IAASB–IESBA Coordination—
Operating Principles, Criteria and Other Key Considerations
January 2018

(For Information and Reference Only)

A. Background

1. Many jurisdictions and firms adopt both the IAASB's International Standards and the IESBA's *Code of Ethics for Professional Accountants* (the Code). In addition, both sets of standards are already linked in a number of ways, such as through definitions of key terms and concepts (for example, "relevant ethical requirements" in the IAASB's standards and "engagement team" in the Code), and through cross-references from one set of standards to concepts or requirements in the other. Accordingly, it is important to promote, as far as possible, outcomes where standards issued by the two standard-setting Boards (SSBs) are not inconsistent, or perceived to be inconsistent, with each other, and that they are capable of being complied with at the same time.

2. The IAASB's *Work Plan for 2017–2018* already recognizes the importance of ongoing coordination with the IESBA on matters that may impact either the Code or the IAASB's International Standards. In that context, it notes that the SSBs will continue to coordinate in the context of specific topics, through aligning efforts by Staff and the relevant SSBs where necessary and appropriate, and through periodic leadership interactions and communications.

3. Likewise, the IESBA's Strategy *and Work Plan, 2014–2018* recognizes the need for coordination with the IAASB on areas of mutual interest. It also calls for the IESBA to monitor the work of the IAASB and consider the need for appropriate action to complement any actions the IAASB may undertake to contribute to enhancing audit quality.

4. Coordination between the two SSBs in the past has been on an ad hoc basis. Recent completed projects on which there has been coordination include:

   - Responding to non-compliance with laws and regulations (NOCLAR).
   - The IAASB's new and revised Auditor Reporting standards, particularly with respect to referring to the auditor's compliance with relevant ethical requirements in the auditor's report.
   - Revision of the definition of "engagement team" in the Code to facilitate revisions to International Standard on Auditing (ISA) 610[1] with respect to the matter of internal auditors providing direct assistance to the external auditor.

5. Such ad hoc coordination has generally worked well. However, more recent experience (such as on NOCLAR) has indicated that there can be practical challenges to achieving optimal coordination, for example, different levels of priority the SSBs have assigned to the particular topic, little available capacity on crowded work programs, and different stages reached in due process. Accordingly, there is a need to consider how the SSBs should best approach coordination and what general considerations should be guiding their coordination efforts.

[1] ISA 610 (Revised), *Using the Work of Internal Auditors*

6. The need for coordination has also been emphasized more recently in the light of the SSBs' ambitious agendas and heightened stakeholder expectations for timely outputs. In particular, recent discussions on the topic of professional skepticism have highlighted concerns from, and expectations of, the Public Interest Oversight Board (PIOB) and the Consultative Advisory Groups (CAGs) of the two SSBs that there be appropriate coordination between the SSBs. Other stakeholders, including regulators and firms, have echoed similar expectations.

7. There could also be circumstances where an action by one SSB creates expectations of coordinated action by the other SSB. This could occur, for example, when one SSB determines that it needs to respond to a new issue that has arisen in one of its projects, and such response could have implications for the standards of the other SSB.

Coordination with the International Accounting Education Standards Board (IAESB)

8. While this paper speaks to coordination between the IAASB and IESBA, many of the principles and considerations set out in the paper would apply equally with respect to coordination with the IAESB.

B. Meaning and Purpose of Coordination and Operating Principles

9. Coordination is a process of organizing the resources and activities of the SSBs so that they work effectively together in achieving desired standard-setting outcomes in the public interest.

10. The overriding purpose of coordination is to enable the SSBs to deliver standards and other outputs to their broad constituencies that are consistent with each other and interoperable, or that are not otherwise incompatible with each other.

11. Coordination between the SSBs benefits the public interest in a number of practical ways, including:

    - Enriching each SSB's deliberations on the particular topic through perspectives and ideas from the other SSB.
    - Improving efficiency by avoiding overlapping efforts and duplication of work.
    - Helping better achieve unity of purpose or direction on a particular topic or issue.
    - Addressing a common or overlapping issue on a timelier basis.
    - Achieving more closely integrated standards that are easier to use together.
    - Strengthening the working relationship between the SSBs.

12. Many projects on an SSB's agenda may not require coordination with the other SSB. However, some projects may give rise to expectations of close coordination because of the perceived extent to which the relevant issues overlap the remits of the SSBs and the potential far-reaching implications of changes in one SSB's standards for the other SSB's standards. Other projects where there is a limited degree of overlap may not require coordination per se but may call for an awareness and understanding of the downstream implications of potential changes in one SSB's standards for the other SSB's standards, for example, changes in terminology. Monitoring of these different projects is addressed below under the subsection "Inventory of Topics."

13. Coordination between the SSBs will be guided by the following six operating principles:

    (a) Coordination will involve proactive collaboration and transparent and timely communications between the SSBs, whether at the SSB, IAASB Steering Committee/IESBA Planning Committee, Task Force or Working Group, or Staff level.

    (b) For effective coordination, the SSBs will set aside adequate time and resources commensurate with the nature, scope and complexity of the topic, and the degree of urgency of the coordination task.

    (c) Coordination involves a commitment by the SSBs to seek to resolve differences of views in good faith.

    (d) Flexibility is important as each project may require a different level of, and approach to, coordination, and unforeseen issues may arise as projects develop. Good judgment is also important to minimize the risk of over-coordination.

    (e) Coordination respects the independence of each SSB to set standards pursuant to its remit.

    (f) Coordination is premised on mutual respect between the SSBs and their representatives in all their dealings with each other.

C. **Coordination Criteria and Other Key Considerations**

Criteria for Determining Nature and Intensity of Coordination

14. For topics where a need for coordination has been identified, different approaches to and intensity of coordination are possible, depending on a number of criteria, including the following:

    - The nature, scope and complexity of the topic.
    - The degree of overlap or connectivity between the SSBs on the topic.
    - The public interest impact of the topic.
    - The degree of urgency in addressing the topic.
    - The development stage of the particular SSB initiative or project.

15. The most appropriate approach to coordination on a particular initiative or project will therefore be a matter of careful judgment, taking into account the above criteria and recognizing the independence of the SSBs, resource constraints and considerations of practicality.

SSB Staff Responsibility

16. Coordination efforts should primarily be driven by the staff of the SSBs, with the Technical Directors steering the efforts and retaining overall responsibility for all practical aspects of coordination. (Hereinafter, references to SSB Staff includes the relevant SSB's Technical Director.)

17. Oversight of the joint SSB staff's strategy for coordination on any given topic and related efforts rests with the Managing Director, Professional Standards. The Managing Director will also be a sounding board on any practical aspects of coordination.

Role of SSB Liaison Member

18. To facilitate the coordination activities, each SSB appoints one of its members to act as Board member liaison to the other SSB. The responsibilities of the liaison member include:

    - Acting as primary contact to the liaison member on the other SSB.
    - Presenting periodic updates on SSB activities to the other SSB.
    - Presenting SSB developments or views on particular topics or issues to the other SSB.
    - Reporting back the feedback received from the other SSB.
    - Acting as a sounding board to SSB staff on cross-over topics or issues for which no coordination process has yet been established.

Inventory of Topics

19. To facilitate the management of the coordination efforts, the staff of the SSBs will jointly maintain a central inventory of topics requiring, or that may require, coordination.

20. This inventory will contain information to facilitate the coordination and monitoring efforts, such as:

    - For topics for which there is already ongoing coordination or for which a need for coordination has been identified:
        - An outline of the actual or potential coordination plan, and who is or might need to be involved.
        - Anticipated timelines for coordination efforts, taking into account the stages of the relevant initiatives.
        - Most recent SSB discussion.
        - Key action points or next steps.
        - Staff contacts.
    - For topics that need monitoring for an awareness and understanding of potential implications for the other SSB:
        - Potential areas of overlap or nature of cross-over issues.
        - Current timeline for the relevant initiative or project.
        - Most recent SSB discussion.
        - Next SSB discussion.
        - Staff contacts.

21. To allow adequate time for planning, coordination issues should be identified as early as practicable by an SSB, a Task Force or Working Group, or SSB staff. A particular need for coordination may also be identified by an SSB CAG, an SSB stakeholder, or the PIOB, or during the development of an SSB's future strategy and work plan. Where such a potential need for coordination is identified, the relevant staff of the SSB addressing the topic is alerted to the matter. The SSB staff in turn is responsible for bringing the matter to its counterpart's attention timeously. The staff of the SSBs

agree whether the matter should be added to the inventory for their Steering and Planning Committees' consideration.

22. The inventory is updated jointly by the staff of the SSBs periodically, ordinarily on a quarterly basis, reflecting the most recent updates on the different projects or initiatives being tracked. In this regard, the staff of the SSBs hold periodic meetings (at least on a quarterly basis) to update each other on developments on the various items on the inventory.

23. The inventory provides a basis for periodic reporting (ordinarily semi-annually, and more frequently on specific topics or issues that are well advanced) to the Steering and Planning Committees and the SSBs. As part of such reporting, SSB Staff seek the concurrence of their Steering Committee or Planning Committee regarding the likely need for coordination on any newly identified topics.

Possible Options Where a Need for Coordination Has Been Established

24. No predefined coordination process will work equally well in every circumstance. The approach and intensity of coordination needed will depend on the criteria set out in paragraph 14 above.

25. There are various options for coordination action, and these can be taken individually or in combination, depending on the criteria noted above. These options include, for example:

- Discussions at SSB staff level.
- Informal dialogue (e.g. ad hoc meetings or calls) or more formal, scheduled interactions (e.g. consideration of staff analysis of issues) on the relevant matters at Task Force, Working Group or SSB Chair level.
- Project proposals that describe, among other matters, the cross-over issues and, where possible, potential implications for the other SSB. To the extent possible, SSBs also use project proposals as a tool to outline any plan for coordination.
- Concurrent launch of projects on the topic (or in close proximity to each other).
- Appointment of a member from one SSB Task Force/Working Group to act as a correspondent member on the other SSB Task Force/Working Group.
- Provision of mutual staff or Task Force/Working Group feedback on relevant aspects of draft SSB agenda material.
- Joint sessions of the SSBs.
- Joint sessions of the SSB CAGs.
- Joint sessions of the SSBs with the PIOB or particular stakeholders.
- Cross-SSB discussions and interventions.
- Concurrent SSB discussions (or otherwise closely aligned from a timing perspective).
- Concurrent issuance of Exposure Drafts, consultation papers or other publications (or in close proximity to each other).
- Reviews by the one SSB's Task Force/Working Group of the other SSB's draft agenda material and draft publications (including explanatory memoranda accompanying exposure drafts, Basis for Conclusions documents, and consultation papers).

- Concurrent SSB final approvals or in close proximity to each other.
- Joint communications or other publications to stakeholders.
- Where proposals are limited in scope:
    - Review by the staff and the Chair of the other SSB's Task Force/Working Group of the relevant proposals, and updates to the other SSB by that staff or Task Force/Working Group Chair.
    - Negative clearance by the other SSB (i.e., no inconsistencies identified with respect to the other SSB's standards).

Establishing an Appropriate Coordination Plan and Related Considerations

26. Where there is a likely need for coordination on a given topic, the staff of the SSBs will liaise with each other to develop an outline of a coordination plan, in consultation with the relevant Task Force Chairs and, if necessary, the SSB Chairs. This proposed plan could address matters such as:
    - An appropriate approach to coordination, including potential coordination activities needed at staff, Task Force/Working Group and SSB levels.
    - Anticipated Task Force and staff resources needed.
    - Alignment of timelines, deadlines and deliverables, taking into account the need for consultation with the CAGs and other key stakeholders.
27. SSB staff will seek input on the proposed plan from their Steering and Planning Committees for consideration and approval by their SSBs.
28. In consultation with the SSB liaison member, the Task Force Chair will play a proactive role in the coordination effort, including ensuring that the relevant issues are brought to the other SSB's attention in a timely manner, ensuring that the other SSB is adequately briefed on proposals under consideration and given sufficient time to provide input, and engaging closely with its counterpart on the other SSB.
29. It will be important to build adequate time into the coordination plan where cross-feedback on proposals or agenda material is requested from the other SSB, whether at the staff, Task Force or Board level. Cross-feedback requests should be made as early as practicable before the relevant SSB meeting to allow the opportunity for clarifications and dialogue between the joint SSBs' representatives on any particular issues. First reviews generally should not be on a fatal flaw basis. In all circumstances, feedback provided by one SSB (or its representatives) to the other should respect the other SSB's remit.
30. Where there will be coordination at the Task Force level, careful planning of the work is especially important at critical stages of the two Task Forces' projects, for example at near-ED or near-final stages, to minimize potential delay due to late differences of view.
31. The approach to and timing of feedback from one Task Force to the other should be clearly communicated. Where a fatal-flaw review is requested at the relevant stage of a project, the feedback should focus on substantive matters only and not involve editorial changes.
32. A *high-level* illustration of a possible approach to coordination is included in the Appendix.

Differences of Views

33. Differences of views between the SSBs on particular topics or issues can arise given their different scopes and remits, and do not necessarily imply irreconcilable conflicts.

34. SSB Technical Directors should first discuss and agree how identified differences of views might be resolved. This may include discussions between the SSBs' staff, Chairs, and task forces or working groups as appropriate. If a difference of view remains, the issue may be escalated to the IAASB Steering Committee and IESBA Planning Committee, and ultimately to the SSBs for further consideration. If necessary, a joint plenary session of the SSBs might be arranged to deliberate the particular issue.

35. Ordinarily, one of the SSBs will be the principal Board establishing standards on the particular topic. Where a difference of view has arisen which has been escalated to the SSBs, that SSB is expected to make the final determination on the matter, respecting the input received from the other SSB and any advice from the CAGs and PIOB.

36. Regardless of the outcome of the process of escalation and resolution of a difference of view, the SSBs commit to abiding by that outcome.

D. **Future Review**

37. The SSBs commit to reviewing this document on an as-needed basis but no less frequently than every three years, taking into account the experience gained from their coordination efforts.

APPENDIX

IAASB–IESBA Coordination—High-Level Illustration

Revision of ISRS 4400 – Issue of Independence for Agreed-upon Procedures Engagements

