IAASB & IESBA Future Strategies and Work Plans

Objectives of Joint Discussion

1. To note:
   (a) Current coordination work streams on the IAASB's and IESBA's (the standard-setting Boards' or SSBs') agendas; and
   (b) Potential new topics for coordination relating to either upcoming projects on the SSBs' current work plans or potential new projects on the SSBs' future work plans.
2. In relation to 1(b) above, to exchange views on elements of the topics where opportunities for coordination between the SSBs may be needed or helpful.

A. Background

CURRENT COORDINATION WORK STREAMS

1. There are currently a number of coordination work streams on both the IAASB's and IESBA's agendas. These include:
   - With respect to the IAASB:
     - Revision of ISQC 1[1]
     - Development of proposed ISQC 2[2]
     - Revision of ISA 220[3]
     - Revision of ISRS 4400[4]
     - Alignment of terms and related descriptions in IAASB standards with the revised and restructured IESBA Code
   - With respect to the IESBA:
     - Whether all professional accountants should apply the behavioral characteristics comprised in professional skepticism
     - Alignment of Part 4B[5] of the Code with the terms and concepts in ISAE 3000 (Revised)[6]

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[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] Proposed ISQC 2, *Engagement Quality Reviews*

[3] International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*

[4] International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

[5] Part 4B comprises the independence standards for assurance engagements other than audit and review engagements (referred to in Part 4B as 'assurance engagements').

[6] International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

2. The established principles of IAASB-IESBA coordination (see Agenda Item J1-2) are being applied as appropriate to these work streams.

STATUS AND TIMELINES OF IESBA AND IAASB STRATEGY CONSULTATIONS

IESBA Consultation

3. Following a survey of stakeholders in April 2017, the IESBA released its strategy consultation paper (CP), *Proposed Strategy and Work Plan, 2019-2023* (SWP), in April 2018. The proposed SWP set out the IESBA's vision for the Code, i.e., that it be *a foundation of strong ethical principles, values and standards to underpin trust in the global accountancy profession in a dynamic and uncertain world, and to enable the profession to act in the public interest*.

4. The proposed SWP also set out three strategic themes to guide the IESBA's priorities and actions during the new strategy period, namely:

   - Advancing the Code's relevance and impact
   - Deepening and expanding the Code's influence
   - Expanding the IESBA's perspectives and inputs

5. At its September 2018 meeting, the IESBA will undertake a full review of the CP responses and consider its Planning Committee's proposed responses to the significant comments from respondents. The IESBA plans to finalize the SWP at its December 2018 meeting.

IAASB Consultation

6. In May 2018, the IAASB began the consultation process on its future strategy through the release of a strategy survey to seek views and insights from its stakeholders on emerging developments and trends that are likely to be important to its 2020-2023 strategy. The IAASB will use the input from the survey to help inform the development of a consultation paper on its 2020-2023 strategy, expected to be published in early 2019.

7. The survey closed on July 24, and the IAASB will undertake a full review of responses at its September 2018 meeting. The IAASB anticipates finalizing its new SWP in Q3 2019.

8. In the light of the IAASB-IESBA discussion last September regarding aligning the periods of the SSBs' future SWPs with a view to increasing the coordination between them, the IAASB resolved to move to a four-year strategy period (2020–2023). The effect is to enable full alignment of strategy periods from 2024, while not precluding efforts by the SSBs to achieve close coordination on topics or areas of mutual interest in the intervening period. The IAASB's decision was supported by the Public Interest Oversight Board (PIOB).

B. Potential New Topics for Coordination

CURRENT IESBA WORK PLAN

9. There are two new topics where the need for coordination with the IAASB has been identified:

   - Fees
     - The IESBA will be asked to approve a project at its September 2018 meeting. The proposed project scope will encompass:

(a) A review of the provisions in Part 3[7] of the Code with respect to the level of audit fees for individual audit engagements;

(b) A review of the provisions in Part 4[8] of the Code with respect to fee dependency at a firm, office and partner level for all PIE audit clients, including considering a specific threshold for non-PIE audit clients; and

(c) A review of the fee-related safeguards in the Code pertaining to the above Parts.

- Non-assurance Services (NAS)
  - The IESBA will be also asked to approve a project at its September 2018 meeting. The proposed project scope will encompass the International Independence Standards related to the provision of NAS to audit clients.

Appendix 1 provides further details regarding the matters these two projects will address.

CURRENT IAASB WORK PLAN

10. Paragraph 1 in the Background section above sets out the current projects of the IAASB where coordination efforts will continue well into 2020 as proposed revisions are exposed for public comment, and the relevant revised standards are finalized. These topics form the substantial part of the IAASB's current work plan. The IAASB also is continuing to discuss professional skepticism, including within its current projects, and foresees ongoing coordination with IESBA as needed on this important topic.

11. In addition to the IAASB's current projects, there are a number of other initiatives that are underway, or are planned to commence in the next 18 months, where further coordination efforts between the SSBs may be needed:

(a) Revision of ISA 600[9] relating to group audits.

(b) Development of non-authoritative guidance related to emerging external reporting.

(c) Exploration of possible actions to address perceived challenges and issues when undertaking audits of less complex entities, including developing recommendations for a way forward. This initiative focuses on audits, but may also involve considerations about other types of engagements performed by practitioners.

(d) Post-implementation review of the recently revised and new auditor reporting standards.

IESBA SWP CP

12. Potential new topics on the IESBA's future work plan that a number of respondents believe would warrant close coordination between the SSBs include:

- Technology
- Emerging or newer models of service delivery

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7 Part 3, *Professional Accountants in Public Practice*

8 Part 4, *International Independence Standards*

9 ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- Review of the definitions of the terms “public interest entity” (PIE) and “listed entity” in the Code
- Materiality
- Post-implementation review of NOCLAR
- Consistency of defined terms and concepts between IAASB standards and the Code
- Practical issues encountered by group and component auditors in applying the independence standards in a group audit

13. Appendix 2 sets out comments from respondents on some of those topics that may be pertinent to coordination considerations.

IAASB Strategy Survey

14. The strategy survey focused on the high-level direction of the IAASB’s future strategy, and not individual topics for its detailed work plans. The broad message from respondents to the survey was the importance of the IAASB maintaining the relevance of its standards, including relating to:

    (a) Advances in technology (both the use of technology by entities as well as practitioners).

    (b) The changing needs of the IAASB’s stakeholders for assurance (for example, assurance in relation to reporting on non-financial information or the need for a service other than assurance).

    (c) The scalability of the IAASB’s standards, and the ability to be effectively and efficiently used by a wide range of stakeholders.

    (d) The ability of the standards to be effectively and efficiently implemented.

    Underlying the above is the ability of the IAASB to deliver timely solutions to address challenges and issues, and to do more to have evidence-based substantiation for the work it undertakes.

15. There was a strong message that the IAASB needs to continue to coordinate with other standard-setters as needed, in particular the IESBA. Respondents cited the need for coordination with respect to evolving technologies, including data analytics, artificial intelligence, digital ledgers (such as blockchain), cryptocurrencies, cybersecurity and continuous auditing/assurance. Some respondents suggested that a project to revised ISA 500[10] be undertaken to address the issues and challenges relating to audit evidence with respect to these technologies. The topic of professional skepticism also was noted as an important area for continuing collaboration between the IAASB and IESBA.

16. As the IAASB develops its consultation on its future strategy and work plans, consideration will be given to the IAASB’s processes and procedures, including options for more agile, rapid responses. Respondents suggested that this may involve the development of non-authoritative guidance or other staff documents to address more immediate issues or comprise an interim step in a standard-setting project.

Audit Firm Business Model

17. As part of its Fees initiative, the IESBA undertook fact finding on the topic of the provision of audit services by an audit firm that also has a significant non-audit services business (audit firm business

[10] ISA 500, *Audit Evidence*

model). The aim of the fact finding was to identify whether there is a relationship between firms' business model and threats to compliance with the fundamental principles or to independence, or whether there are reasonable perceptions that such threats exist, as well as how such threats might be addressed.

18. From the review of academic research and other literature it commissioned, the IESBA noted that there is no firm evidence that the audit firm business model creates threats to compliance with the fundamental principles and to independence. Further, at this time, there is no indication that jurisdictions have developed standards or regulation to address this issue.

19. In its February 2018 communication to the IESBA of public interest issues under its current scrutiny, the PIOB noted that "the audit firm business model can be seen as a barrier to real independence, to the effective implementation of professional skepticism, and to audit quality." It therefore recommended "an in-depth consideration of this issue during the next [IESBA] strategy cycle."

20. The IESBA's preliminary view is that the audit firm business model is a complex, multi-faceted topic in respect of which there is a need for robust engagement among all key players, including standard-setting boards, regulators, investors, the corporate governance community, preparers, national standard setters, firms, the academic community and IFAC member bodies. As a first step, the IESBA's Fees Working Group has recommended that the IESBA Planning Committee give consideration to the IESBA initiating a dialogue with the IAASB on the topic.

21. The IAASB's proposed revisions to ISQC 1 would require the firm (regardless of business model) to develop quality objectives that include establishing a culture that promotes a commitment to quality throughout the firm. The proposals also require the firm to have leadership that is responsible and accountable for quality, through demonstrating the commitment to quality through its actions, including recognizing and reinforcing the importance of professional ethics, values and attitudes throughout the firm, and establishing and emphasizing the responsibility of all firm personnel for quality engagements. In light of the actions of the IAASB to promote a focus on firm culture and governance, and the IESBA's discussions to date, further dialogue with the IESBA Planning Committee about what more may be needed is recommended.

C. Format of the Session and Matters for Consideration

22. This is an open plenary session, with this paper taken as read. Prior to members of the SSBs exchanging views on this agenda item, the SSBs' Technical Directors will brief participants on the main outcomes of the SSBs' sessions on strategy at their individual meetings earlier in the week, as these might be relevant to matters of coordination.

23. Having regard to the stages of development of the SSBs' future SWPs, IAASB and IESBA participants are asked for views on the following matters:

    (a) **What elements or aspects of the topics identified in Section B above, including technology, would be of particular relevance to coordination, or that the SSBs should have particular regard to when developing approaches to coordination?**

    (b) **Are there additional perspectives to share on the matter of the audit firm business model, and whether and how the SSBs may further respond, that are relevant for the SSBs to consider?**

Material For Reference Only

IESBA Agenda Item 6-A	Proposed IESBA SWP 2019-2023 – Summary of Significant Comments on Consultation Paper and IESBA Planning Committee Proposals
IAASB Agenda Item 3	The IAASB's Future Strategy
IAASB Agenda Item 3-A	Analysis of Responses – IAASB Future Strategy Survey

Appendix 1

Matters to be Addressed in IESBA Projects on Fees and NAS

Fees

1. With respect to level of fees, the project will:

   (a) Review the responsibilities of the engagement partner and the firm for fees quoted to audit clients under the Code and determine whether there is a need for further enhancement to the Code;

   (b) Review the responsibilities of PAIBs, whether in a governance role or otherwise, with respect to the level of audit fees when taking part in appointing or reappointing auditors, and determine whether there is a need to establish specific expectations of them in the Code in this regard;

   (c) Consider whether the provisions in Part 3 of the Code[11] related to level of fees quoted continue to be robust and appropriate, or whether they should be further strengthened; and

   (d) Review the transparency regarding how audit fees are quoted and determine whether there is a need to include provisions to the Code in this regard.

2. With respect to fee dependency, the project will review:

   (a) The application material in the Code in relation to fee dependency from all audit clients;

   (b) The requirements in the Code pertaining to fee dependency in relation to PIE audit clients; and

   (c) How threats relating to fee dependency for non-PIEs might be addressed, including for example through use of thresholds.

3. With respect to fee-related safeguards, the project will determine whether they are clear, appropriate and effective in addressing threats to compliance with the fundamental principles and to independence.

NAS

NAS that Create Self-review Threats, Materiality, and PIEs vs. Non-PIEs

4. The project will involve the development of provisions that provide a clear and principled approach to the circumstances in which firms may be permitted to provide NAS to audit clients. In this regard, the project will consider:

   - Whether the Code should prohibit firms and networks from providing a NAS to their audit clients whenever a self-review threat arises; and
   - In relation to those NAS that are not prohibited, how to ensure that any threats created are reduced to an acceptable level.

5. The project will consider:

   - Whether to retain the use of “materiality” as a factor against which a threat should be evaluated or whether a different term should be used to:

[11] Part 3 – Professional Accountants in Public Practice

- Avoid confusion with the test used in the preparation of financial statements; and
- Reduce the degree of subjectivity (and therefore inconsistency) that might occur.

- If the term "materiality" or a similar term (e.g., significant) is retained and used in contexts other than in referring to amounts and disclosures in financial statements, developing appropriate guidance to facilitate consistent application of such term.
- Whether to use a different threshold to determine when a threat created by providing a NAS is acceptable (e.g., whether the threat is "trivial and inconsequential," or whether the nature and extent of the threats should differ depending on the category of entity concerned).

6. The project will also consider whether different approaches should be taken if the particular NAS is to be provided to different categories of entity (i.e., PIE and non-PIE), taking into consideration specific suggestions made by roundtable participants.

New and Emerging Services

7. The project will involve:
   (a) Considering whether there are other services that should be explicitly addressed in the Code;
   (b) A review of the general provisions in the Code applicable to the provisions of NAS to ensure that they are remain appropriate to address new and emerging services; and
   (c) Exploring mechanisms capable of providing timely guidance to firms and others that explain how the general principles in the Code apply to new and emerging services, particularly those involving new technologies.

Requirements for Auditor Communication with Those Charged with Governance (TCWG)

8. The project will involve a consideration of:
   (a) Whether to include the IAASB's requirements for auditor communications with TCWG about NAS in the Code, or a reference to such requirements.
   (b) Whether to include provisions that would require firms to obtain approval of a NAS engagement from TCWG in advance of that engagement being provided to audit clients (i.e., pre-approval of NAS). The Task Force's considerations will take into account the fact that the IESBA's remit cannot be extended to imposing obligations on TCWG.

NAS Disclosure Requirements

9. The project will explore how best to respond to requests for enhanced disclosure requirements about NAS, having regard to the merits of transparency and the challenges highlighted by roundtable participants in achieving it. In particular, the project will explore issues relating to the relationship between NAS and audit fees (e.g., considering provisions that would require firms to re-evaluate threats to independence when NAS fees to audit fees reach a particular threshold).

Appendix 2

IESBA SWP CP – Respondents' Comments of Potential Relevance to Coordination Considerations

1. **Technology and Service Delivery Models**

- The rapid pace of technological change emphasizes the strengths of a principles-based approach to standard setting.
- While the IESBA is in the information gathering phase, it could consider publishing timely non-authoritative material to alert professional accountants (PAs) to the potential ethical implications of identified emerging issues, or to provide relevant and practical guidance to them based on the Code's existing provisions.
- Any efforts to delve too broadly into technological or service delivery trends within a standard-setting process will not lead to timely or responsive output. Rather, consideration should be given to focusing on identifying two or three emerging issues each year and providing timely, relevant and practical guidance to PAs on the application of the Code' fundamental principles to those particular facts and circumstances.
- There is merit to a diagnostic approach to the topic of technology, and to forming advisory groups or panels to provide any necessary technical expertise in identified areas of focus.
- There may be opportunity to refresh terminology and examples in the relevant sections of the Code.

2. **Definitions of PIE and listed entity**

- Consideration could be given to approaching certain more stringent aspects of the Code in the same way as the IAASB (i.e., specifying certain requirements for listed entities only, thereby allowing jurisdictions to add further entities of public interest in the particular jurisdiction).
- With respect to the definition of a listed entity, consideration could be given to providing guidance to explain the difference between "recognized" and "regulated" exchanges.
- Consideration could be given to the implications of developments in capital markets, including new forms of capital raising such as crowd funding and initial coin offerings.

3. **Materiality**

- If the Code continues to refer to materiality in circumstances other than in relation to amounts and disclosures in financial statements, it would be helpful to provide guidance on how to more consistently evaluate it.
- Consideration could also be given to clarifying how PAs should address clearly trivial inadvertent departures (i.e., de minimis exceptions).

4. **Post-implementation review of NOCLAR**

- Appropriate time should be provided for to review the implementation of the provisions globally and to understand challenges in applying the NOCLAR provisions.

5. **Consistency of defined terms and concepts between IAASB standards and the Code**

- There is a need to review the consistency of defined terms and concepts between IAASB standards and the Code, for example, network firms, engagement period, assurance engagement, engagement quality control review, financial statements, firm, independence, review engagement, and special purpose financial statements.
- The IAASB and IESBA should work together on future projects to identify and address all inconsistences in the terminology in their pronouncements.