

Proposed Revisions to Part 4B of the Code to reflect Terms and Concepts Used in ISAE 3000 (Revised)

An exposure draft issued for public consultation by the International Ethics Standards Board for Accountants (IESBA)

Comments from ACCA
26 June 2019
Ref: TECH-CDR-1831

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Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our **219,000** members and **527,000** students in **179** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of **110** offices and centres and more than **7,571** Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting, and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

Further information about ACCA's comments on the matters discussed here can be requested from:

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GENERAL COMMENTS

ACCA welcomes the opportunity to comment on the proposals to revise Part 4B of the Code to reflect terms and concepts used in ISAE 3000 (Revised), and to continue to work with the IESBA in advancing the restructured Code's relevance and impact.

AREAS FOR SPECIFIC COMMENT

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?

The changes in the key terminology used in the Exposure Draft address the changes to ISAE 3000 (Revised) which are most relevant to the independence standards for assurance engagements other than audit and review engagements. The main changes to the Standard sought to clarify the distinction between the two types of assurance engagement ('attestation' and 'direct'), and to identify more clearly the parties to an assurance engagement and their roles and responsibilities. In our opinion, these changes are properly reflected in the revised Part 4B of the Code.

The key terminology used in the Exposure Draft aligns with the terms and concepts as they are now used in ISAE 3000 (Revised) and we believe the changes are clear and appropriate for use in Part 4B of the Code. We welcome the clarification of the distinction between the two types of assurance engagement as this removes confusion. We also support the proposed changes to the Glossary. The new definitions of 'responsible party', 'attestation engagement', 'direct engagement', 'criteria', 'subject matter information' and 'underlying subject matter' provide clarity and are consistent with ISAE 3000 (Revised). Furthermore, the revised definition of 'assurance client' is consistent with the principles of this Standard and serves to strengthen the Code's requirements.

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?

The IESBA's proposed amendments to the detailed independence requirements and application material (relevant to applying the conceptual framework) do not represent a significant change in the practical application of the Code. However, they enhance the Code by providing greater clarification and simplification.

Overall, we believe the proposed approach to independence considerations in attestation and direct engagements is clearer and more logical. Where the proposed approach differs from that taken in the equivalent paragraphs in Part 4A of the Code, we believe the departure is justified



in order to ensure that firms understand the requirement to be independent from the assurance client *and that this might be more than one party*.

The independence requirements within Part 4B of the Code with respect to the different parties to the two types of assurance engagement, and their roles and responsibilities, have been clarified and are now more consistent. The threats to independence are greater in direct engagements, where the professional accountant in public practice (PAPP) measures or evaluates the underlying subject matter against the criteria. However, we believe the IESBA has adopted a pragmatic approach to independence considerations concerning direct engagements. The overarching principle remains, in that the Code requires the PAPP to apply the conceptual framework to identify, evaluate and address threats to independence in an attestation or a direct engagement.

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 welcome the inclusion of new application material, such as the additional examples of the types of assurance engagement (paragraph 900.1); the redefinition of relevant individuals (paragraphs 940.3 A3 and 940.3 A4); and the explanations of new defined terms (Glossary). We consider the proposed changes to terms and concepts in Part 4B of the Code are consistent with the text of ISAE 3000 (Revised).

We also support the proposals to reorganise application material (paragraph 900.19 A1); to remove redundant text in relation to guidance on assurance engagements (paragraphs 900.8 to 900.11) and the summary of the requirements for the different types of assurance engagement (paragraphs R900.18, R900.19 and R900.2); and to clarify specific areas such as audits of specific elements, accounts or items of a financial statement (Glossary definition of Financial Statements) and applying the independence requirements to multiple responsible parties (paragraph 900.16 A1). In particular, we welcome the focus on implementing changes which are pragmatic, proportionate and principles-based.

However, we would draw your attention to a possible error in the numbering within Section 900 where the deleted text within the section on *Description of assurance engagements* has resulted in the omission of paragraphs 900.9 to 900.11 within the marked-up version (unless these paragraphs are now intentionally left blank by the IESBA).



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.

We have not identified any other matters that should be addressed and have no further comments on the alignment with ISAE 3000 (Revised) in Part 4B of the Code or in other material.

Effective date

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

We agree with the proposed effective date, given that ISAE 3000 (Revised) became effective for assurance engagements with assurance reports dated on or after 15 December 2015. Undoubtedly, further revisions to the Code so soon after the restructure are unwelcome, as successive changes are burdensome for SMPs and threaten effective compliance with the Code. However, we acknowledge that the ISEBA agreed to defer the review of Part 4B until after the completion of the restructuring of the Code and recognise that the revisions to align the terms and concepts are necessary and overdue.

Request for general comments

Small and Medium Practices (SMPs):

PAPPs in SMPs have always been regarded as important stakeholders in developing the Code. It is within such organisations (with more limited resources, including fewer personnel) where improvements in behaviours can best be achieved through enhanced understandability and streamlining. We believe that the current proposals, as drafted, achieve meaningful improvements and provide greater clarity.

Developing nations:

Member bodies in different parts of the world operate within a range of cultural environments. While ethical values should not be regarded as relative to location or culture, clarity and sensitivity are important with regard to developing the restructured Code. We believe the Code should remain principles-based and provide a clear framework, while allowing the flexibility for tailored implementation guidance by professional bodies. The provisions need to provide practical and effective guidance in respect of the independence standards for assurance engagements other than audit and review engagements, in order to aid consistency of understanding, interpretation and application across all the IFAC member organisations.

Translations:

Translation of the restructured Code for adoption in their environments is a challenging process for translators. Further changes so soon after the restructure create inefficiencies and will inevitably place additional demands on translation resources which could threaten accurate



translation of the Code. In our opinion, the proposals should be clear, consistent and logical, and a realistic translation period is required. Although, as drafted, the proposed revisions would be unlikely to present translation issues, we believe the IESBA should remain alert to this in proposing further changes to the existing wording.

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