

Proposed Plan for Updating the IAASB Handbook for the Restructured IESBA Code

Objective of Agenda Item

To update the IAASB on the plan for making limited amendments to the IAASB Handbook to address changes to the International Ethics Standards Board for Accountants' (IESBA) Code.¹

Background

1. The IAASB's International Standards (the International Standards) refer to the IESBA Code in various ways ranging from simple references to the title to detailed references to specific paragraphs in the Code as it existed before April 2018.
2. The revised IESBA Code is effective from June 15, 2019. The IESBA's Basis for Conclusions, *Improving the Structure of the Code of Ethics for Professional Accountants*, indicates that the IESBA was careful to not inadvertently change the meaning of the Code or weaken it.
3. A project to update the IAASB Handbook (the Handbook) for the restructured IESBA Code is necessary to address inconsistencies between the International Standards in the Handbook at present and the IESBA Code. The purpose of making the revisions is solely to align the extant wording with the restructured IESBA Code and not to reevaluate or rediscuss the merits of each reference, thus ensuring that the International Standards can continue to be applied effectively together with the IESBA Code.
4. It would not be effective to make the changes on a piecemeal basis (i.e., wait until substantive changes are made to each standard to update references to the IESBA Code), as some of the affected standards may not be updated on a timely basis.
5. An analysis² of the references in the Handbook to the Code or ethical requirements more generally indicates that extant ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and ISA 220, *Quality Control for an Audit of Financial Statements* contain the most Code- and ethics-related references of all the material in Volumes 1–3 of the Handbook. The IAASB issued EDs proposing changes to those two standards on February 8, 2019.³ The estimated effective date of these standards, when finalized, is no earlier than December 2021.⁴
6. Based on the analysis, it was concluded that proposed ISQM 1 and proposed ISA 220 (Revised) did not warrant different treatment from other International Standards simply because they are currently

¹ *International Code of Ethics for Professional Accountants (including International Independence Standards* ("the IESBA Code" or "the Code")

² Staff was assisted by Mr. Jui and Ms. Bester to classify possible changes according to their nature, including how the changes would be applied.

³ The EDs are: ED-ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and ED-220, *Quality Management for an Audit of Financial Statements*. ED-ISQM-2, *Engagement Quality Reviews* was also issued at the same time.

⁴ See the discussion of Effective Date in the [covering memorandum](#) for the three quality control EDs.

under revision. In addition, the current expected effective date for those standards would mean a period of over two years with outdated references in those standards if they are not updated.

7. Other standards that require limited amendments are ISA 210, ISA 240,⁵ ISA 250 (Revised),⁶ ISA 260 (Revised),⁷ ISA 300,⁸ ISA 510,⁹ ISA 610 (Revised 2013),¹⁰ ISA 620,¹¹ ISA 700 (Revised),¹² ISA 720 (Revised),¹³ ISRE 2400 (Revised),¹⁴ ISAE 3000 (Revised),¹⁵ ISAE 3410,¹⁶ ISAE 3420,¹⁷ ISRS 4400¹⁸ and ISRS 4410 (Revised).¹⁹

Proposed Project Objective

8. The proposed project objective is to develop amendments to the International Standards to remove identified inconsistencies to make the International Standards not be in conflict with the IESBA Code

Planned Drafting Guidelines

9. The amendments necessary to the International Standards for consistency with the restructured IESBA Code generally involve little judgment as there are no, or very limited, options for amending the wording. It is proposed that the amendments remain faithful to the wording of the IESBA Code.
10. The amendments that will be required fall into the following categories (with examples of how the amendments would be applied):

- (a) Amendments to reflect structural changes to, and the applicability of, the Code,²⁰ for example, ISQC 1, paragraph 12(q):

Relevant ethical requirements – Ethical requirements to which the engagement team, ~~and~~ engagement quality control reviewer and the firm are subject, which ordinarily comprise Parts 1, 3, 4A and 4B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with national requirements that are more restrictive.

⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁶ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁷ ISA 260 (Revised), *Communication with Those Charged with Governance*

⁸ ISA 300, *Planning an Audit of Financial Statements*

⁹ ISA 510, *Initial Audit Engagements – Opening Balances*

¹⁰ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

¹¹ ISA 620, *Using the Work of an Auditor's Expert*

¹² ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹³ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

¹⁴ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

¹⁵ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

¹⁶ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

¹⁷ ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

¹⁸ ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (Previously ISA 920)*

¹⁹ ISRS 4410 (Revised), *Compilation Engagements*

²⁰ See paragraph R100.3 of the IESBA Code

- (b) Amendments to the framework for addressing threats to compliance with the fundamental principles,²¹ for example, ISA 220, paragraph A6:

The engagement partner may identify a threat to independence regarding the audit engagement that ~~is not at safeguards may not be able to eliminate or reduce to an acceptable level, and which the engagement partner cannot address through eliminating the threat or reducing it to an acceptable level.~~ In that case, as required by paragraph 11(c), the engagement partner reports the threat to the relevant person(s) within the firm to determine appropriate action, which may include eliminating the ~~activity or interest that creates the threat,~~ declining or ending the audit engagement or withdrawing from the audit engagement, where withdrawal is possible under applicable law or regulation, or applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level.

- (c) Updates to the title of the IESBA Code, for example, ISA 700 (Revised), paragraph 28:

The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32) ...

The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code); and (Ref: Para. A34–A39)

- (d) Amendments to align with terminology used in the Code,²² for example, ISRE 2400 (Revised), paragraph 223:

Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of ~~non-compliance with breaches of the~~ relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have ~~not complied with breached~~ relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall evaluate the significance of the breach and determine the appropriate take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily.

- (e) Removal of certain footnote references – actions to address footnotes fall into two categories:

- (i) Footnotes to be deleted – Footnotes that contain references to specific sections of the IESBA Code should ordinarily be deleted, because:
- The IESBA Code is meant to be applied through an integrated approach, rather than focusing only on particular sections or requirements
 - The use of footnotes throughout the International Standards is inconsistent

²¹ See paragraphs R120.7 and R120.10 of the IESBA Code

²² See paragraph R100.4 of the IESBA Code

- The general reference to the IESBA Code in the relevant paragraph provides sufficient detail for the specific requirement to be easily found
 - Footnotes require updating when there are changes to the IESBA Code to remain consistent with the extant IESBA Code
- (ii) Footnotes to be retained – The following exceptions are proposed to the proposal to delete footnote references to the IESBA Code:
- Those footnotes that appear in the Glossary, as the definitions derive from the IESBA Code
 - Those footnotes that refer to noncompliance with law or regulation (NOCLAR) throughout the standards because the IAASB deemed these footnotes necessary only recently (2015) in its project to align with IESBA's NOCLAR project.

Due Process Considerations

11. The plan is for the project proposal to note that the project will be conducted under a streamlined due process, including a concise Project Proposal and a shortened consultation period. All aspects of the due process will be adhered to, however the steps may be combined or facilitated through teleconferences.
12. Given the effective date of the revised Code and the need to include the final changes in the 2020 IAASB Handbook, this project will be undertaken on an expedited basis as outlined in the proposed project timetable below.

Proposed Timetable

13. The proposed timetable is as follows:

Timing	Action
Q2 2019	<ul style="list-style-type: none"> • Obtain Steering Committee approval of project proposal • Obtain CAG input on project proposal
June 2019	<ul style="list-style-type: none"> • Obtain IAASB approval of project proposal and Exposure Draft (ED) with a 30-day comment period²⁴
Q3/Q4 2019	<ul style="list-style-type: none"> • Obtain CAG input on significant matters arising from comment letters • Obtain IAASB approval of final conforming amendments
Q4 2019 / Q1 2020	<ul style="list-style-type: none"> • IAASB Handbook released

²⁴ Under the IAASB's *Due Process and Working Procedures*, the exposure period for a draft international pronouncements issued by the IAASB will ordinarily be no shorter than 90 days. A shorter exposure period may be set, for example, where in the public interest there is a need to conclude on a matter more quickly, the ED is relatively simple or short, or where the IAASB decides to re-expose all or only part of a draft international pronouncement.

Other Matters

14. A project Task Force is not required; however, staff will consult with a small subgroup comprising a Board Member and Technical Advisor who assisted in identifying the affected International Standards and the nature of the amendments required.
15. The project will also require close interaction between the IAASB and IESBA, particularly in relation to the proposed changes and comments on the IAASB ED. Accordingly, the IAASB and IESBA will interact at a staff or Board level as appropriate in relation to the proposed conforming amendments and any comments on the respective EDs that may be relevant to either Board.

Matter for IAASB Consideration

Does the IAASB support the planned approach to making limited amendments to the International Standards to address inconsistencies with the restructured IESBA Code?