

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

Quality Management-related Conforming Amendments to the Code



International
Ethics Standards
Board for Accountants®

About the IESBA

The [International Ethics Standards Board for Accountants](#) (IESBA) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

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:
QUALITY MANAGEMENT-RELATED
CONFORMING AMENDMENTS TO THE CODE

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I. Introduction

1. At its November-December 2021 meeting, the IESBA approved the quality management-related conforming amendments to the Code with the affirmative votes of 17 out of 17 IESBA members present.
2. This Basis for Conclusions is prepared by IESBA staff and explains how the IESBA has addressed the significant matters raised on exposure. It relates to, but does not form part of, the pronouncement approved by the IESBA.

II. Background

IAASB Quality Management Standards

3. The International Auditing and Assurance Standards Board (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 \(ISA\) 220 \(Revised\)](#), *Quality Management for an Audit of Financial Statements*.
4. As a result of the finalization of those standards, the IESBA considered 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 concepts and terminology in ISQM 2, which need to be reflected in the Glossary to the Code.
5. Consequential and conforming changes to the Code as a result of the finalization of ISA 220 (Revised), including changes to the definitions of the terms "engagement team" and "audit team," are being addressed in the [Engagement Team – Group Audits Independence](#) project.

Exposure Draft

6. In August 2021, the IESBA released the Exposure Draft (ED), [Proposed Quality Management-related Conforming Amendments to the Code](#).
7. Twenty-two responses were received from stakeholders across various categories and different jurisdictions. In general, there was broad support from the respondents for the proposals presented in the ED.

III. Significant Matters

The Existence of a Quality Management System as an Example of Conditions, Policies and Procedures

8. Paragraph 120.15 A3² of the revised fee-related provisions of the Code indicates that "[i]n the

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 Revisions to the fee-related provisions of the Code which were issued in [April 2021](#)

context of audits, reviews and other assurance engagements, the existence of a quality management system designed and implemented by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.” Paragraph 120.15 A3 explains that the “conditions, policies and procedures” are those that might assist in identifying and evaluating threats to compliance with the fundamental principles and to independence. The ED proposed to amend the phrase “designed and implemented” to “designed, implemented and operated” to align with ISQM 1.

9. A respondent commented that referring to the existence of a quality management system as an example of policies and procedures is incorrect as the system of quality management (SOQM) itself does not represent a policy or procedure as envisaged in ISQM 1. The respondent noted that policies and procedures exist within the broader SOQM to respond to quality risks. The respondent observed that although all firms will have a SOQM as required by ISQM 1, not all firms will have the same quality risks related to independence. The respondent added that not all firms will necessarily have policies or procedures that address the specific independence threat identified at the engagement level because not all engagement level threats will automatically translate to a quality risk at a firm level.

IESBA Decision

10. The IESBA noted that the Code refers generally to “conditions, policies and procedures” in Section 120, not to the policies or procedures as referred to in ISQM 1 to respond to quality risks. Paragraph 120.15 A3 is therefore not inconsistent with ISQM 1. The IESBA agreed that the mere existence of a SOQM is not an example of “conditions, policies and procedures.” Instead, it is how the SOQM is designed, implemented and operated that represents those “conditions, policies and procedures.” As a result, the IESBA deleted the words “the existence of” from paragraph 120.15 A3 to clarify this notion.

Professional Appointments

11. Extant paragraph 320.3 A4 sets out factors relevant in evaluating the level of the self-interest threat to compliance with the fundamental principle of professional competence and due care in the context of professional appointments. The ED proposed to amend the last factor from “[t]he existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently” to:

Whether the firm has implemented policies or procedures, as part of a system of quality management in accordance with ISQM 1, that respond to quality risks relating to the firm’s ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

12. A few respondents commented that this factor appeared to introduce a presumption that ISQM 1 is adopted and that not implementing policies or procedures “in accordance with ISQM 1” could increase the level of the threat.
13. A respondent also commented that the use of the phrase “policies or procedures” introduced an inconsistency because the rest of the Code almost uniformly refers to “policies and procedures.”

IESBA Decisions

14. The IESBA recognized that there may be acceptable alternative quality management standards besides ISQM 1. Accordingly, the IESBA determined to amend the wording to “quality management standards such as ISQM 1.”

15. The IESBA also determined that consistency within the Code should be the overriding consideration. Accordingly, the IESBA determined to change references in the ED from “policies or procedures” to “policies and procedures.”

Fees and Other Types of Remuneration

16. Extant paragraph 330.4 A2 sets out factors relevant in evaluating the level of threats to compliance with the fundamental principles in certain circumstances where contingent fees are used for some types of non-assurance services. The ED proposed to replace the factor “quality control policies and procedures” with the following:

Whether the firm has implemented policies or procedures, as part of a system of quality management in accordance with ISQM 1, that address threats to compliance with the fundamental principles.

17. A respondent commented that the proposed amendment restricted this provision to policies or procedures under ISQM 1 relating to addressing threats to the fundamental principles. The respondent added that it was unclear why there was a change from a reference to the entire system of quality control under ISQC 1 to specific responses under ISQM 1.

IESBA Decision

18. The IESBA accepted that the proposed amendment had inadvertently restricted this provision to policies or procedures under ISQM 1 with respect to addressing threats to compliance with the fundamental principles. Further, the proposed amendment tied this provision to ISQM 1 whereas Section 330 also covers engagements that are not within the scope of ISQM 1.
19. Accordingly, the IESBA determined to reinstate the extant wording but referring to quality management instead of quality control:
- Quality management policies and procedures.
20. Separately, the IESBA noted that the difference between this bullet point and the last bullet point of paragraph 320.3 A4 reflects the difference between these two bullet points in the extant Code. Extant paragraph 320.3 A4 refers to “quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently,” i.e., it is focused more narrowly on the fundamental principle of professional competence and due care. In contrast, as noted above, extant paragraph 330.4 A2 refers much more broadly to “quality control policies and procedures” in the context of contingent fees.

Service Providers in the Context of an Audit Engagement

21. The ED proposed to conform extant paragraph 400.4 in Part 4A of the Code to ISQM 1 by amending the references to ISQC 1 to the relevant terms and concepts used in ISQM 1. In particular, the ED proposed the following amendment:

Under ISQM 1, relevant ethical requirements are those related to the firm, its personnel and, where when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject (including the network-firm personnel, network firms, individuals in the network or network firms, or service providers), maintain independence where required by relevant ethics requirements.

22. A similar amendment was proposed to paragraph 900.3 of Part 4B of the Code.
23. Some respondents observed that the term “service provider” is not defined in the Code. The respondents expressed concern that readers of the Code may require clarification of this terminology without reference to ISQM 1.

IESBA Decision

24. The IESBA accepted that the term “service provider” is not yet defined in the Code. Accordingly, the IESBA determined to delete the phrase in brackets referring to service providers from both paragraphs 400.4 and 900.3.
25. The IESBA noted that the Engagement Team – Group Audits Independence project is proposing to introduce the term “service provider” in the Code³ in the context of developing independence provisions for a group audit that will also be aligned to ISA 600 (Revised).⁴

Client Acceptance – Engagement Partner Authority to Accept or Provide Services

26. In developing the proposed conforming amendments, the IESBA considered a matter raised by IAASB Staff concerning the reference in paragraph 300.7 A5 relating to an engagement partner's authority for decisions about accepting or providing services to a client. IAASB staff suggested that the IESBA consider deleting the phrase “including decisions about accepting or providing services to a client” from paragraph 300.7 A5 on the ground that this provision implies that it is the engagement partner who decides to accept or provide services to a client.
27. The IESBA noted that paragraph 30 of ISQM 1 addresses judgments by the firm about whether to accept or continue a client relationship or specific engagement. The IESBA also observed that paragraph 22 of ISA 220 (Revised) requires the engagement partner to determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed and that conclusions reached in this regard are appropriate.
28. In deliberating this matter, the IESBA considered that the authority and accountability rest with individual professional accountants in public practice (PAPPs) even though decisions about accepting or providing services to a client are those of the firm. Additionally, in some jurisdictions, engagements are required to be under the names of engagement partners for licensing, regulatory or other reasons.
29. The IESBA, therefore, did not propose any amendment to this provision but sought stakeholders' views on the matter in the ED.
30. Respondents largely agreed with the IESBA's views.
31. A few respondents who disagreed noted that ISA 220 (Revised) is written based on the firm being responsible for client acceptance decisions. They noted that in practice, many firms have established the procedure whereby the partner in charge makes an initial decision about engagement acceptance before the firm makes the final decision. Accordingly, in that sense, final decision-making authority concerning acceptance is not, in effect, granted to individual partners. These respondents therefore were of the view that the phrase “including decisions about accepting or providing services to a client” in paragraph 300.7 A5 should be deleted to avoid any misunderstanding.

IESBA Decision

32. Upon due deliberation, the IESBA agreed that Section 300 applies to all types of engagements

³ See proposed paragraphs 400.A and 400.B in the February 2022 Exposure Draft, [Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#)

⁴ ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, approved by the IAASB in December 2021

PAPPs may perform, including engagements not covered by ISQM 1 or other IAASB standards. Accordingly, the IESBA determined that it would not be appropriate to anchor paragraph 300.7 A5 to the requirements of ISQM 1 or the ISAs.

33. Additionally, as noted in the ED, in some jurisdictions, engagements must be under the names of engagement partners for licensing, regulatory or other reasons. Hence, the responsibility about engagement acceptance might not rest solely with the firms. For these reasons, the IESBA does not believe it would be appropriate to delete the phrase “including decisions about accepting or providing services to a client” from paragraph 300.7 A5.
34. However, to better recognize that there might be circumstances where the authority and accountability for engagement acceptance rest with individual professional accountants within a firm, the IESBA determined that the word “any” be added to the phrase: “including any decisions about accepting or providing services to a client.”

IV. Effective Date

35. The IESBA proposed that the effective date of the changes to the Code be aligned with the effective date 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.
36. A respondent commented that the different effective dates for related amendments to the Code (i.e., December 15 specifically versus engagements for financial statement periods beginning on or after December 15) may be confusing to stakeholders.

IESBA Decision

37. Upon deliberation, the IESBA determined that December 15, 2022 be the effective date for the conforming amendments to the Code. The IESBA determined that this would be appropriate because virtually all the conforming amendments are to align with ISQM 1.

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