

IAASB EXPLANATORY MEMORANDUM—IESBA CODE CONFORMING AMENDMENTS

I. Introduction

1. This memorandum provides background to, and an explanation of, the International Auditing and Assurance Standards Board's (IAASB's) proposed amendments to certain of its International Standards¹ in response to the revised IESBA Code². The IAASB approved the proposed amendments to the following International Standards on November 7, 2019 for exposure:
 - ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*;
 - ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*;
 - ISA 210, *Agreeing the Terms of the Audit Engagements*;
 - ISA 220, *Quality Control for an Audit of Financial Statements*;
 - ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*;
 - ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*;
 - ISA 260 (Revised), *Communication with Those Charged with Governance*;
 - ISA 300, *Planning and Audit on Financial Statements*;
 - ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of the Component Auditor)*;
 - ISA 610 (Revised 2013), *Using the Work of Internal Auditors*;
 - ISA 620, *Using the Work of and Auditor's Expert*;
 - ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
 - ISA 720 (Revised), *The Auditors Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*;
 - ISA 800 (Revised), *Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*;
 - ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*;
 - IAPN 1000, *Special Considerations in Auditing Financial Instruments*;
 - ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*;
 - ISRE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical*

¹ The IAASB's International Standards comprise the International Standards on Auditing™ (ISAs™), International Standards on Review Engagements™ (ISREs™), International Standards on Assurance Engagements™ (ISAEs™), International Standards on Related Services™ (ISRSs™), and International Standards on Quality Control™ (ISQCs™).

² International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants (including International Independence Standards)*

Financial Information;

- ISRE 3402, *Assurance Reports on Controls at a Service Organization;*
- ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements;*
- ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro-Forma Financial Information included in a Prospectus;*
- ISRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (Previously ISA 920);* and
- ISRS 4410 (Revised), *Compilation Engagements.*

II. Background

Implications of the Revised IESBA Code

2. The IAASB's International Standards (the International Standards) refer to the IESBA Code in various ways, ranging from simple references to the title of the IESBA Code to detailed references to specific paragraphs in the IESBA Code as it existed before April 2018.
3. The revised IESBA Code was 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 IESBA Code or weaken it.
4. A project to update the IAASB Handbook (the Handbook) for the revised IESBA Code is necessary to address inconsistencies between the International Standards in the Handbook and the revised IESBA Code. The purpose of making the revisions is solely to align the extant wording with the revised IESBA Code and not to reevaluate or discuss the merits of each reference, thus ensuring that the International Standards can continue to be applied effectively together with the revised IESBA Code.
5. The IAASB believes 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 revised IESBA Code), as some of the affected standards may not be updated on a timely basis.

Public Interest Issues Addressed by this Project

6. The IAASB believes that it is in the public interest that its International Standards and the IESBA Code be able to operate in concert and without confusion due to the many jurisdictions that utilize both. It is also important that the IAASB's International Standards acknowledge and do not potentially undermine the enhancements that will be made to the IESBA Code—either through being inconsistent or through failing to draw appropriate attention to the revised requirements in the IESBA Code. Equally, it would not be in the public interest for practitioners to be placed in a situation where the IESBA Code required one approach but the IAASB's International Standards, either in the requirements or the application material, did not support or recognize that approach.

III. Guide for Respondents

The IAASB welcomes comments on all matters addressed in this exposure draft (ED), but especially those identified in the *Request for Comments* section. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view as this cannot always be inferred when not stated.

IV. Significant Matters

7. The ED includes those amendments that the IAASB has determined would be necessary to resolve actual or perceived inconsistencies between the IAASB's International Standards and the changes made by IESBA in issuing the revised IESBA Code. All the changes are relatively minor or editorial in nature, or are changes only to reflect existing obligations under the revised IESBA Code.
8. These amendments are limited, as developing them does not involve re-consideration of the objectives, requirements and application material of the International Standards, in their own right. The amendments generally involve little or no judgment in preparing them as there are no, or very limited, options for amending the wording.
9. Broadly, the proposed amendments to the IAASB's International Standards can be characterized into a small number of categories. The categories are:
 - a) Category 1: Proposed amendments to reflect structural changes to, and the applicability of, the Code. An example of these changes is replacing terms such as "Parts A and B of the [Code]" with "the provisions of the [Code]." This change is necessary as the IESBA Code is intended to be read holistically, rather than linking directly to only certain sections.
 - b) Category 2: Proposed amendments to the framework for addressing threats to compliance with the fundamental principles to the IESBA Code. An example of these changes is in the appendices to ISA 700 (Revised),³ where it is proposed to replace the words "and, where applicable, related safeguards" with the phrase "and, where applicable, how threats that are not at an acceptable level have been addressed." This change is necessary because, under the extant Code, safeguards includes actions or measures that eliminate or reduce the threats to an acceptable level whereas under the IESBA Code, safeguards are measures that are applied to reduce the threats, while measures to eliminate threats are separate from safeguards.
 - c) Category 3: Updates to the title of the IESBA Code. The full title of the IESBA Code is now "International Code of Ethics for Professional Accountants (including International Independence Standards)."
 - d) Category 4: Proposed amendments to align with terminology used in the IESBA Code. An example of these changes is the amendments to the definition of "independence," which is needed to align with the revised definition in the IESBA Code.
10. A tabular presentation format has been used to show the extant IAASB Handbook text, relevant notes

³ International Standards on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

on the revisions to the IESBA Code, the proposed change to the IAASB Handbook text, and the category of the change.

V. Request for Comments

11. While the IAASB welcomes comments on all matters addressed in this ED, the IAASB is specifically seeking comments on the following matter:

Whether respondents believe the proposed limited amendments are sufficient to resolve actual or perceived inconsistencies between the IAASB's International Standards and the changes made by IESBA in issuing the revised IESBA Code.

Effective Date

12. In addition to the requests for specific comments above, the IAASB is also seeking comments on the effective date of the conforming amendments. It is anticipated that, given the limited nature of the amendments proposed, the effective date of the amendments to the IAASB's International Standards would go into effect approximately 90 days after the approval of the final standard.