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 529 Fifth Avenue
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4 December 2019

Dear Willie,

Exposure Draft – Conforming Amendments to the IAASB International Standards as a Result of the Revised IESBA Code

The Financial Reporting Council (FRC) welcomes the opportunity to comment on this exposure draft. As the UK’s Competent Authority for Audit, our mandate includes: the setting of auditing, assurance and ethical standards; inspection of public interest entity audits and enforcement action against auditors. We also oversee the accountancy profession in regulation of its members and take public interest misconduct cases where conduct falls below expected standards (e.g. where practitioners fail to comply with the fundamental principles and requirements set out in the Code of Ethics). The FRC also is responsible for setting the UK Corporate Governance Code and its associated guidance.

Although IAASB and IESBA are independent Boards they both fall under the umbrella of IFAC. Members of IFAC are required to demonstrate a commitment to compliance with IAASB's standards and the IESBA Code. It is, therefore, essential that the Boards should liaise and avoid inconsistencies between their requirements and guidance. Accordingly, we support such liaison and efforts to address inconsistencies, including the proposals in this exposure draft.

We are, however, concerned that there are still some significant inconsistencies that this exposure draft does not address. We identified some of these to IESBA in our responses to its consultations during the development of the revised IESBA Code. They include:

- **Use of 'may' and 'might'**. The term 'may' is used, and defined in IESBA's Glossary, to “denote permission to take a particular action in certain circumstances, including as an exception to a requirement”. The term 'might' is used, and defined in IESBA's Glossary, to “denote the possibility of a matter arising, an event occurring or a course of action being taken”. We agree that this reflects some common language usage of those terms. However, this use of 'may' in IESBA's Code is inconsistent with its use in ISAs where it does not denote “permission” but rather actions auditors might take. It would be helpful if IESBA and IAASB could be consistent in their use of terminology.
- **Inconsistencies in defined terms**. For example, IAASB does not define “audit team” for the purpose of International Standards on Auditing (ISAs) but both IAASB and IESBA include “engagement team” as a defined term. The significant difference between the definitions of audit team and engagement team, and the fact that audit team is not an IAASB defined term, is unhelpful and risks inconsistent application of the terms,

particularly by auditors who may be focussed on the definition of engagement team for the purpose of the ISAs.

There are also some terms used by both Boards but for which the definitions are not completely consistent. These include 'assurance engagement', 'financial statements', 'firm', and 'non-compliance [with laws and regulations]'. IAASB and IESBA should be able to work together to develop a single Glossary. It would not matter if some terms in such a Glossary were used only by one Board, what is more important is that common terms have only one definition.

We strongly encourage IAASB and IESBA to work together to seek to eliminate all inconsistencies.

Responses to IAASB's Specific Consultation Questions

- 1) *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.*

As explained above, there are still some inconsistencies between IAASB's International Standards and the IESBA Code that need to be addressed.

With regard to this exposure draft, we agree that most of the proposed changes address other inconsistencies between IAASB's International Standards and the changes made by IESBA in issuing the revised IESBA Code. However, there are a small number of proposed changes that we do not agree with. These are set out in the Attachment to this letter. The reasons for our disagreement include changes simply not being necessary, some changes where clearer wording could be used, and some where there is an unjustified change to the purpose of the text in the IAASB standard and/or extant text that remains relevant has been deleted.

- 2) *Whether respondents believe that the proposed effective date of approximately 90 days after the approval of the due process by the Public Interest Oversight Board is appropriate.*

The proposed changes do not introduce substantive changes to the requirements of IAASB's International Standards and, accordingly, a relatively short implementation period is acceptable. However, some jurisdictions will need to expose the changes for their national standards and as a result may need to have a later effective date than that set by IAASB.

If you have any questions on our response, or wish to discuss any of our observations in more detail please contact me on m.babington@frc.org.uk or +44-20-7492-2323.

Yours sincerely,



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FRC comments on specific proposals

Extant paragraph	Proposed change in ED	FRC comment
<p>ISQC 1</p> <p>22 (b) Personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken; and</p>	<p>Personnel to promptly notify the firm of circumstances and relationships that create a <u>threats to compliance with independence requirements</u> so that <u>the firm can evaluate whether such threats are at an acceptable level and if not, address them by eliminating the circumstances, applying safeguards, or withdrawing from the engagement, where withdrawal is possible under applicable law or regulation</u> appropriate action can be taken; and</p>	<p>This change is not necessary. Paragraph 21 of the ISQC 1 describes the actions the firms would take in addressing threats. This is a point about making sure there are processes in place to allow for prompt notification of situations that may indicate that there is a threat to independence – the repetition is not needed.</p>
<p>25 The firm shall establish policies and procedures: (Ref: Para. A10)</p> <p>(a) Setting out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and</p>	<p>The firm shall establish policies and procedures: (Ref: Para. A10)</p> <p>(a) <u>Eliminating the threat or</u> Setting out criteria for applying <u>determining the need for</u> safeguards to reduce the threat of the long association with an entity to an acceptable level, <u>the familiarity threat to an acceptable level</u> when using the same senior personnel on an assurance engagement over a long period of time; and</p>	<p>The proposed edit changes the purpose of the original ISQC 1 requirement rather than just being a conforming change. The point of this requirement is to require the firm to set policies and procedures to help the firm identify threats that need to be eliminated/safeguarded against. It does not require eliminating the threat - that is the outcome.</p> <p>We recommend:</p> <p>"(a) Setting out criteria for determining the need to <u>eliminate a threat or for applying safeguards to reduce a threat of long association with an entity to an acceptable level</u> when using the same senior personnel on an assurance engagement over a long period of time; and"</p>

<p>A8: Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.</p>	<p>Part B of is to be applied in specific situations. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats.</p> <p><u>The IESBA Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out <i>International Independence Standards</i>, which apply the conceptual framework of identifying, evaluating and addressing threats to the fundamental principles to compliance with independence requirements</u></p>	<p>The description of the conceptual framework could be clarified to better reflect what is set out in the "purpose of the Code". For example:</p> <p>"The IESBA Code provides a conceptual framework that <u>establishes the approach which a professional accountant is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles.</u></p> <p>In the case of audits, reviews and other assurance engagements, the IESBA Code sets out International Independence Standards established by the application of <u>the conceptual framework to threats to independence in relation to those engagements which apply the conceptual framework of identifying, evaluating and addressing threats to the fundamental principles to compliance with independence requirements."</u></p>
<p>A13. Determining appropriate criteria to address familiarity threat may include matters such as:</p> <ul style="list-style-type: none"> • The nature of the engagement, including the extent to which it involves a matter of public interest; and • The length of service of the senior personnel on the engagement. <p>Examples of safeguards include rotating the senior personnel or requiring an engagement quality control review.</p>	<p>[Replace extant text with:]</p> <p><u>The IESBA Code includes examples of factors that are relevant to evaluating the level of a threat that may arise when an individual is involved in an assurance engagement over a long period of time. The IESBA Code also provides examples of actions:</u></p> <ul style="list-style-type: none"> • <u>Eliminating the threats by rotating the individual off the engagement team; or</u> • <u>Applying safeguards to reduce the threats to an acceptable level.</u> 	<p>To clarify the difference from the first sentence, we recommend amending the second sentence to:</p> <p>"The IESBA Code also provides <u>examples of actions to address threats, including:"</u></p>

<p>A14. The IESBA Code recognizes that the familiarity threat is particularly relevant in the context of financial statement audits of listed entities. For these audits, the IESBA Code requires the rotation of the key audit partner⁴ after a pre-defined period, normally no more than seven years, and provides related standards and guidance. National requirements may establish shorter rotation periods.</p>	<p>[Replace extant text with:]</p> <p><u>The IESBA Code requires the rotation of the engagement partner, the engagement quality control reviewer, and other key audit partners⁴ in respect of certain engagements.</u></p>	<p>The sentence " National requirements may establish shorter rotation periods." Should be added back as it is an important consideration.</p>
<p>ISA 200</p> <p>A17</p> <p>.....</p> <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations.</p>	<p>.....</p> <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. The <u>fundamental principles of ethics establish the standard of behavior expected of a professional accountant.</u></p> <p><u>The IESBA Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out <i>International Independence Standards</i>, which apply the conceptual framework of identifying, evaluating and addressing threats to the fundamental principles to compliance with independence requirements.</u></p>	<p>The description of the conceptual framework could be clarified to better reflect what is set out in the "purpose of the Code". See the recommendation above for para A8 of ISQC 1.</p>

<p>ISA 260</p> <p>A30. The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:</p> <p>(a) Threats to independence, which may be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and</p> <p>(b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.</p>	<p>The communication about relationships and other matters, and <u>how threats to independence that are not at an acceptable level have been addressed</u> safeguards to be communicated, varies with the circumstances of the engagement <u>and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate threats,</u> but generally address:</p> <p>(a) Threats to independence, which may be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and</p> <p>(b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.</p>	<p>We disagree with this proposed change. The extant text remains relevant. 120.6 A3 of the Code still states that threats to compliance with the fundamental principles (and therefore would also relate to independence) fall into the same categories as in (a). It's also not clear why (b) has been deleted.</p>
<p>ISRE 2400</p> <p>Revised paragraph A15.</p> <p>.....</p> <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. In complying with the IESBA Code, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.</p>	<p>.....</p> <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. In complying with the IESBA Code, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.</p> <p><u>The IESBA Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to</u></p>	<p>The description of the conceptual framework could be clarified to better reflect what is set out in the "purpose of the Code". See the recommendation above for para A8 of ISQC 1.</p>

	<p><u>compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out <i>International Independence Standards</i>, which apply the conceptual framework of identifying, evaluating and addressing threats to the fundamental principles to compliance with independence requirements.</u></p>	
<p>ISAE 3000</p> <p>Revised paragraph A31. Part A of the IESBA Code also provides a conceptual framework for professional accountants to apply to:</p> <p>[rest of paragraph not reproduced here]</p>	<p><u>The IESBA Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out <i>International Independence Standards</i>, which apply the conceptual framework of identifying, evaluating and addressing threats to the fundamental principles to compliance with independence requirements.</u></p> <p>Part A of the IESBA Code also provides a conceptual framework for professional accountants to apply to. This includes:</p> <p>[rest of conforming change not reproduced here]</p>	<p>There is a lot of repetition in this conforming amendment and it includes information that just repeats what has already been discussed in paragraph 3000.3</p> <p>The extra wording is not needed. You have to apply the conceptual framework regardless of whether it is in relation to independence or not.</p> <p>We recommend shortening the introductory text to:</p> <p><u>"The IESBA Code provides a conceptual framework that professional accountants are required to apply when addressing threats to compliance with the fundamental principles, including:"</u></p>
<p>Revised paragraph A33. The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being</p>	<p><u>The IESBA Code also includes the <i>International Independence Standards</i>, which contain requirements and application material addressing the independence of professional accountants. The IESBA Code</u></p>	<p>The words "<u>which contain requirements and application material addressing the independence of professional accountants.</u>" can be deleted. The Independence Standards have already been explained in</p>

<p>affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. Matters addressed in the IESBA Code with respect to independence include:</p>	<p>defines independence as</p> <p>[rest of conforming change not reproduced here].</p>	<p>paragraph 3.</p>
<p>Revised paragraph A68. The IESBA Code requires the professional accountant in public practice to agree to provide only those services that the professional accountant in public practice is competent to perform.⁴ The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed this ISAE, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.</p>	<p>The IESBA Code <u>provides guidance on the self-interest threat to compliance with the principle of professional competence and due care that is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services</u> requires the professional accountant in public practice to agree to provide only those services that the professional accountant in public practice is competent to perform.⁴ The practitioner has sole responsibility for</p>	<p>Providing guidance is not the same as establishing a requirement. This conforming change should be worded in relation to the requirement to comply with the principle of professional competence and due care.</p>
<p>ISAE 3410</p> <p>A5. The IESBA Code adopts a threats and safeguards approach to independence. Compliance with the fundamental principles may potentially be threatened by</p>	<p>The IESBA Code <u>adopts-requires application of a conceptual framework to identify, evaluate and address threats to the fundamental principles and safeguards</u> approach to independence. Compliance with the fundamental principles may potentially be threatened by</p>	<p>We recommend amending this to:</p> <p>"The IESBA Code sets out International Independence Standards, established by the application of the conceptual framework to threats to independence in relation to these engagements. Compliance with the fundamental principles may potentially be threatened by...."</p>

<p>ISAE 4410</p> <p>Revised paragraph 17(g).</p> <p><i>Relevant ethical requirements – Ethical requirements the engagement team is subject to when undertaking compilation engagements. These requirements ordinarily comprise</i></p>	<p>Relevant ethical requirements – Ethical requirements to which the engagement team is subject to when undertaking <u>a</u> compilation engagements, <u>which</u> These requirements ordinarily comprise</p> <p>[rest of conforming change not reproduced here]</p>	<p>The proposed changes to the first two sentences are not conforming changes, they are language preferences. We recommend reverting back to the original text.</p>
<p>Revised paragraph A19.</p> <p>.....</p> <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. In complying with the IESBA Code, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and appropriately addressed.</p>	<p>.....</p> <p>Part B of the IESBA Code illustrates how the conceptual framework is to be applied in specific situations. In complying with the IESBA Code, threats to the practitioner's compliance with relevant ethical requirements are required to be identified and</p> <p><u>The IESBA Code provides a conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, the IESBA Code sets out International Independence Standards, which apply the conceptual framework of identifying, evaluating and addressing threats to the fundamental principles to compliance with independence requirements.</u></p>	<p>The description of the Conceptual Framework could be clarified to better reflect what is set out in the "purpose of the Code". See the recommendation above for para A8 of ISQC 1.</p>

