

IESBA[®]

IESBA Update

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Agenda

- About IESBA
- Proposals relating to independence
 - NAS ED
 - Fees ED
- Other projects
 - Definition of listed entities/ PIEs
 - Objectivity of the Engagement Quality Reviewer

About IESBA

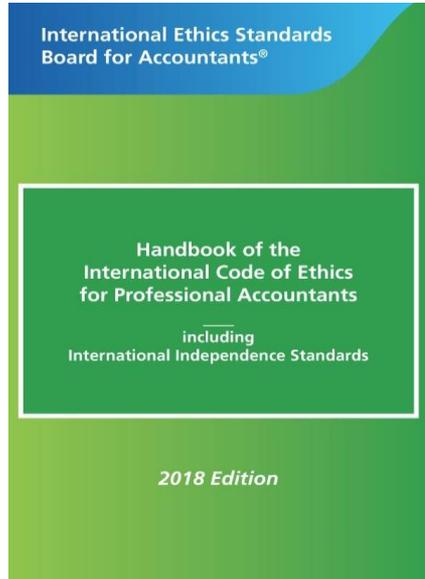


Global Adoption of IESBA Code

- Adopted, used as basis for national ethical standards or ethical codes of professional accountancy bodies in about 120 jurisdictions, *including New Zealand*
- Adopted by the 32 largest international networks of firms (the [Forum of Firms](#)) for transnational audits
- Translated in about 40 languages



Revised and Restructured Code



- Code effective since June 2019
- Many jurisdictions have adopted/ are working towards adoption/ alignment

Australia, Bahamas, Barbados, Botswana, Bulgaria, Cayman Islands, China, Cyprus, Czech Republic, Denmark, Finland, Georgia, Germany, Ghana, Hong Kong SAR, Hungary, Iceland, India, Indonesia, Italy, Iran, Ireland, Japan, Jamaica, Kenya, Latvia, Lesotho, Lithuania, Luxembourg, Madagascar, Malaysia, Mauritius, **New Zealand**, Poland, Portugal, Romania, Saudi Arabia, Slovenia, South Africa, Sweden, Tanzania, Trinidad and Tobago, Turkey, UAE, Uganda, UK, Zambia, Zimbabwe



Proposals to Strengthen Independence Provisions

*IESBA to host webinars
to highlight key aspects of
proposals in March 2020*



Exposure Draft
January 2020
Comments due: May 4, 2020

*International Ethics Standards Board
for Accountants®*

Proposed Revisions to the
Non-Assurance Services
Provisions of the Code



Exposure Draft
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Proposed Revisions to the
Fee-related Provisions of the
Code



About the NAS and Fees EDs

- NAS
 - EM explain rationale for proposals; 12 questions for respondents
 - Proposed texts reference paras #s of extant Code
 - Mapping table available to compare proposals to extant Code
- Fees
 - EM explains rationale for proposals; 15 questions for respondents
 - Clean and mark-up versions of proposed texts

Feedback on EDs welcome from all stakeholders

Why Change the International Independence Standards?

- Code provides strong foundation, but more work needed
 - Public expectations about auditor independence changed
 - Changes in laws, regulations and firm policies in many jurisdictions
 - Projects informed by research, public consultation and global outreach
- NAS and Fees projects prioritized under current SWP
 - Project proposals approved in September 2018

Background for NAS Proposals

- Responding to stakeholder concerns re permissibility of NAS to audit clients
 - A set of high quality, globally operable provisions
 - Shift in public expectations re auditor independence
 - Maintaining relevance of the Code re new services
 - Changing laws & regulations, and in some cases firm policies
- 2018 Global roundtables (Washington DC | Paris | Tokyo | Melbourne)



Key NAS Proposals

- New general prohibition on providing NAS that will create a self-review threat for PIEs (R600.14)
- Stricter provisions with more prohibitions and enhanced clarity about the circumstances in which a NAS may or may not be provided to an audit client, especially for PIEs
 - Stricter approach re consideration of materiality
- New provisions re firm communication with TCWG
 - For PIEs, firm to obtain concurrence before providing NAS

PIE and Non-PIE Provisions

- NAS provisions for audits of PIEs and non-PIEs continue to be different
 - Rationale for different approaches explained [R600.13 A1]
 - More work to be done, including to review description of PIE in the Code
 - Revisiting PIE definition is not part of NAS project
- Separate project to review PIE definition – timing accelerated



Assuming Management Responsibility

- Provisions relating to assuming management responsibility to be moved from S600 to S400
 - Increase prominence of overarching principle concerning independence
 - Except for new location, provisions are substantively unchanged
- Existing alignment between Parts 4A and 4B maintained in S950 and S900

A firm shall not assume a management responsibility for an audit client.

Self-review Threat Prohibition (1)

A firm or a network firm shall not provide a NAS to **an audit client that is a PIE** if a self-review threat will be created in relation to the audit of the f/s on which the firm will express an opinion (Para. R600.14)

Not as strict for non-PIEs



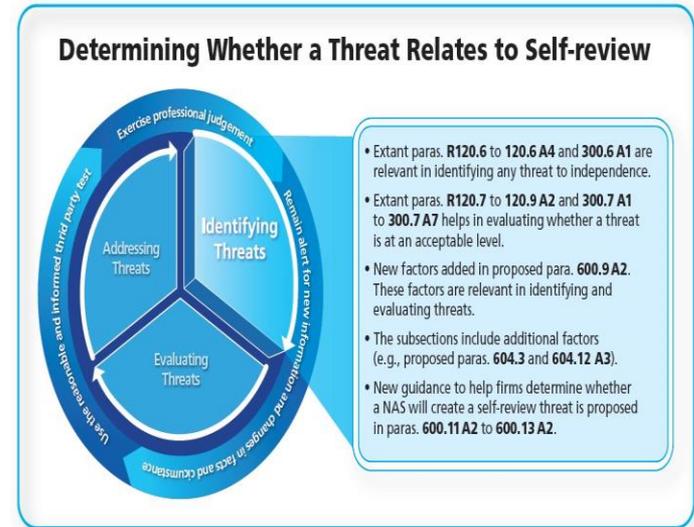
Self-review Threat Prohibition (2)

- When an audit client is a PIE, stakeholders have heightened expectations regarding the firm's independence
 - A self-review threat that is created by providing a NAS to a PIE cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level
- New AM to help in identifying and evaluating NAS-related threats
 - Important for firms to consider: (i) the manner in which the NAS will be provided; and (ii) the fees relating to the provision of the NAS

Threats Created by Providing a NAS to Audit Client

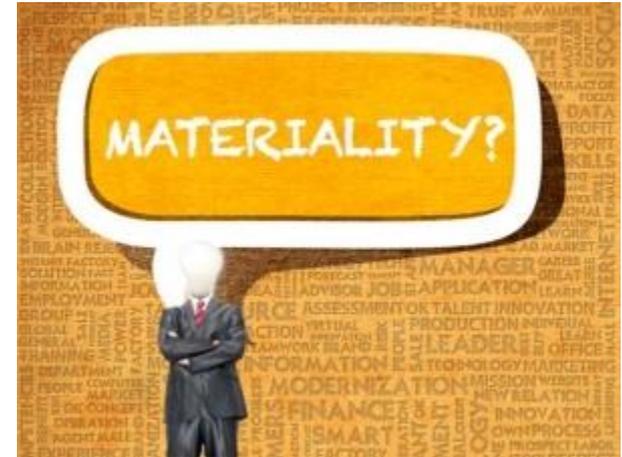
For PIEs, critical to identify self-review threats

- ✓ Will results of NAS affect accounting records, ICFR, or f/s?
- ✓ Will results of NAS be subject to audit procedures?
- ✓ Will judgments made or activities performed in the course of providing the NAS be relied upon in making audit judgments?



Materiality

- For all audit clients
 - Extant description of materiality retained
 - Clarification that materiality is relevant in evaluating whether a NAS-threat is at an acceptable level
- For PIEs
 - Materiality is NOT a factor in determining whether a NAS will create a self-review threat
 - No consideration of materiality = more NAS prohibitions (e.g., withdrawal of [exemption](#) re provision of accounting and bookkeeping for divisions/related entities)



Some Stricter Provisions Non-PIEs

- Under existing Code, certain NAS are prohibited for all entities when the amounts involved are material to the f/s (i.e., permissible if immaterial)
 - Tax planning/tax advisory when effectiveness of the tax advice is dependent on a particular accounting treatment/presentation that the audit team has doubts about
 - Providing corporate finance services to an audit client when effectiveness of such advice depends on a particular accounting treatment or presentation that the audit team has doubts about
- Materiality qualifier withdrawn → Prohibition for all entities now stricter

Providing Advice and Recommendations (A&R)

- Extensive IESBA deliberations
 - Providing A&R to an audit client **might create a self-review threat**
 - Whether it does or not depend on the specifics facts and circumstances
- NAS proposal explains that, in the case of PIEs, if:
 - Self-review threat will be created → NAS is prohibited
 - Self-review threat will NOT be created → NAS permissible if other threats are addressed
- Examples of specific situations where providing A&R to an audit client **will not create a SR threat** included in subsections

Tax Advice that Do Not Create Self-review Threat

Providing tax advice or planning services to audit clients, when such services:

1. Are supported by a tax authority or other precedent;
2. Are based on an established practice (being a practice that has been commonly used over a long period and has not been challenged by the relevant tax authority); or
3. Has a basis in tax law that is likely to prevail

New Prohibition re Specific Tax Service

A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction **relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended**, directly or indirectly, by the firm or network firm, and a **significant purpose of the tax treatment or transaction is tax avoidance**, unless that treatment has a basis in applicable tax law and regulation that is likely to prevail. [Para. R604.4]

Acting in an Advocacy Role

- Extant Code includes requirement that apply to all entities
 - A firm or a network firm shall not act in an advisory role for an audit client in resolving a dispute or litigation **when the amounts involved are material to f/s**
 - Service permissible when amount is immaterial and safeguards are available to reduce threat to acceptable level
- Proposal is more stringent for audit clients that are PIEs with the removal of the reference to materiality
 - No change to extant approach for non-PIEs; safeguards may be applied to reduce threats to an acceptable level

Acting as a Witness

- Enhanced clarity about circumstances in which firm might give evidence to court or tribunal
 - No advocacy threat if appointed by court/tribunal
- New prohibition on acting as an expert witness in a dispute involving an audit client that is a PIE unless appointed by a tribunal or court [Para. R607.6]



Communication with TCWG (for PIEs)

For related entities over which audit client has direct or indirect control, firms to:

1. Obtain concurrence from TCWG before providing NAS to audit client; and
2. Communicate with TCWG about:
 - Nature and scope of NAS to be provided
 - Any threat to independence identified
 - Whether threat is at an acceptable level and the actions to be taken to address such threat

For listed entities – ISAs require auditor communications with TCWG about independence

All entities – Code encourages firm communication with TCWG about independence matters

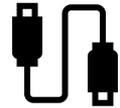
Firm and TCWG may establish a suitable process

Clarification about Period for Which Independence is Required for PIEs

- Prohibition on accepting appointment as auditor of a PIE if firm has provided a NAS that would create a self-review threat prior to such appointment unless the provision of such NAS has ceased and:
 1. The results of the NAS had been subject to auditing procedures in the course of the audit of the prior year's f/s by a predecessor firm;
 2. The firm engages a PA, who is not a member of the firm expressing the opinion on the f/s, to perform a review of the first audit engagement affected by the self-review threat that is equivalent to an EQR; **or**
 3. The PIE engages another firm to evaluate the results of the NAS; or re-perform the NAS, in either case to the extent necessary to enable the other firm to take responsibility for the NAS

New and Emerging NAS/ Technology

- Final report on Technology fact-finding; to be released by mid-February
 - Report includes recommendations re technology-related NAS
- Technology Task Force established in Dec 2019
 - Project to focus on ethics matters and how language in Code might be updated to better align with advances in technology
 - Will deal with new and emerging and technology-related NAS



Project Timeline

Date	Milestone
June 2020	Discussion of highlights of significant comments
September 2020	<ul style="list-style-type: none">• Discuss significant issues with the IESBA CAG• Full IESBA review of respondents' comments and first read of revised proposals
December 2020	Approval of final pronouncement

****Timelines for NAS and Fees projects are aligned***

Fees Exposure draft

Background for Fee-related Proposals

- Responsive to fee-related matters raised by the regulatory community and Public Interest Oversight Board
- Not attempting to change the client-payer business model, but rather to identify and address threats to independence that arise, especially self-interest threats
- Proposals are not attempting to regulate level of fees – this is a business decision

Key Proposals in Fees ED

- Audit fee should not be influenced by provision of services other than audit
- For PIEs, firm to cease to act as auditor if fee dependency on audit client continues beyond a specified period
- Communication of fee-related information to TCWG and to the public
- Enhanced guidance for identifying, evaluating and addressing threats created by fees



Self-interest Threats Created by Fees

- Proposal recognizes that threats to independence are created when fees are negotiated with/paid by the audit client
410.4 A1 When fees are negotiated with and paid by the audit client, this creates a self-interest threat and might create an intimidation threat to independence.
- Requirement for level of threats to be evaluated before accepting any engagement for an audit client and re-evaluated if circumstances change (see R410.4)

Fees for Services other than Audit

- Requirement for audit fee to be standalone (i.e., no discounts on audit fee if client agrees to other services, other than through operational cost savings – R410.6)
- Guidance for firms to evaluate and address the threats to independence created when a large proportion of fees (to firm or network firms) relates to services other than audit (for client and related entities) [para. 410.10 A1]

Fee Dependency (for PIEs)

- ED to revise extant provisions re total fee dependency with respect to PIE audit clients
 - Earlier disclosure to TCWG
 - Public disclosure if fee dependency “significant”
 - Strengthen safeguards
- Fee dependency should not continue indefinitely
 - Firm to exit after 5 consecutive years
 - If there is a public interest reason to continue; OK if certain conditions met



Fee Dependency (for non-PIEs)

- If total fees exceed **30%** of firm's total fee income for each of 5 consecutive years, determine and apply safeguard [Para. R410.14]:
 - (a) pre-issuance review of 5th year's financial statements, or
 - (b) post-issuance review of 5th year's work by a professional body or external professional accountant
- If total fees continue to exceed 30% of firm's total fee income beyond 5 consecutive years, make determination and take the action each year [para R410.15]
- No exit clause; no requirement to communicate with TCWG

New threshold

Enhanced Transparency (for PIEs)

- Greater transparency can serve to better inform views and decisions of stakeholders
- Firms to disclose certain fee-related matters through:
 - Enhanced communication with TCWG
 - Public disclosure (including in audit report), if entity has not already disclosed in financial statements by law or regulation
- Close coordination with IAASB



Communication with TCWG about Fees

- For audit clients that are PIEs, firms required to communicate with TCWG about:
 - Fees for audit and services other than audit provided by the firm or network firms to the audit client (and related entities controlled by the client)
 - Assessment of the level of the threats to independence created and safeguards to reduce threats to an acceptable level

Public Disclosure about Fees

- Proposals require public disclosure (by client in f/s, annual report, proxy statement; or by auditor)
 - Fee for the audit of the financial statements
 - Payed/Payable to firm/network firms
 - Actual/Estimated to component auditors
 - Fees for services other than audit provided to the client (and controlled related entities) by the firm or a network firm
 - If applicable, fee dependency information
- Disclosure requirements are optional for review clients

Other IESBA projects

Definition of Listed Entity and PIE

- Project to review definition of PIEs and Listed Entities accelerated
 - Project proposal approved in December 2019
 - Same effective date as of final revised NAS and Fees provisions
 - Task Force consist of IESBA members and two correspondent IAASB members
- NAS ED solicits early input from stakeholders



Engagement Quality Review (EQR)

- ED released on January 31; Comments due Mar 16
- EQR ED focuses on objectivity of EQR
 - Describe threats that might be created when an individual is appointed EQR immediately after having served on the audit engagement team
 - Add factors that are relevant in evaluating the level of such threats
 - Provide examples of actions that might be safeguards to address such threats
- Developed in coordination with IAASB; to be finalized together with IAASB's QM project





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