

***IESBA's Exposure Drafts  
and  
IAASB's Invitation to Comment***

**APESB Roundtable**

**RACV Club**

*Melbourne, 15 March 2016*

# APESB Roundtable - Agenda

|         |  |
|---------|--|
| 1.00 PM | Lunch  |
| 1.30 PM | Welcome and background                                   |
| 1.35 PM | IESBA's <i>Structure &amp; Safeguards</i> EDs            |
| 2.40 PM | IESBA's <i>Long Association</i> ED - <i>presentation</i> |
| 3.00 PM | Afternoon Tea  |
| 3.15 PM | IESBA's <i>Long Association</i> ED - <i>discussion</i>   |
| 3.45 PM | IAASB's <i>Invitation to Comment</i>                     |
| 4.45 PM | Closing remarks  |

# Welcome and Background

*The Hon. Nicola Roxon*

*Chairman*



# Background

- IESBA's Code Structure Project – Process & Issues:
  - Research and stakeholder outreach.
  - Difficulties experienced by Small and Medium Practices (SMPs).
  - Regulators perspective on enforceability.
  - Global understandability.

# Background

- Stakeholders' feedback:
  - Raise visibility of Code's requirements.
  - Clarify responsibility for compliance with requirements.
  - Clarify the Code's language.

# IESBA - Development

| Timing     | Development at IESBA   |
|------------|--|
| April 2014 | Structure project launched.  |
| Nov 2014   | Consultation paper issued to seek input on: <ul style="list-style-type: none"> <li>• Distinguishing requirements from application material.</li> <li>• Identification of a Firm's or an individual professional accountant's responsibilities.</li> <li>• Use of language.</li> <li>• Reorganisation of the Code.</li> </ul> |
| Dec 2015   | Structure & Safeguards Phase 1 EDs released.   |

# APESB's submission to IESBA

## APESB's key proposals:

1. Use defined terms consistently throughout all sections.
2. Clarify application of defined terms with a specific meaning when initially used in a paragraph & use an abbreviated term in recurring instances.
3. State requirements in bold-type, followed by application material in normal type.

# APESB's submission to IESBA

## **APESB's key proposals:**

4. Avoid restating section 100 and consider creating linkages.
5. Issue the Code's auditor independence provisions as a separate standard.
6. Allow a time frame of 2 years for global adoption.
7. Relocate the Glossary to the beginning of the Code

# APESB's consultation process

- Stakeholder consultations:
  - Sydney (9 March 2016)
  - Melbourne
- Local stakeholders' submissions.
- Development of APESB's submissions to IESBA.
- Key aspects of IESBA's Structure and Safeguards EDs.

# Overview of IESBA's Structure ED

*Channa Wijesinghe*

*Technical Director*

# Structure - project overview

- Presentation of the Exposure Draft
- Significant Matters
- Other Matters
- IESBA's expected timeline
- Technical Staff proposals for consideration
- Technical Staff views
- Matters for discussion

# Presentation of the Exposure Draft

- Notes on new sections and cross references to extant sections.
- Safeguards proposals included for reference.
- Safeguards paragraphs to be addressed in phase 2.
- Sections of extant Code to be addressed in Structure phase 2 – *excluded*.

# How the Code is structured

## PARTS OF THE CODE

GUIDE TO THE CODE (ALL PROFESSIONAL ACCOUNTANTS)

PART A (ALL PROFESSIONAL ACCOUNTANTS)  
INTRODUCTION TO THE CODE AND FUNDAMENTAL PRINCIPLES

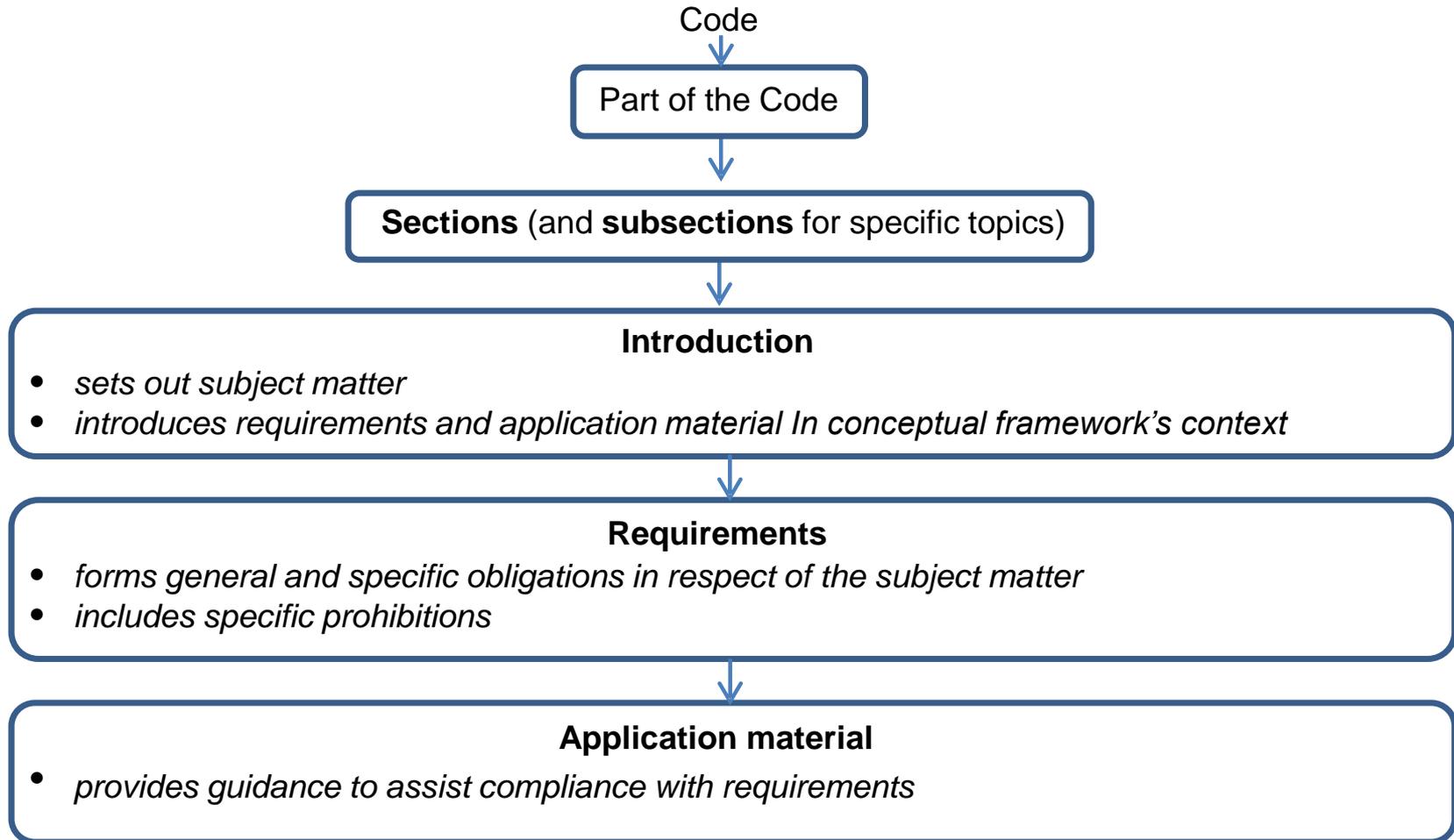
PART B  
PROFESSIONAL ACCOUNTANTS IN BUSINESS

PART C  
PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

INTERNATIONAL INDEPENDENCE STANDARDS  
C1 – INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS  
C2 – INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

GLOSSARY

# How the Code is structured



# Significant Matters

1. Requirement - apply conceptual framework & comply with fundamental principles.
2. Requirements distinguished from application material.
3. Application material positioned next to requirements.

# Significant Matters

4. Identification of a Firm's or an individual PA's responsibility to comply with the requirements.
5. Use of language.
6. Added Guide to the Code.

# Significant Matters

7. Organised material into sections and subsections:
  - More sub-headings to facilitate navigation.
8. Independence sections moved to the end of Code:
  - International Independence Standards included in Part C as C1 & C2.
9. Reorganised Code to take advantage of future electronic features.

# Other Matters

1. Definition section enhanced and presented as a glossary.
2. Clarification that 'Audit' includes 'review' for independence standards.

*(Guide no. 4, C1 paragraphs 400.1 & 400.8 and Glossary)*

# Other Matters

3. Specific references to Network Firms.  
*(subsection 401)*
  
4. New title “International Code of Ethics Standards for Professional Accountants”.

# IESBA's expected timeline

| <b>Timing:</b> | <b>Action:</b>                   |
|----------------|----------------------------------|
| Apr 2016       | ED Phase 1 comment period closes |
| June 2016      | IESBA to consider comments       |
| Sept 2016      | Approve ED Phase 2               |
| Dec 2016       | Approve Phase 1 text             |
| Sept 2017      | Approve Phase 2 text             |

# Technical Staff proposals for consideration

1. Classify the International Independence Standards as a new part D.
2. State requirements paragraph in bold and adopt a simpler numbering reference for both requirements and application material.
3. Relocate the Glossary to be after the Guide to the Code

# Technical Staff proposals for consideration

4. Ensure IESBA's drafting conventions are applied consistently.
5. Remove redundant description of defined terms which are included in the glossary.

# Technical Staff views

- Revised Structure contributes to improved understanding of Code's requirements.
- Requirements distinguished from application material.
- Cohesive approach to addressing fundamental principles & conceptual framework.
- Clarified responsibilities of a PA & a Firm.
- Simplified language.
- Contributes to increased visibility of the Code's requirements & enforceability of the Code.
- Re-organised layout supports Code's accessibility and readability.

# Matters for discussion

1. Are you supportive of the restructured Code in terms of the re-organisation of the material and the separation of requirements and guidance?
2. What are your views on the Technical Staff proposals (refer pages 21-22)?
3. Do you have any suggestions in respect of:
  - numbering and layout
  - future electronic enhancements
  - future tools

## Matters for discussion

4. What are your views/comments on the term “audit” continuing to include “review” in respect of the independence standards?
5. Do you have any comments/views on how the restructured Code distinguishes firms and network firms?
6. Are you supportive of the new title “*International Code of Ethics Standards for Professional Accountants*” ?

# Participant Notes

# Participant Notes

# Overview of the IESBA's Safeguards ED

*Channa Wijesinghe*

*Technical Director*

# Safeguards ED Overview

- Background
- Significant Matters:
  - Conceptual framework
  - Re-evaluating threats
  - Overall assessment
  - ‘Acceptable level’ & ‘reasonable and informed third party’
  - Safeguards - definition and examples
- IESBA’s expected timeline
- Technical Staff views
- Matters for discussion

# Background

Feedback indicated that certain safeguards:

- duplicate existing requirements.
- may be inappropriate or ineffective.
- cause practical challenges for SMPs.

Safeguard project aims to:

- Clarify and emphasise conceptual framework.
- Provide more robust application material on threats.
- Clarify safeguards to ensure that they are appropriate and effective.

# Significant Matters

## Conceptual Framework

- Re-organised structure of the Conceptual Framework.
- Explicit requirement to apply the Conceptual Framework.

*(proposed paragraphs R120.3, R120.4 & R300.2)*

- Explicit requirements and application material for each step in the Conceptual Framework.

*(proposed paragraphs R120.5 -R120.9 & 300.2 A1 – 300.2 A12)*

# Significant Matters

## Overall Assessment

- New requirement
- Overall assessment:
  - use reasonable and informed third party test;
  - review judgements made and conclusions reached;  
and
  - determine threats eliminated or reduced to acceptable level.

*(proposed paragraph R120.9)*

# Significant Matters

## Acceptable level

- Revised definition:
  - ‘An acceptable level is a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles.’
  - (proposed paragraph 120.6 A1)*
- Made more prominent in ED.
- Reasonable and informed third party remains a key concept.

# Significant Matters

## Reasonable and informed third party

- Made more prominent throughout ED.
- Specific application guidance.  
*(proposed paragraph 120.4 A1)*
- Assists with objective evaluations/assessments.
- Hypothetical person – not an actual person.

# Significant Matters

## Safeguards definition revised

|                        |   |
|------------------------|---|
| <p><b>Proposed</b></p> | <p>Safeguards are actions, <u>individually or in combination</u>, that <u>the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles</u> or reduce them to an acceptable level.</p> <p><i>(proposed paragraph 120.8 A1)</i></p>   |
| <p><b>Existing</b></p> | <p>Safeguards are actions <u>or other measures</u> that <u>may</u> eliminate threats or reduce them to an acceptable level. <u>They fall into two broad categories:</u></p> <ul style="list-style-type: none"> <li>a) <u>Safeguards created by the profession, legislation or regulation; and</u></li> <li>b) <u>Safeguards in the work environment.</u></li> </ul> |

# Significant Matters

## Safeguards – clarification of examples

- Following terms removed:
  - Safeguards created by profession or legislation;
  - Safeguards in the work environment; and
  - Safeguards implemented by the entity.
- Now treated as conditions or policies and procedures.  
*(proposed paragraph 120.5 A4)*
- Not considered a direct response to threats.

# IESBA's expected timeline

## Phase 1

- Mar 2016 ED comment period closes
- Jun 2016 Full review
- Sep 2016 First read post-ED

## Phase 2

- Q4 - 2016 ED comment period closes
- Mar 2017 Full review
- Jun 2017 First read post-ED

# Technical Staff views

- The revised Conceptual Framework sets high level standards while providing flexibility to suit various situations.
- Flow of the standard is greatly improved.
- Increased clarity around application of fundamental principles.
- Requirements made distinct from application material.
- Focus is on reducing threats rather than a safeguards checklist.

# Matters for discussion

1. Do you agree with the Technical Staff views?
2. Do you have any comments on the proposed revisions to clarify the following concepts/definitions:
  - “safeguard”
  - “reasonable and informed third party;” and
  - “acceptable level”.
3. Do you agree that the extant safeguards and related categories listed in Appendix A (refer handout) should now be conditions or policies and procedures rather than safeguards? If not, why not?
4. Drafting issues (use of “might”)

# Participant Notes

# Participant Notes

# Roundtable Discussions on Structure and Safeguards EDs

*Allocation of questions to Table Teams*

# Feedback and discussion on Structure and Safeguards EDs

*The Hon. Nicola Roxon*

*Chairman*

**IESBA's 2016 Long Association  
ED - *Limited Re-exposure***

# Background to IESBA's Limited Re-exposure

*The Hon. Nicola Roxon*

*Chairman*

# Background

- Global Financial Crisis and impact on Audit Profession.
- Regulatory response and European Union Audit reform.
- Public interest considerations to address auditor independence.
- Familiarity & self-interest threats created by Long Association of Audit Personnel.

# Developments at IESBA

- Long Association of Key Audit Partners (KAPs) and auditor independence.
- A key safeguard – Rotation of Engagement Partners (EP), Engagement Quality Control Reviewer (EQCR) and other KAPs.
- December 2012 – Long Association project approved.
- August 2014 – Original ED issued.

# Developments at IESBA

- November 2014 – 2014 ED comment period closed.
  - 77 global submissions received.
  - Support – maintain 7 years time-on period for KAPs.
  - Less support – rotation of KAPs on Public Interest Entities (PIEs).
  - Balanced view – restrictions on activities performed during cooling-off period.
  - Support – corresponding changes to section 291.
- February 2016 – Limited Re-exposure ED issued.

# APESB's key proposals to 2014 ED

1. Not supportive of extending cooling-off period from 2 to 5 years for Engagement Partners (EP) on PIE.
2. Audit regulator or local jurisdiction's National Standards Setter (NSS) can determine if longer cooling-off period required.
3. If required, APESB supportive of increasing cooling-off period from 2 to 3 years for an EP on a PIE.
4. All PIEs should be treated similarly.

## APESB's key proposals to 2014 ED

5. Cooling-off period for the EP and EQCR on a PIE should be the same and have restricted functions.
6. EP's cooling-off period on a PIE is triggered when an EP has served at least 3 years out of 7 year time-on period.
7. Define term '*senior personnel*' to include personnel involved in audit management & limit the application of long association provisions to '*senior personnel*'.

# IESBA's 2016 Long Association ED

*Channa Wijesinghe*

*Technical Director*

# IESBA's 2016 Long Association ED

- Key aspects of IESBA's 2016 ED
- Impact of proposals subject to re-exposure
- IESBA's expected timeline

# Key aspects of IESBA's 2016 ED

## IESBA's 2016 ED incorporates:

- Basis for conclusions on matters not subject to Re-exposure in 2014 ED.
- Explanatory Memorandum on background & explanations on limited re-exposure of proposed changes in 2016 ED.
- IESBA Staff Q&A publication.

# Key aspects of IESBA's 2016 ED

## Presentation of IESBA's 2016 ED:

- Mark-ups as changes from 2014 ED.
- Provisions not subject to re-exposure - *shaded in grey*.  
(paragraphs 290.148, 290.149, 290.150C, 290.150E, 290.150F, 290.151, 290.152, 290.153, 291.137)
- Provisions subject to re-exposure - *unshaded*.  
(paragraphs **290.150A, 290.150B & 290.150D**)

# Matters not subject to Re-exposure

- **Rotation requirements for KAPs on PIEs**
  - Retained 7-year time-on period for KAPs on PIEs.
  - Cooling-off periods:
    - Extended to 5 years for the EP on all PIEs (subject to jurisdictional safeguards).
    - Retained 2 years for other KAPs (except EQCR).
    - Reconsidering a longer cooling-off period for the EQCR.

*(paragraphs 290.150A, 290.150B, 290.150F)*

# Matters not subject to Re-exposure

- **KAP moving into an EQCR role:**
  - Requirements for the EQCR's independence & objectivity should be addressed in ISQC 1.
  - Matter to be considered under IAASB's current initiative to review ISQC 1.

# Matters not subject to Re-exposure

- **Restrictions on activities during cooling-off period**
  - Not be a member of the engagement team or provide quality control.
  - Refined allowance for limited consultation on technical issues after 2 years subject to meeting certain criteria.
  - Extended scope to cover the EQCR.
  - Retained additional restrictions on activities during cooling-off period.

*(paragraph 290.150E)*

# Matters not subject to Re-exposure

- **Long Association of Audit Team Members (exc. KAP)**
  - Removed repetitive general provisions.  
*(deleted paragraph 290.150D in 2014 ED)*
- **Obtain Concurrence of Those Charged with Governance (TCWG)**
  - Retained allowance for a KAP to serve:
    - 1 additional year due to unforeseen circumstances.
    - 2 additional years when an entity initially becomes a PIE and the KAP has served 6 or more years.

Subject to obtaining concurrence of TCWG.

*(paragraphs 290.151 and 290.152)*

# Matters not subject to Re-exposure

- **Strengthening the General Provisions**
  - Application of general provisions to all individuals on audit team.
  - Additional factors to consider in respect of an individual's role in an audit engagement.
  - The firm to determine the cooling-off period of individuals (other than KAPs) on the engagement team.
  - Recognition of a KAP's prior audit service in a prior firm.

*(paragraph 290.148A, 290.148B, 290.149A)*

# Matters not subject to Re-exposure

- **Corresponding Changes to Section 291**
  - Conforming changes to Section 291.
  - Retained provisions that section is limited to assurance engagements of a recurring nature.

*(paragraphs 291.137A)*

# Proposals subject to Re-exposure

- **New or revised proposals re-exposed:**
  1. Length of cooling-off period for an EQCR on a PIE audit.
  2. Recognising different jurisdictional safeguards.
  3. Individual served as EP/EQCR, or combination roles, for part of 7 year time-on period.

# Proposals subject to Re-exposure

## 1. Length of Cooling-off period for an EQCR

- Increased cooling-off period for an EQCR from:
  - 2 to **5 years** for listed PIEs.
  - 2 to **3 years** for non-listed PIEs.

*(paragraphs 290.150A & 290.150B)*

# Impact of IESBA's proposals subject to Re-exposure

- **Increased length of EQCR's cooling-off period**
  - Enhances audit quality & address perception concerns.
  - Practical challenges for small firms with few partners.
  - Complexity in applying provisions to different KAPs on listed and non-listed PIEs.

# Proposals subject to Re-exposure

## 2. Cooling-off periods recognises different jurisdictional safeguards

- Alternative approach for the EP and EQCR on PIEs when different jurisdictional safeguards exists.
  1. Independent regulatory inspection regime; and
  2. (a) EP and EQCR's time-on period less than 7 years; or  
(b) Mandatory firm rotation or mandatory tendering.
  3. Independent standard setter has followed its due process in the determination.
- Cooling-off period reduced from 5 to 3 years.  
(*paragraph 290.150D*)

# Impact of IESBA's proposals subject to Re-exposure

- **Jurisdictional Safeguards**
  - Lower impact on rotation requirements for KAPs on PIE in jurisdictions with different but robust safeguards.

# Proposals subject to Re-exposure

## 3. EP or EQCR for part of 7 year time-on period

- Revised cooling-off period applies where a KAP served as EP/EQCR, or in combination roles, for either:
  - 4 or more years; or
  - at least 2 out of last 3 years.

*(paragraph 290.150A & 290.150B)*

# Impact of IESBA's proposals subject to Re-exposure

- **EP or EQCR for part of 7 year time-on period**
  - Lower impact as a KAP is not subjected to longer cooling-off period by serving as EP/EQCR for 1 year.

# Summary of proposals

| KAP               | Existing IESBA Code |                | Existing APES 110 / Corps Act |                | Impact of IESBA Proposal |                |
|-------------------|---------------------|----------------|-------------------------------|----------------|--------------------------|----------------|
|                   | Listed PIE          | Non-Listed PIE | Listed PIE                    | Non-Listed PIE | Listed PIE               | Non-Listed PIE |
| <b>EP</b>         | 7/2                 | 7/2            | 5/2                           | 7/2            | 5/3                      | 7/5            |
| <b>EQCR</b>       | 7/2                 | 7/2            | 5/2                           | 7/2            | 5/3                      | 7/3            |
| <b>Other KAPs</b> | 7/2                 | 7/2            | 7/2                           | 7/2            | 7/2                      | 7/2            |

*(paragraphs 290.150A & 290.150B)*

# IESBA's expected timeline

| <b>Timing:</b> | <b>Action:</b>  |
|----------------|---|
| May 2016       | ED comment period closes  |
| June 2016      | IESBA to consider ED comments   |
| Sept 2016      | Approve close-off ED under current structure & drafting conventions<br>Approve ED restructured text |
| March 2017     | IESBA to consider restructured ED comments  |
| June 2017      | Approve final restructured text   |

# Matters for discussion

1. Do you agree with the proposed cooling-off periods for an EQCR of 5 years for listed PIEs and 3 years for non-listed PIEs? If not, what are your alternative proposals?
2. Do you agree with the reduced cooling-off period of 3 years for EP and EQCR on PIEs where other jurisdictional safeguards exists? If not, what are your alternative proposals and conditions?
3. Do you agree with the revised proposals in respect of the time that must be served as an EP/EQCR before the maximum cooling-off period is applicable? If not, what are your alternative proposals?

# Participant Notes

# Participant Notes

# Afternoon Tea

# Roundtable Discussions

*Allocation of questions to table teams*

# Feedback and discussion on Long Association ED

*The Hon. Nicola Roxon*

*Chairman*

# Overview of the IAASB's Invitation to Comment

*Channa Wijesinghe*  
*Technical Director*

# Audit Quality ITC Overview

- Matters for consideration:
  1. Quality Management Approach (QMA).
  2. Monitoring and remediation by Firms.
  3. Network quality control policies and procedures.
  4. Review of Engagement Partner roles and responsibilities.
  5. Engagement Quality Control Review & Reviewers.
- IAASB's timeline.

# Matters for Consideration

## 1. Quality Management Approach (QMA)

- Broader approach than extant ISQC 1.
- Scalable / flexible to suit firm's environment and operations.
- Keys areas to explore:
  - Risk of not achieving quality objectives.
  - Monitoring quality from all sources.
  - Conditional requirements.
  - Scalability.
  - Audit and non-audit context.

*(ITC paragraphs 50-67)*

# Matters for Consideration

## Quality Management Approach (QMA)



# Matters for Consideration

## Australian Standards

APES 325

ASQC 1  
APES 320

ASA 220  
APES 215  
APES 225



## International Standards

*New standard?*

ISQC 1

ISA 220

# Matters for Consideration

## **2. Monitoring and remediation by Firms**

Possible amendments to existing requirements:

- Analysis of external findings and reviews.
- Analyse cause of audit deficiencies.
- Policies and procedures on audit deficiencies.
- Monitor remedial actions.

Application material would also be enhanced.

*(ITC paragraphs 147-159)*

# Matters for Consideration

## **3. Network quality control policies and procedures**

- No requirements in current standards for networks.
- Revisions to be considered:
  - reliance on network quality control and monitoring policies & procedures.
  - Communication about inspections across a network.
  - Additional application guidance for group audit scenarios.

*(ITC paragraphs 106-116)*

# Matters for Consideration

## **4. Review of Engagement Partner roles and responsibilities**

- Changes to ISQC 1 to flow through to engagement level
- Possible amendments:
  - Clarify performance, direction, supervision & review.
  - Reinforce active involvement at all stages of engagement.
  - Guidance for engagement acceptance & continuance.
  - Mapping out key responsibilities across ISAs.
  - Guidance for multi-location audit teams.

*(ITC paragraphs 69-86, 92, & 96-98)*

# Matters for Consideration

## 5. Engagement Quality Control (EQC) reviews & reviewers

Possible amendments:

- EQC reviews extended to entities of public interest.
- Selection of appropriate EQC reviewer clarified.
- Subject-matter experts to assist EQC reviewer.
- Specifying the nature & extent of matters within EQC review.
- Additional documentation requirements.

Is there a need for a separate EQC review standard?

*(ITC paragraphs 136-146)*

# IAASB's expected timeline

| <b>Timing</b>    | <b>Action</b>             |
|------------------|---------------------------|
| May 2016         | Comment period closes     |
| May - Sept 2016  | IAASB to analyse comments |
| Sept 2016        | IAASB & CAG meetings      |
| Sept 2016 - 2017 | Determine next steps      |

# Matters for discussion

## IAASB ITC - Quality Control Matters

1. Is the proposed QMA a viable suggestion? How would you see a QMA fitting into the Australian quality control and risk management framework for Firms?
2. What issues could arise if the QMA was applied to assurance and non-assurance engagements?
3. What are the current processes used in practice in respect of quality control deficiencies in firms? Is there a need for a formal policy and procedures in how firms deal with quality control deficiencies?
4. Is there a need for guidance on quality control matters specifically for network firms? If yes, what would this look like? Is anyone aware of examples of where quality control has been an issue across network firms?

# Matters for discussion

## IAASB ITC - Quality Control Matters

5. What would help with multi-location audits where Engagement Partners are located separately from the majority of the audit team and therefore the audit work— specific requirements, or additional guidance and examples?
6. Should there be a separate standard relating to EQCRs, and if yes, what should be covered in such a standard?
7. Should EQCRs be mandatory for audits of public interest entities and what public interest entities should be captured by this requirement
8. How can these requirements be made scalable for SMPs?

# Participant Notes

# Participant Notes

# Roundtable Discussions

*Allocation of questions to Table Teams*

# Feedback and discussion on IAASB's Invitation for Comment

*The Hon. Nicola Roxon*

*Chairman*

# Closing Remarks

*The Hon. Nicola Roxon*  
*Chairman*