

IESBA Meeting Highlights and Decisions

September 2016

Contact: Ken Siong, IESBA Technical Director (KenSiong@ethicsboard.org)

This summary of decisions of the International Ethics Standards Board for Accountants (IESBA) has been prepared for information purposes only. Except for approval of documents for public exposure and issuance of final pronouncements, decisions reported are tentative, reflect only the current status of discussions on projects, and may change after further deliberation by the IESBA.

A [podcast](#) recording that provides a short audio summary of the main outcomes of the September 2016 IESBA meeting is also available on the IESBA website.

Long Association of Audit Firm Personnel with an Audit Client

The IESBA unanimously approved final changes to the Code relating to the three remaining issues that were included in the February 2016 re-Exposure Draft, [Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client](#). These issues are: the duration of the cooling-off period for the engagement quality control reviewer (EQCR) on the audit of a public interest entity (PIE); whether to allow a reduction in the cooling-off period for engagement partners (EPs) and EQCRs on PIE audits where jurisdictions have established alternative requirements to address threats created by long association; and how long an individual should cool off from a PIE audit after having served in a combination of EP, EQCR or other key audit partner roles.

Subject to approval by the Public Interest Oversight Board (PIOB), the revised provisions, including changes that were closed off in December 2015 (together the “close-off document”), will be made available on the IESBA website for information by the end of December 2016. However, the changes will not become effective until after they have been redrafted under the new structure and drafting conventions of the Code. The IESBA will finalize the effective date of the changes, including any transitional provisions, at its teleconference on October 24, 2016.

The IESBA also provided comments on a proposed IESBA Staff Questions & Answers (Q&A) publication which will be issued with the final restructured pronouncement. In addition, it considered a draft of the restructured text.

At its December 2016 meeting, the IESBA will consider a revised draft of the restructured text, updated to reflect the final changes incorporated in the close-off document, with a view to approval for exposure on the restructuring only.

Review of Safeguards in the Code

Phase 1

The IESBA considered and broadly agreed a revised draft of the text of Phase 1 of its Safeguards project, comprising revisions to the provisions in the extant Code relating to the conceptual framework (restructured Section 120) and the application of the conceptual framework to professional accountants in public practice (PAPPs) (restructured Section 300). Topics discussed included: the description of the reasonable and informed third party; the description of the term “safeguards;” and the relationship between conditions, policies and procedures established by the profession, legislation, regulation and the firm, and the professional accountant’s identification and evaluation of threats. The IESBA also provided input on the various examples of threats and safeguards in the revised text.

At its December 2016 meeting, the IESBA will consider a revised draft of the Phase 1 text with a view to reaching agreement in principle, pending finalization of Phase 2 of the project.

Phase 2

The IESBA considered a second-read draft of revisions to proposed Section 600, *Provisions of Non-assurance Services to an Audit Client* and safeguards-related conforming amendments to other areas of the Code.

Among other matters, the IESBA discussed: the placement of prohibitions regarding certain types of non-assurance services (NAS) to audit clients; the inclusion of a clear and explicit statement that in certain situations, the Code prohibits firms and network firms from providing certain NAS to an audit client because there can be no safeguards to address the threats; emphasis on the need for firms and network firms to comply with the fundamental principles, in addition to independence requirements, when providing NAS to audit clients; and application material explaining the concept of materiality in relation to an audit client’s financial statements, and the need to consider the combined effect of threats created from providing multiple NAS to the same audit client.

At its December 2016 meeting, the IESBA will consider, with a view to approval for exposure, a revised draft of the Phase 2 text.

Structure of the Code

The IESBA considered a further analysis of respondents’ comments on its December 2015 Exposure Draft [*Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*](#) (ED-1) and related Task Force proposals on Phases 1 and 2 of the project, including a revised draft of the restructured text in ED-1. The IESBA broadly supported the direction of the Task Force’s proposals. Topics discussed included: clarification of the provisions in the introductions to the sections of the restructured Code regarding compliance with the fundamental principles, maintaining independence where required and applying the conceptual framework; avoidance of repetition regarding the requirement to apply the conceptual framework; the ordering of requirements and application material; clarification of the scope of the International Independence Standards with respect to audits

of specific elements, accounts or items of a financial statement; and the title of the restructured Code.

At its December 2016 meeting, the IESBA will consider a revised draft of the ED-1 restructured text with a view to reaching agreement in principle, pending finalization of Phase 2 of the project. At that meeting, the IESBA will also consider with a view to approval for exposure a revised draft of the Phase 2 restructuring proposals (ED-2). ED-2 will include hyperlinks to separate documents containing the complete restructured Code and a mapping table documenting the restructuring changes from the extant Code.

Review of Part C of the Code

The IESBA considered a third read of the restructured text of the [Part C Phase 1 close-off document](#), including conforming amendments arising from the Safeguards project, and a revised explanatory paragraph clarifying how Part C applies to PAPPs. The IESBA also discussed proposed refinements to the glossary definition of the term “professional accountant in business” (PAIB). The IESBA broadly supported the revised restructuring proposals. Subject to further refinements, the IESBA also supported the direction of the revised explanatory paragraph and definition of a PAIB.

The IESBA also considered a revised “straw man” outlining a proposed approach to developing enhancements to extant Section 350, *Inducements*.

At its December 2016 meeting, the IESBA will consider approving for exposure: the restructured text of the Part C Phase 1 close-off document; a revised draft of the explanatory paragraph regarding the applicability of Part C to PAPPs; and a revised glossary definition of a PAIB. It will also consider a first-read draft of the proposed revisions to extant Section 350.

Responding to Non-Compliance with Laws and Regulations (NOCLAR)

The IESBA considered a draft of the restructured text of its recently issued Sections 225 and 360 on NOCLAR, prepared using the proposed new Structure format for the Code. The IESBA also provided input on draft IESBA Staff Q&A publications intended to form part of the tools and resources it has agreed to commission to facilitate implementation of the NOCLAR provisions.

At its December 2016 meeting, the IESBA will consider a revised draft of the restructured NOCLAR provisions with a view to approval for exposure on the restructuring only. It will also be asked for feedback on revised drafts of the Q&A publications before these are finalized for issuance in early January 2017.

Professional Skepticism

The IESBA was briefed on feedback to the International Auditing and Assurance Standards Board’s (IAASB’s) Invitation to Comment, [Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism](#) as it relates to professional skepticism. It was also briefed on the main outcomes of the discussions on the topic at the September 2016 joint meeting of the Consultative Advisory Groups of the IAASB and IESBA, and the September 2016 IAASB meeting.

The IESBA considered preliminary recommendations from the joint IAASB-IESBA-International Accounting Education Standards Board (IAESB) Professional Skepticism Working Group (PSWG) regarding actions that the three standard-setting boards could take, individually and in coordination, to enhance the application of professional skepticism in their respective standards. It also considered a “straw man” that outlined how the concept of professional skepticism could be enhanced in the Code. In addition, it discussed the merits of a short-term initiative to develop enhancements to the Code relating to the application of professional skepticism as it pertains to audit and other assurance engagements. The IESBA asked its representatives on the PSWG to explore the feasibility of developing the short-term enhancements for potential inclusion in an Exposure Draft to be issued contemporaneously with the Phase 2 Exposure Draft of the restructured Code, scheduled for approval at the December 2016 IESBA meeting.

The IESBA also agreed to continue to explore, in close coordination with the IAASB and IAESB, longer-term measures to enhance the application of professional skepticism more broadly across the Code.

Emerging Issues and Outreach

As part of its initiative to understand key differences between the Code and national ethical requirements in the G-20 countries and major financial centers, the IESBA received a progress report on the work performed by its Emerging Issues and Outreach Committee. The progress report touched on the topic of adoption of the IESBA Code within the jurisdictions under review and highlighted certain key differences between local ethical requirements and the IESBA Code.

The IESBA will consider a more detailed analysis of the key differences at a future meeting.

Fees Initiative

As part of the fact finding it has agreed to undertake regarding certain fee-related matters as they pertain to the Code, the IESBA received an update on the work carried out to date by [Prof. David Hay](#), the academic it has engaged to review relevant academic and other literature. Among other matters, Prof. Hay outlined the scope of, and approach to, his review and relevant issues and other considerations pertaining to the fee-related matters under consideration, i.e., the level of audit fees for individual audit engagements; the relative size of fees and dependence; the ratio of non-audit to audit fees; and audit services by firms that have significant non-audit service businesses.

The IESBA will receive a final report from Prof. Hay at its December 2016 meeting.

Next Meeting

The next meeting of the IESBA will be held via teleconference on October 24, 2016. The next physical meeting of the IESBA will be held in New York, USA on December 12-15, 2016.