



Ken Siong
IESBA Senior Technical Director
IFAC
6th Floor
529 Fifth Avenue
New York 10017
USA

2 May 2019

Dear Mr Siong,

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

The Financial Reporting Council (FRC) welcomes the opportunity to comment on the proposed changes to the Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) set out in the exposure draft referred to above.

The FRC supports the IESBA's objective to make the provisions in Part 4B of the Code consistent with the revised assurance terms and concepts in ISAE 3000 (Revised). It is important that the IESBA and IAASB are consistent with their terminology and concepts – inconsistencies are confusing and may hinder efficient and effective application of the Code and standards when they are applied in respect of the same engagement.

While supporting the IESBA's objective, we are concerned with some of the proposals, in particular those relating to:

- Use of the term “assurance client”. This does not reflect the ‘beneficial’ client (the intended users of the assurance report) and thereby supports stakeholders concerns that this can contribute to the wrong mindset in professional accountants as to who their true client is. There are better ways to be clear who the professional accountant needs to be independent of. (See our answer to Q1)
- Splitting the requirements for different types of assurance service. We consider the independence considerations for ‘public interest’ assurance engagements are the same as those for audit engagements. (See our answer to Q2)
- Continued inconsistency in some IESBA and IAASB terminology, including, for example, what is an audit. (See our answer to Q2 in relation to the treatment of ISA 805 (Revised).)

Responses to Requests for Specific Comments

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?*

Use of the term "assurance client"

We disagree with the IESBA view, set out in paragraph 21 of the Explanatory Memorandum, that "although the term 'assurance client' is not used in ISAE 3000 (Revised) or in other IAASB material, it is nevertheless preferable to use this term in Part 4B for ease of reference when describing the party or parties from whom the professional accountant in public practice is required to be independent." We believe that standard setters should avoid using the term 'client' in reference to the entity and/or the responsible parties that engage the professional accountant (the 'contractual client'). There is a strong concern among stakeholders that using the term in that way can engender the wrong mindset in professional accountants, who should be focussed on the needs and interests of the intended users/beneficiaries of their reports (the 'beneficial client').

It is important that there is clarity as to the parties the professional accountant is required to be independent of. This is best achieved by being more specific in describing those parties within the requirements and application material of the Code rather than using a shorthand term, such as 'assurance client', the meaning of which is not always intuitive without referring to the definition. This would also avoid the potential confusion that arises from defining the term 'assurance client' differently depending on whether it is used in the context of an assertion-based or direct reporting engagement.

Although not the subject of this consultation, we would note that, for the same reasons, we believe the IESBA should similarly avoid using the term 'audit client' in the way it does.

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?*

Split of assurance engagements

We identified in our response to the IESBA's ED for phase 2 on improving the structure of the Code that we consider the independence considerations for 'public interest' assurance engagements are the same as those for audit engagements. When we revised our Ethical Standard, we developed it to apply to audit and other public interest assurance engagements and we continue to recommend that IESBA takes the same approach. This would eliminate unjustifiable inconsistencies such as less stringent independence requirements for other public interest assurance engagements than for audits. For example, with respect to non-assurance services, Section 950 of Part 4B is considerably shorter than the corresponding Section 600 of Part 4A, which addresses non-audit services, and does not include any subsections specific to particular types of non-assurance service.

Treatment of ISA 805 (Revised) and classification of different types of assurance service

Related to the split of assurance services in the Code, we disagree with the IESBA including audit engagements conducted under ISA 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, within the scope of Part 4B of Code, which applies to other assurance engagements, rather than Part 4A, which applies to audits and reviews. The IESBA's rationale is that, notwithstanding that it acknowledges that these are audit engagements under IAASB standards, it believes it is not appropriate or necessary to apply the independence requirements in Part 4A to these engagements given their narrow scope. It also seeks to justify this treatment on the grounds that these are not audit engagements as defined in the Glossary to the Code because they do not relate to financial statements as defined in the Glossary. This is not acceptable – IESBA and IAASB should be consistent in defining the different types of assurance engagement.

In addition to our disagreement with the treatment of ISA 805 (Revised), we set out in our responses to the restructuring EDs why, notwithstanding that the independence considerations are essentially the same, the IESBA should not use the term 'audit' to encompass 'review' engagements which are very different in nature and levels of assurance. It is unhelpful and confusing for the IESBA to classify engagements which are not audits as audits, and engagements which are audits as other assurance services.

This is not an overly complicated matter to address. In the course of our revision of our Ethical Standard we addressed it by referring generically to 'engagements' whilst being precise about the specific application to different types of engagement (whether audit or not) where they differed. Our standard is designed to apply to all engagements for which we issue performance standards (and so is broader in scope than audit and review engagements). Taking this approach would enable the IESBA to merge sections 4A and 4B and shorten the Code.

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.*

Changes will be needed to address the concerns set out in our answers to Q1 and Q2. We have no further comments on the specific wording changes proposed in the ED.

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.*

It would be helpful for the IESBA to work with the IAASB to produce a common Glossary of terms. If our concerns set out above cannot be addressed, this Glossary could help explain why the IESBA and the IAASB, which both currently fall under the umbrella of IFAC, are unable to achieve consistency in certain areas, such as what is classified as an 'audit' and what is not.

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

As this project is essentially addressing consistency of terms and concepts, rather than introducing fundamental changes, we believe the changes could be made effective sooner than 15 June 2021. If approval is achieved in December 2019, we suggest an effective date of periods beginning on or after 15 June 2020.

If you have any questions on our response, or wish to discuss any of our observations in more detail please contact Mark Babington, Acting Director, UK Auditing Standards and Competition, on m.babington@frc.org.uk or +44-20-7492-2323.

Yours sincerely,



Stephen Haddrill

Chief Executive Officer

Direct Dial: +44 20 7492 2390

Email: s.haddrill@frc.org.uk