

June 26, 2019

Mr. Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, New York 10017 USA

Re: *Exposure Draft, Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)*

Dear Mr. Siong:

We appreciate the opportunity to provide comments on the exposure draft "Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)" (the "ED") issued in March 2019 by the International Ethics Standards Board for Accountants ("IESBA" or "Board").

We support all efforts by the Board to strengthen the Code and coordinate with the IAASB to ensure the standards issued by the IESBA and IAASB are consistent where necessary. We support the proposals in the ED overall and consider they meet the objectives of updating Part 4B of the Code to make it consistent with ISAE 3000 (Revised).

We do consider that the proposals in the ED would benefit from some clarifications, as well as additional guidance for assurance engagements where there are multiple parties. We have provided responses to the specific questions in the ED and suggestions for the Board's consideration below.

**Question 1 Do you believe that the changes in the key terminology used in the Exposure Draft, including the definition of 'assurance client', are clear and appropriate for use in Part 4B?**

We agree that overall the changes to key terminology, including the definition of "assurance client," are clear and appropriate for use in Part 4B, subject to our comments below.

We agree with the proposed revised definition of "assurance client," however we are concerned practitioners may not understand and properly apply the new independence requirements in an assurance engagement where there are potentially multiple assurance clients. This is accentuated given much of the descriptive content, such as the only example of an assurance engagement where the responsible party might not be the party responsible for the subject matter information (extant paragraph 900.19 A1) and the examples in Interpretation 2005-01, has been deleted.

As the nature and purpose of assurance engagements are rapidly evolving to respond to the changing needs of users and increased complexity of business models and technology, we expect to see an increase in assurance engagements where the professional accountant may be required to be independent of multiple assurance clients. We suggest for the IESBA to consider developing practical guidance or case

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studies through a staff publication to assist practitioners in identifying the parties from which independence is required, particularly in new and emerging areas, to enable practitioners to better evaluate and comply with the independence obligations.

For example, in the area of cloud computing services a professional accountant may issue an assurance report in connection with a cloud provider's security or other controls. The cloud vendor may outsource some functions to another cloud vendor, or a number of sub-vendors, each responsible for different activities and services making up the total cloud service such as access management, performance reporting, or secure movement of data between the client and multiple cloud vendors. A case study looking at providing assurance in an emerging area of this nature could assist the professional accountant to understand the nature of these relationships, how to assess whether the cloud vendor is taking responsibility for the subject matter information, and how to apply the significance (or materiality) assessment in practice where there are multiple responsible parties.

**Question 2 Do you have any comments on the application of the IESBA's proposals to the detailed independence requirements and application material as explained above and summarized in the appendix?**

*Source of guidance on assurance engagements and clarifying independence requirements with respect to "engaging party".*

Regarding the source of guidance on assurance engagements, we support the deletion of paragraphs 900.7 to 900.11, which include the summary of the key elements of the two different types of assurance engagements, as we agree in principle that users should refer to the IAASB standard for such descriptive content.

When evaluating independence requirements, the "client" (the party from whom the professional accountant in public practice is required to be independent) is often generally understood to mean the party that engages the accountant. However, under Part 4B, the professional accountant in public practice is not required to be independent of the engaging party unless they are the responsible party or the party taking responsibility for the subject matter information. Paragraph 900.14 A2 is the only place that refers to the "engaging party" which may create confusion because it has no context given the deletion of the guidance on assurance engagements and it is not defined in the Code. We recommend for clarity that it be specifically stated in the relevant application guidance, possibly in a new paragraph 900.14 A3, that the professional accountant in public practice is not required to be independent of the engaging party if they are not the responsible party or the party responsible for the subject matter information.

*Paragraph 900.16 A1 multiple responsible parties and change of the term "materiality" to "significance."*

Proposed paragraph 900.16 A1 is sub-titled "Multiple Responsible Parties" and refers to assurance engagements where there may be multiple responsible parties. However, it is unclear what the intention was behind the amendment of "each responsible party" to "each individual party" and the amendment of "the particular responsible party" to "the particular party." The deletion of "responsible" in both cases seems to imply a broadening of the provision beyond the responsible parties to other parties, despite the sub-title of the section. We recommend re-instating the references to "responsible parties" for clarity.

It is also unclear why proposed paragraph 900.16 A1 now requires the professional accountant in public practice to take into account the "significance" rather than the "materiality" of the underlying subject matter when determining whether it is necessary to be independent of each responsible party. Materiality is a well understood and well-defined accounting concept that is used in ISAE 3000 (Revised) and described in Paragraph 950.4 A2, involves the exercise of professional judgment and incorporates qualitative and quantitative considerations. Conversely, the suggested move to significance (in conjunction with the extension of the independence requirements) could introduce less clarity, less consistency and more complexity.

**Question 3 Do you have any comments on the other proposed changes, including on the consistency of terms and concepts in Part 4B in relation to the text of ISAE 3000 (Revised)? If so, please specify the area of inconsistency and suggest alternative wording.**

We understand the intention behind the proposed changes to sections 921, 922 and 924 as explained in paragraph 37 of the Explanatory Memorandum, and we are supportive of the clarification that independence with respect to the party who is responsible for the subject matter information is only relevant for an attestation engagement. However, these provisions also need to address independence of the responsible party(ies) when they are different to the party responsible for the subject matter information. The way in which these proposed paragraphs are currently drafted, it would not impair independence for a family member of the professional accountant to also be the responsible party, or to be an employee in a position to exert significant influence over the underlying subject matter.

For example, if a firm is engaged to perform an assurance engagement regarding a report prepared by a company about a company's sustainability practices, the company is both the responsible party and the party responsible for the underlying subject matter. However proposed R921.5 would allow a professional accountant to be the engagement partner for the assurance engagement even if their spouse was the Head of Sustainability at the company (i.e. an employee in a position to exert significant influence over the underlying subject matter, being the sustainability practices). Likewise, proposed R922.3 would allow a responsible party, or an employee in a position to exert significant influence over the underlying subject matter to leave the company, join the audit firm and lead a direct or attestation assurance engagement in relation to the same underlying subject matter.

We recommend the Board reconsider the drafting of these sections to capture both the responsible party(ies) and employees in a position to exert significant influence over the underlying subject matter for both direct and attestation engagements. This may lead to provisions that appear to be different from the equivalent paragraphs in Part 4A, however the definition of "assurance client" is different to the definition of "audit client" and the requirements must be fit for purpose for Part 4B.

Furthermore, we recommend the following edits:

- Paragraph 950.8 A1 – Delete "in an attestation engagement" from (b) since the phrase is already included in the first sentence of the paragraph.
- Paragraph 900.7 – Change "ISAE 3000" to "ISAE 3000 (Revised)" to be consistent with other such references throughout Part 4B.

**Question 4 Are there any other matters that you consider should be addressed with respect to the alignment with ISAE 3000 (Revised) in Part 4B or in other material, for example in an IESBA Staff publication? If so, please provide sufficient explanation, including practical examples of the matter where available.**

No further comments.

**Question 5 Do you agree with the proposed effective date? If not, please indicate why not and explain your reasoning.**

We agree with the effective date as we are supportive of the Board's position to wait two years before making further revisions to the extant Code.

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We would be pleased to discuss our comments with members of the IESBA or its staff. If you wish to do so, please feel free to contact Wally Gregory, Senior Managing Director of Global Independence, via email (wgregory@deloitte.com) or at +1 203 761 3190.

Sincerely,

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu Limited".

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