or evaluates the underlying subject matter and makes an assertion as to the subject matter information that is not available to intended users) and including that type of engagement under attestation engagements. Direct engagements now *only* include the other type of engagement, where the accountant directly measures or evaluates the underlying subject matter. This results in a reclassification, but no substantive change in concepts.
12. ISAE 3000 (Revised) includes requirements and guidance for attestation engagements only, rather than for both attestation engagements and direct engagements. Nonetheless, in the introduction, ISAE 3000 (Revised) notes that it may also be applied to reasonable and limited assurance direct engagements, adapted and supplemented as necessary in the engagement circumstances.

Engagements

13. In an attestation engagement, a party other than the professional accountant in public practice measures or evaluates the underlying subject matter against the criteria. A party other than the accountant also often presents the resulting subject matter information (the outcome of the measurement or the evaluation) in a report or statement. In some cases, however, the subject matter information may be presented by the accountant in the assurance report. The accountant's conclusion addresses whether the subject matter information is free from material misstatement.²

Direct Engagements

14. In a direct engagement, the professional accountant in public practice measures or evaluates the underlying subject matter against the criteria. In addition, the accountant applies assurance skills and techniques to obtain sufficient appropriate evidence about the outcome of the measurement or evaluation of the underlying subject matter against the criteria. The accountant may obtain that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it before or after such measurement or evaluation. In a direct engagement, the accountant's conclusion addresses the reported outcome of the measurement or evaluation of the

² Paragraph 12(a)(ii)a of ISAE 3000 (Revised)

underlying subject matter against the criteria and is phrased in terms of the underlying subject matter and the criteria. In some direct engagements, the accountant's conclusion is, or is part of, the subject matter information.³

Independence Considerations Concerning Direct Engagements

15. As referred to in the [Basis for Conclusions](#) issued by the IAASB on the publication of ISAE 3000 (Revised) in 2013, some respondents to the Exposure Draft of that standard had questioned whether direct engagements are compatible with the independence of the professional accountant in public practice, because either:
 - There might be a self-review threat where the accountant is responsible for measuring or evaluating the underlying subject matter and obtaining assurance for the purposes of expressing a conclusion; or
 - The accountant might participate in the development of the criteria.
16. Direct engagements are more commonly performed in the public sector, for example where auditors-general or equivalent have a statutory mandate to provide assurance reports on matters of public interest, such as performance audits on aspects of public administration. An example might be assurance on whether a government finance department has implemented government policy in an efficient and effective manner. In this context, the assurance report can be lengthy and might also be discursive. However, direct engagements are assurance engagements and must satisfy all the elements of an assurance engagement, including the existence of suitable criteria and an assurance conclusion.
17. It seems generally the case that the professional accountant in public practice does not first perform the evaluation or measurement and then obtain assurance on it: rather, the accountant obtains assurance while performing the measurement and evaluation. In these circumstances the accountant is not required to re-evaluate work previously performed by the accountant for the purposes of providing the assurance opinion. Accordingly, a self-review threat does not generally arise.
18. It might be that the professional accountant in public practice participates in the development of the criteria, but this is likely to be in conjunction with the intended user(s) or engaging party and possibly the party responsible for the underlying subject matter. In order to comply with ISAE 3000 (Revised), the accountant also needs to be satisfied as to the appropriateness of the criteria, and the criteria are required to be available to the intended users.⁴ The Standard also states that it is desirable for the intended users or the engaging party to acknowledge that specifically developed criteria are suitable for the intended users' purposes. The absence of such an acknowledgement might affect what is to be done to assess the suitability of the criteria, and the information provided about the criteria in the assurance report.⁵
19. It is relevant to note that the Code requires the professional accountant in public practice to apply the conceptual framework to identify, evaluate and address threats to independence. Specifically, in the case of Part 4B, paragraph R900.12 states: 'A firm shall apply the conceptual framework set out in

³ Paragraph 13 of the Assurance Framework

⁴ Paragraphs A51 and A52 of ISAE 3000 (Revised)

⁵ Paragraphs 24 and A50 of ISAE 3000 (Revised)

Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.’ This would, therefore, apply in the case of considering whether the accountant could accept a direct engagement in the particular circumstances, taking into account how the suitable criteria are to be determined and how the accountant will be obtaining assurance to enable the conclusion to be provided. In making these considerations, the accountant will need to apply the guidance in ISAE 3000 (Revised) as to the prerequisites for an assurance engagement.

Significant Matters

Changes in Key Terminology, including Definition of Assurance Client

20. The change in terminology used in ISAE 3000 (Revised) requires corresponding changes in the Code, in particular in the two types of assurance engagement (changed from assertion-based engagement to attestation engagement and from direct reporting engagement to direct engagement).
21. ISAE 3000 (Revised) states that all assurance engagements have at least three parties: the responsible party, the practitioner (i.e., the professional accountant in public practice), and the intended users. Additionally, depending on the engagement circumstances, there may also be a separate role of measurer or evaluator or engaging party. In ISAE 3000 (Revised), the term ‘responsible party’ is used only for the party responsible for the underlying subject matter and the term ‘measurer or evaluator’ is reserved for the party who evaluates the underlying subject matter against the criteria to produce the subject matter information.
22. The change in terminology used in ISAE 3000 (Revised) requires a change in the definition of Assurance Client in the Code. The Part 4B ED reflected the IESBA’s view that, although the term ‘assurance client’ is not used in ISAE 3000 (Revised) or in other IAASB material, it is nevertheless preferable to use this term in Part 4B for ease of reference when describing the party or parties from whom the professional accountant in public practice is required to be independent. The Part 4B ED also included new or revised definitions and terms within the Glossary of Terms.
23. Most respondents to the Part 4B ED from across the different stakeholder categories supported the term ‘assurance client’ as defined. However, a small number of respondents disagreed with the term on the basis that the word “client” should be reserved for the intended users of the assurance report.
24. There was general support for the new and revised definitions and described terms, though there were some views that there are too many definitions which merely repeat terms used in ISAE 3000 (Revised).

IESBA Decisions

25. The IESBA noted the general level of support for the term ‘assurance client’, which provides a convenient basis of comparison with Part 4A and is simple to read in Part 4B. The term is consistent with the principles of ISAE 3000 (Revised). It is also the equivalent of the term ‘audit client’ used in Part 4A. For these reasons, the IESBA determined that use of the term ‘assurance client’ is appropriate in Part 4B.
26. Given the respondents’ general support, the IESBA included the definitions of ‘responsible party’, ‘attestation engagement’, ‘direct engagement’, ‘criteria’, ‘subject matter information’ and ‘underlying subject matter’ in the Glossary to be consistent with ISAE 3000 (Revised).

Changes to the Independence Requirements

27. The clear distinction between the roles of the different parties has implications for the Code in so far as concerns the parties from whom the professional accountant in public practice must be independent and the requirements for independence, both in an attestation and a direct engagement.
28. The IESBA decided that the independence requirements for professional accountants in the extant Code with respect to the different parties to an assurance engagement needed to be clarified. The extant Code also has arguably inconsistent requirements for attestation engagements and direct engagements.
29. The IESBA believes that, as reflected in the Part 4B ED, the professional accountant in public practice should be independent, as provided in Part 4B, of the responsible party (i.e., the party responsible for the underlying subject matter). Additionally, in an attestation engagement, the accountant should be independent of the measurer or evaluator (where different from the responsible party) in the situation where that party takes responsibility for the subject matter information.
30. The revised definition of Assurance Client proposed in the Part 4B ED was as follows:
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| Assurance client | 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). |
|------------------|--|
31. The text of paragraph R900.14 in the extant Code (now paragraph R900.11) was amended in the Part 4B ED to state specifically that the firm is required to be independent *of the assurance client* which is followed by reproducing the definition of assurance client as application material (see paragraph 900.11 A1 in the revised Part 4B).
32. One respondent noted that paragraph R900.11 departs from the equivalent paragraph in Part 4A which states: 'A firm performing an audit engagement shall be independent' (paragraph R400.11).
33. A small number of respondents commented that the professional accountant should be independent of the measurer or evaluator (as defined by ISAE 3000 (Revised)), whether or not that party is taking responsibility for the measurement or evaluation (or at least when that party has significantly contributed to the outcome/decision). One respondent commented that the term 'measurer/evaluator' should be defined in the Glossary.
34. One respondent noted that the term 'assurance client' might not encompass all parties which are relevant for independence purposes. The respondent suggested additional application material to explain this issue and how the professional accountant should respond, including the possibility in certain situations that the accountant would need to be independent of the engaging party (where different from the responsible party).
35. Another respondent thought it would be helpful to clarify the meaning of 'assurance client' by including a new paragraph of application material to confirm that independence is not required from the engaging party unless that party is the responsible party or the party taking responsibility for the subject matter information.

IESBA Decisions

36. The IESBA discussed the circumstances in which independence should, in an attestation engagement, be required of the firm from the party undertaking the role of measurer or evaluator (where different from the responsible party). The IESBA noted that ISAE 3000 (Revised) does not specify whether the measurer or evaluator takes responsibility for the subject matter information but understands that for the purposes of ISAE 3000 (Revised) the measurer or evaluator is the party who performs the measurement or evaluation. The individual could, for example, be a third party acting as a consultant to the responsible party or other party, but who might not be taking responsibility for the subject matter information. The IESBA had previously agreed that there needs to be certainty as to when independence is required and had determined for the purposes of the Part 4B ED that independence should only be required of the firm from the measurer or evaluator if that party is taking responsibility for the subject matter information. The IESBA held that this position is appropriate, and the majority of responses to the Part 4B ED supported this view.
37. The IESBA also considers that the term ‘measurer or evaluator’ is clearly explained in paragraph 900.11 A2 of revised Part 4B, and, therefore, that the term does not also need to be defined in the Glossary
38. The IESBA concluded that it is important for the user of the Code to understand the requirement for the firm to be independent of the assurance client and that this might be more than one party. The IESBA therefore reaffirmed that the departure in paragraph 900.11 from the equivalent paragraph in Part 4A (paragraph 400.11) is justified because, in the case of an assurance engagement, it is not intuitively clear from which entity, or entities, the firm is required to be independent.
39. The IESBA also considered carefully the responses to the Part 4B ED which questioned whether the ED encompasses all parties which are relevant for independence purposes. The IESBA does not consider that independence should be required of the firm from the engaging party, where different from the responsible party, and notes that this is analogous to the position taken for audit in Part 4A.
40. The IESBA recognizes, however, that in the case of an assurance engagement the existence of additional parties other than the responsible party and the party taking responsibility for the subject matter information might well make the process of determining how the Code is to be applied more complicated than, for example, in the case of an audit. In the case of these additional parties, it is still a requirement that the conceptual framework be applied in considering interests and relationships with these parties that might bear on objectivity, including those that might create a conflict of interest. In the light of the responses received, the IESBA included an additional paragraph as follows:
- 900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.*
41. The IESBA determined that this paragraph should be positioned after paragraph 900.11 A2 because it naturally follows the guidance in that paragraph addressing certain parties involved in an engagement which are relevant for independence purposes. The additional paragraph invites

consideration of whether there are other parties that are relevant for the purposes of compliance with the Code more generally. This is to be distinguished from paragraph R900.12 which is emphasizing the need to apply the conceptual framework for the purposes of addressing independence. Notwithstanding this discussion, the IESBA believes that it is more common in an attestation engagement for the same party to be responsible both for the underlying subject matter and the subject matter information. For this reason, the IESBA does not believe that the changes in the independence requirements will represent a significant change in the practical application of the Code. The IESBA also believes that the revised independence requirements are clearer and more logical than the extant Code. That in itself represents a strong argument for making the changes.

Split of Assurance Engagements between Parts 4A and 4B

42. Part 4B covers ‘assurance engagements other than audit and review engagements’. For the purposes of the Code, ‘assurance engagements’ extend beyond engagements covered by International Standards on Assurance Engagements (in particular ISAE 3000 (Revised)), and include audits of specific elements, accounts or items of a financial statement which are conducted under ISA 805 (Revised).⁶

IESBA Decision

43. The IESBA determined that it is not appropriate or necessary to apply the independence requirements in Part 4A to audits of specific elements, accounts or items of a financial statement given their narrow scope.
44. Although audits of specific elements, accounts or items of a financial statement are audit engagements under IAASB Standards, they are not audit engagements as defined in the Glossary to the Code because they do not relate to financial statements as defined in the Glossary. This does not represent a change to the extant Code.
45. Nevertheless, the IESBA has clarified the intention of the Code by adding a sentence to the end of the definition of Financial Statements in the Glossary, as follows:
‘The term does not refer to specific elements, accounts or items of a financial statement’.
46. The IESBA also notes the additional examples set out in paragraph 900.1, including the example of an audit of specific elements, accounts or items of a financial statement, which help to clarify the scope of Part 4B.

Multiple Responsible Parties

47. Paragraph 900.21 A1 of extant Part 4B (paragraph 900.16 A1 of the Part 4B ED and paragraph 900.13 A1 in the revised Part 4B) provides a discussion of how a firm might apply the independence requirements of the Code where there are multiple responsible parties. Essentially the paragraph recognizes that it might not be necessary for the firm to apply all of the provisions of the section to a responsible party if it determines that the threat created by an interest or relationship with that responsible party would be trivial and inconsequential in the context of the engagement.

⁶ International Standards on Auditing (ISA) 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

48. A few respondents to Part 4B ED made the case for extending the provisions of paragraph 900.13 A1 to cover the case where there are multiple parties taking responsibility for the subject matter information.

IESBA Decision

49. In the light of the representations made (paragraph 49), the IESBA has amended the provisions of paragraph 900.13 A1 accordingly.

Application of Independence Provisions to Relationships with or Service as Employees in a Position to Exert Significant Influence Over the Underlying Subject Matter of the Assurance Engagement

50. In the Part 4B ED, the IESBA proposed amendments to the extant Code to clarify, for the avoidance of doubt, that certain provisions of Part 4B that apply with respect to the subject matter information of the assurance engagement only apply in the case of attestation engagements and not direct engagements. This is because in the case of direct engagements, the professional accountant in public practice is responsible for the subject matter information, so the provisions are not relevant in this situation. This clarification was achieved in the Part 4B ED by adding the words 'in an attestation engagement' in the relevant places in the text.
51. Noting this change, a few respondents to the Part 4B ED questioned why certain provisions had not been extended to apply to certain relationships with employees in a position to exert significant influence over the underlying subject matter of the assurance engagement, or to past or current employment of such individuals with an assurance client. They noted that this might mean, for example, that a member of the audit team could have an immediate family member who is in such a position and this would not be restricted, whereas it would not be permitted for an assurance engagement to be provided where that immediate family member is in a position to exert significant influence over the subject matter information. One of these respondents noted that the provisions for different circumstances or relationships are inconsistently applied and it is not clear why this is the case. The respondent recommended that the IESBA consider reviewing the requirements and application material of Part 4B to ensure that the intention of the provisions has been applied appropriately.

IESBA Decisions

52. The IESBA noted that the provisions being queried by the respondents in this case have remained unchanged from the extant Code and essentially apply in the same way as the equivalent provisions in Part 4A for audits. The IESBA acknowledges, however, that it now requires independence for both direct and attestation engagements of the party responsible for the underlying subject matter.
53. The IESBA has undertaken a review of all the provisions in question and carefully considered in each case whether the provision is appropriate as drafted or whether an adjustment should be made to extend the provision to include employees who were or are in a position to exert significant influence over the underlying subject matter. The IESBA has made some changes and in so doing has been guided by the principle that the provision should apply with respect to employees who were or are in a position to exert significant influence over the underlying subject matter in the same way as it does to employees in a position to exert significant influence over the subject matter information.

54. Where the provision acts to prohibit the relationship or the service with respect to employees in a position to exert significant influence over the subject matter information, however, the IESBA considered the likely significance of the matter, depending in particular on the type of relationship, in concluding whether the provision should be extended to address situations relating to employees who were or are in a position to exert significant influence over the underlying subject matter.

Balance of Explanatory Material

55. The IESBA has sought to reduce the amount of explanatory material derived from IAASB literature in the Code to a level which allows for an understanding of the terms and concepts extracted from ISAE 3000 (Revised) without overloading the text with explanatory material.
56. There were different views amongst respondents to the Part 4B ED about the balance of explanatory material incorporated in the ED text.
57. Several respondents recommended that the IESBA commission the development of additional IESBA staff material to illustrate the application of the Code to the various parties involved in an assurance engagement, according to the type of assurance engagement and situation.

IESBA Decisions

58. The IESBA has discussed the balance of explanatory material used in Part 4B with representatives of the IAASB. Taking into account that the Code is designed to work in parallel with the IAASB's standards, and after due consideration of respondents' comments, the IESBA reaffirmed that an appropriate amount of explanatory material is included in the revised Part 4B.
59. The IESBA has agreed that additional IESBA staff material to illustrate the application of the Code in different situations according to the various parties involved and by type of assurance engagement, should be prepared at a time when Staff resource is available to produce this material.

Effective Date

60. The Part 4B ED proposed that the revisions to Part 4B should apply with respect to underlying subject matter covering periods beginning on or after June 15, 2021; otherwise, the revisions will be effective as of June 15, 2021. Early adoption will be permitted. The ED also posed a question as to whether there are any translation issues, recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments.
61. A substantial body of respondents agreed with the proposed effective date. The respondents indicated support for adoption of an improved Part 4B whilst factoring the importance of a "calm period" after restructuring of the IESBA Code. The respondents did not identify any translation issues and noted that much of the new terminology in the Part 4B ED has already been widely translated. Some respondents considered that as this project is essentially addressing consistency of terms and concepts, rather than introducing fundamental changes, Part 4B could be made effective sooner than June 15, 2021.

IESBA Decision

62. The IESBA concluded that the proposed effective date as per the Part 4B ED is appropriate based on the significant amount of support received. This will allow stakeholders a period of time to be able to adopt and implement the amendments which may also be subject to translation.

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