

AGENDA PAPER

Item Number: 4
Date of Meeting: 25 May 2015
Subject: International and other activities

Action required For discussion For noting For information

Purpose:

To provide a quarterly update to the Board on:

- IESBA Board Meetings and APESB's international engagements;
- International developments of interest; and
- APESB submissions, presentations and other activities.

IESBA Board meetings and APESB's international engagements

IESBA Board Meeting

During the last quarter, the IESBA held two Board meetings, one on 12-14 January 2015 in London, UK and one on 13-15 April 2015 in New York, USA.

The following key agenda items were considered collectively over the course of the two meetings:

- Non-Assurance Services (NAS) - Approval of final changes to the Code pertaining to the provision of NAS to Audit Clients;
- Structure of the Code;
- Emerging Issues Initiative;
- Update on the Responding to *Non-Compliance or Suspected Non-Compliance with Laws and Regulations* (NOCLAR);
- Preliminary matters regarding Phase 2 of the Review of Part C of the Code;
- Review of Safeguards in the Code; and
- Long Association of Personnel with an Audit or Assurance Client.

The *IESBA Meeting Summary* at Agenda Item 4 (a) provides a summary of the January 2015 IESBA meeting outcomes.

IESBA National Standards Setter Meeting

APESB Chair, The Honorable Nicola Roxon and APESB Technical Director, Channa Wijesinghe attended the 7th annual IESBA National Standard Setters (NSS) meeting in New York, USA in May 2015. This is an annual forum of key ethics NSS from major jurisdictions such as USA, UK, Canada, Japan, Germany, China, Hong Kong, India and South Africa.

Key agenda topics at the meeting were:

- Responding to Non-Compliance with Laws and Regulations (NOCLAR);
- Structure of the IESBA Code;
- Safeguards;
- The review of Part C of the Code; and
- Long association of Senior Personnel (including Partner Rotation) with an Audit Client.

IESBA Technical Activities

IESBA Reinforces Auditor Independence Provisions; Further Limits Exceptions and Clarifies Guidance around Non-Assurance Services

On 14 April 2015, IESBA released *Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients*. The changes enhance the independence provisions in the *Code of Ethics for Professional Accountants* (the Code) by, in particular, no longer permitting auditors to provide certain prohibited non-assurance services to public interest entity (PIE) audit clients in emergency situations, and ensuring that they do not assume management responsibility when providing non-assurance services to audit clients.

The revisions include the removal of provisions that permitted an audit firm to provide certain bookkeeping and taxation services to PIE audit clients in emergency situations, as these were susceptible to being interpreted too generally. In addition, the revised provisions include:

- New and clarified guidance regarding what constitutes a management responsibility; and
- Clarified guidance regarding the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs.

The revisions also include corresponding changes to the Code’s non-assurance services provisions with respect to other assurance clients. The revised pronouncement is available at <http://www.ifac.org/publications-resources/changes-code-addressing-certain-non-assurance-services-provisions-audit-and-a>. The changes will be effective from 15 April 2016, with early adoption permitted.

APESB will shortly commence a process to update the Code to incorporate these international amendments.

IESBA issued revised proposal on Responding to Non-Compliance with Laws and Regulations

On 6 May 2015, IESBA released for public comment the revised Exposure Draft (ED) *Responding to Non-Compliance with Laws and Regulations* (NOCLAR).

The proposals in the ED sets out a framework to guide auditors and professional accountants in deciding how best to act in public interest when they come across an actual or suspected NOCLAR whilst providing a professional service to their clients or carrying out their responsibilities for their employer. Refer to Agenda Item 4 (b) for IESBA's *At A Glance on NOCLAR* for a summary of these proposals.

The proposed ED comprises the following:

- Revised approach for professional accountants to respond to instances of actual or suspected NOCLAR;
- The threshold for taking action;
- Documentation;
- Objectives of section 225 concerning professional accountants in public practice;
- Objectives of section 360 concerning professional accountants in business; and
- Consequential and conforming amendments to other sections of the Code.

Comments are due by 4 September 2015. APESB will conduct local stakeholder consultations in the coming months and the feedback received will be considered in developing the Board's response to this ED.

The ED is available at the following link:

<http://www.ifac.org/publications-resources/responding-non-compliance-laws-regulations>

International Developments

International Auditing and Assurance Standards Board (IAASB)

IAASB released Information-Gathering Survey on Quality Control

The IAASB issued a survey on 19 February 2015 in connection with its new quality control initiative as outlined in the IAASB's Strategy for 2015-2019 and the IAASB's Work Plan for 2015-2016. Its purpose is to inform the scoping of the proposed quality control project, specifically with respect to issues encountered by small and medium-sized practices in complying with the requirements of *International Standard on Quality Control for Firms That Perform Audits and Reviews of Financial Statements*, and *Other Assurance and Related Services Engagements* (ISQC 1) and of *International Standard on Auditing, Quality Control for an Audit of Financial Statements* (ISA 220). The survey was open for comment by firms until 27 March 2015. APESB will continue to monitor the work undertaken by IAASB in this regard to revise ISQC 1 and will respond in due course once IAASB issues an Exposure Draft.

International Forum of Independent Audit Regulators (IFIAR)

IFIAR Calls for Root Cause Analysis and Responsive Action by Firms.

On 4 March 2015, the Financial Reporting Council in United Kingdom reported that international audit regulators expressed concern over continued significant deficiencies in audits of public companies.

IFIAR reported that the recurrence of high levels of deficiencies in key areas of public company audits around the world demonstrates the need for audit firms to pursue initiatives to improve audit quality and the consistency of audit execution. IFIAR's 2014 Survey of Inspection Findings found the highest number of audit inspection deficiencies in the areas of fair value measurement, internal control and revenue – topics among the core building blocks of audited financial statements. The rate of deficiencies in these audited areas, measured as the percentage of all inspected audits is:

- Internal control testing (24 percent);
- Fair value measurement (20 percent); and
- Revenue recognition (14 percent).

The Survey Findings and Fact Sheet can be found at the following links respectively: <https://www.frc.org.uk/Our-Work/Publications/IFIAR/IFIAR-2014-Survey-of-Inspection-Findings.aspx> and <https://www.frc.org.uk/Our-Work/Publications/IFIAR/IFIAR-2014-Survey-Fact-Sheet.aspx>.

Financial Reporting Council, United Kingdom (FRC)

FRC Reported Good Take-up of New Auditor Reporting Requirements.

On 2 March 2015, the FRC reported that the take-up of new requirements for extended auditor's reports had been positive and many auditors have made quite radical changes that go beyond the FRC's new requirements, first announced in 2013. The requirements for auditors to describe assessed risks of material misstatement, materiality and the scope of the audit are beginning to make a process that had previously been described as a "black box" by investors more transparent. In time FRC hope this will lead to improved justifiable confidence in audit.

Further information is available at the following link: <https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Extended-auditor-s-reports-A-review-of-experience.pdf>.

APESB submissions, presentations and other activities

IESBA's Consultation Paper Improving the Structure of the Code of Ethics for Professional Accountants

On 4 November 2014, IESBA released for public comment the Consultation Paper *Improving the Structure of the Code of Ethics for Professional Accountants*. Refer to Agenda Item 4 (c) for APESB's submission to IESBA in respect of this Consultation Paper.

Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles

On 24 November 2014, IESBA released for public comment the Exposure Draft *Proposed Changes to Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles*. Refer to Agenda Item 4 (d) for APESB's submission to the IESBA in respect of this Exposure Draft.

APESB Presentations

Channa Wijesinghe along with Michael Cain (Principal, Cain Consulting and APES 315 Taskforce Member) and Ram Subramanian (Policy Adviser – Reporting & Audit, CPA Australia) participated in a CPA APES 315 *Compilation of Financial Information* Live Chat responding to questions raised by CPA Australia members on 8 April 2015. Refer to Agenda Item 4 (e) for a transcript of the Live Chat: Questions and Answers.

Material Presented

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| Agenda Item 4 (a) | IESBA January 2015 Meeting Highlights; |
| Agenda Item 4 (b) | IESBA's At A Glance on Exposure Draft <i>Responding to Non-Compliance with Laws and Regulations</i> ; |
| Agenda Item 4 (c) | APESB's submission on IESBA's Consultation Paper on <i>Improving the Structure of the Code</i> ; |
| Agenda Item 4 (d) | APESB's submission on IESBA's Proposed Changes to <i>Part C of the Code Addressing Presentation of Information and Pressure to Breach the Fundamental Principles</i> ; and |
| Agenda Item 4 (e) | Transcript of CPA APES 315 <i>Compilation of Financial Information</i> Live Chat: Question & Answers. |

Recommendation:

That the report on international and other activities be noted.

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Date: 12 May 2015