

IESBA[®]

IESBA UPDATE

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World Bank Virtual Conference

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Landscape and Context

- Role of ethics is central in post-crisis world
- New business models, advancing technologies and increased regulatory oversight are transforming accountancy profession
- Expectations of ethical behavior heightened
- New Code provides a strong base for developing future ethics and independence standards



Agenda

- About IESBA
- Revised and Restructured Code
 - Overview and architecture
 - An enhanced Conceptual Framework
 - Other Substantive Revisions, including NOCLAR and Long Association
 - Effective date
 - Resources and tools
- Future Strategy and Work Plan
 - eCode | Fees | Non-assurance Services | Professional Skepticism | Technology

About IESBA

About IESBA

- IESBA composition
 - ❖ Independent global ethics standards setter with independent Chair
 - ❖ 17 volunteer members from around the world
 - ❖ No more than 9 practitioners, no fewer than 3 public members
 - ❖ Members appointed by IFAC Board, approved by PIOB
- Due process
 - ❖ Oversight of PIOB and advice from CAG
 - ❖ Transparent debate
 - ❖ Exposure for public comment
 - ❖ Consideration of comments received



Global Adoption of IESBA Code

- Adopted, used as basis for national ethical standards or ethical codes of IFAC member bodies in 120+ countries
- Adopted by the largest 27 international networks of firms (the [Forum of Firms](#)) for transnational audits
- Translated in 39 languages, including all major UN languages (Chinese, French, Japanese, Russian and Spanish)



Revised and Restructured Code

About the Revised and Restructured Code

- New design – easier to navigate, use and enforce
 - Completely rewritten
 - Requirements clearly distinguished from application material
 - New user guide
 - Increased prominence of fundamental principles, and conceptual framework
- Renamed *International Code of Ethics for Professional Accountants (including International Independence Standards)*
- Plans for an e-Code underway

**MORE
USER-
FRIENDLY**



What is Included

- Packages all substantive advances in ethics and independence over last four years
 - Significant enhancements to conceptual framework
 - Enhanced safeguards provisions better aligned to threats
 - NOCLAR
 - Strengthened Long Association provisions
 - Strengthened provisions regarding inducements
 - Strengthened provisions re preparing or presenting information
 - New provisions addressing pressure to breach FPs
 - Applicability of relevant PAIB provisions to PAPPs clarified
 - New guidance re professional judgment and professional skepticism

**COMPREHENSIVE,
INTEGRATED
SUITE** 

**SIGNIFICANT
UP-
GRADES** 

Architecture

PART 1

**Complying with the Code, Fundamental Principles
and Conceptual Framework**

(Sections 100 to 199)

(All Professional Accountants)

PART 2

**Professional Accountants
in Business (PAIBs)**

(Sections 200 to 299)

*(Part 2 is also applicable to
individuals PAPPs when
performing professional
activities pursuant to their
relationship with the firm)*

PART 3

**Professional Accountants
in Public Practice (PAPPs)**

(Sections 300 to 399)

PARTS 4A & 4B

**International Independence
Standards**

Part 4A—Independence for Audits & Reviews

(Sections
400 to 899)

Part 4B—Independence for Assurance Engagements
Other than Audit & Review Engagements

(Sections
900 to 999)

GLOSSARY

(All Professional Accountants)

Threats to Compliance

Self-interest

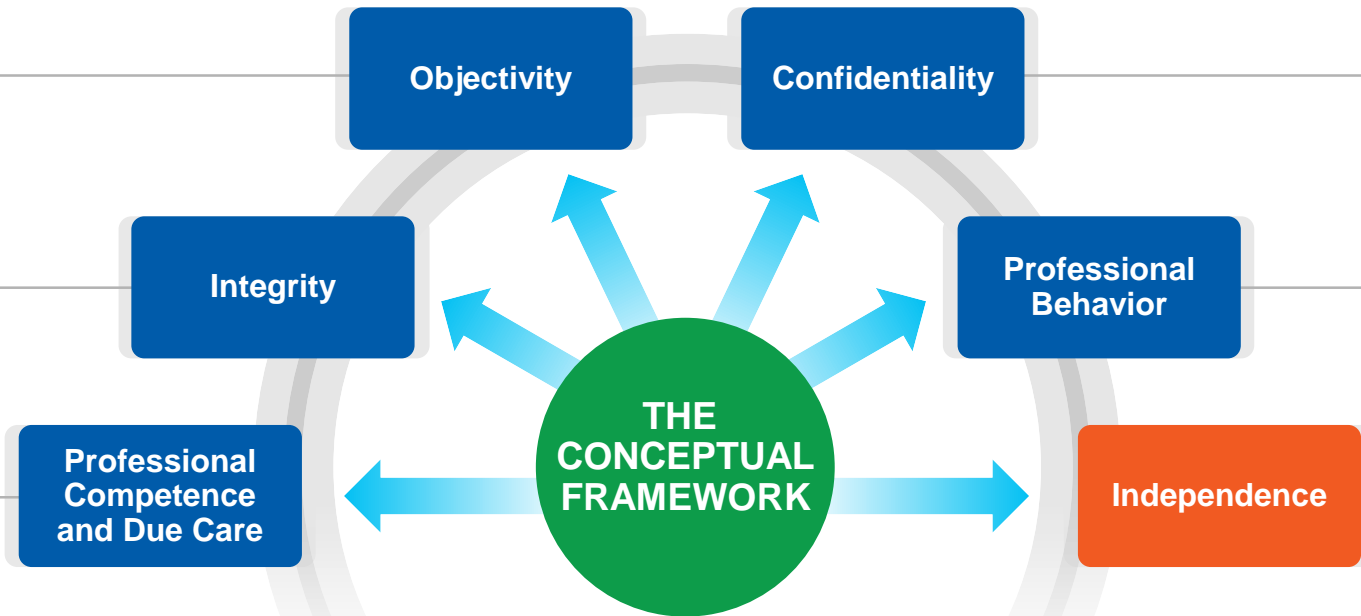
Self-review

Advocacy

Familiarity

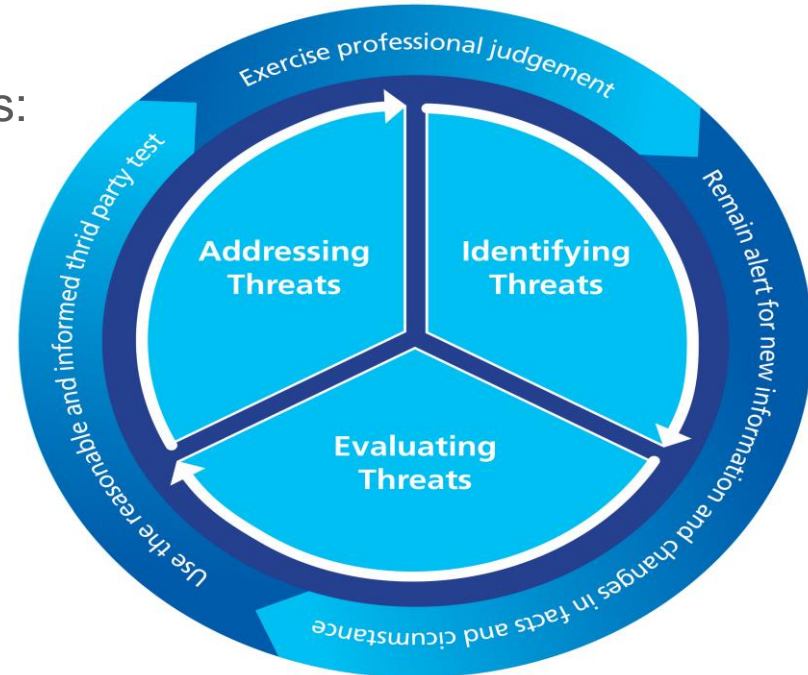
Intimidation

Fundamental Principles, Conceptual Framework and Independence



Key Enhancements to Conceptual Framework

- Identified threats that are not at acceptable level must be addressed in one of three ways:
 - Eliminate circumstances creating the threats;
 - Apply safeguards; or
 - Decline or end the specific professional activity/service
- New req't to “step back” in forming overall conclusion
- Description of key concepts clarified
- Safeguards now more aligned to identified threats



New and Revised Terms (1)

- ***Safeguards (Revised)***
 - Actions, individually or in combination, that PA takes that effectively reduce threats to compliance with fundamental principles to an acceptable level
- ***Conditions, Polices and Procedures (New)***
 - Established by profession, legislation, regulation, the firm, or the employing organization to enhance PA acting ethically
 - Not safeguards because it is not specific enough, but might help in identifying threats and evaluating the level of threats

New and Revised Terms (2)

- ***Acceptable Level (Revised)***
 - Level at which a PA using the reasonable and informed third party (RITP) test would likely conclude that PA complies with fundamental principles
- ***Reasonable and Informed Third Party Test (New)***
 - RITP test is a concept which involves consideration by PA about whether the same conclusions would likely be reached by another party (i.e., RITP)
 - Test is made from the perspective of RITP, involves weighing all the relevant facts and circumstances that PA knows, or could reasonably be expected to know, at the time that the conclusions are made
 - RITP does not need to be a PA, but possesses relevant knowledge and experience to understand and evaluate the appropriateness of PA's conclusions in an impartial manner

IESBA's NOCLAR Standard

- Major contribution to public interest
 - Coming into effect 15 July 2017
- Provides a framework to guide professional accountants in deciding how best to act *in the public interest* when they become aware of NOCLAR or suspected NOCLAR
- Restructuring changes to form part of new Code, but no change in substance



About NOCLAR Adoption

- Current information:
 - Adopted/being adopted: Australia, Hong Kong SAR, Japan, Netherlands, New Zealand, South Africa
 - On convergence path: Germany
 - Under active consideration: Brazil, Canada, UK, USA (AICPA/NASBA)
- CAP's Designation of "adopted" to include NOCLAR adoption as of July 2017 noted
- IESBA-CAP collaboration in survey ahead of NOCLAR post-implementation review work in 2021?



Section 220 – Preparation and Presentation of Information

- More comprehensive provisions addressing PAIBs' responsibilities when preparing or presenting information
- Prohibition on exercising discretion when preparing or presenting information with intent to mislead or inappropriately influence contractual or regulatory outcomes
- Enhanced guidance to assist PAs in disassociating from misleading information



Section 270 – Pressure to Breach Fundamental Principles

- Prohibition on allowing pressure from others to result in a breach of fundamental principles
- Prohibition on placing pressure on others that would lead them to breach fundamental principles
- Guidance to assist in navigating situations involving pressure



Examples of Situations when Pressure Might Arise

- Practical examples to illustrate situations in which PAs may experience pressure to breach the FPs (para 270.3 A2)
 - Conflicts of interest
 - Influence preparation or presentation of information
 - Act without sufficient expertise or due care
 - Financial interests
 - Inducements
 - Non-compliance with laws and regulations

Inducements, Including Gifts and Hospitality

- Approved April 2018, effective June 2019
- Clarifications about appropriate boundaries for offering and accepting of inducements
- Prohibitions on offering or accepting inducements with intent to improperly influence behavior
- Application of conceptual framework when no actual or perceived improper intent
- Scope includes both PAIBs (Section 250) and PAPPs (Section 340)
- Conforming amendments to International Independence Standards (Sections 420 and 906)



Professional Judgment and Professional Skepticism

- **New guidance for all PAs** emphasizes the importance of obtaining an understanding of facts and circumstances when exercising professional judgment
- **New guidance for auditors and assurance practitioners** explains how compliance with the fundamental principles supports the exercise of professional skepticism



Clarification that PAIB Provisions Apply to PAPPs

- New req'ts and application material to assist PAPPs determine applicability of PAIB provisions in Part 2 (para. 120.4, 300.5 and 300.5 A1)
- Clearer guidance for PAPPs that relevant PAIB provisions in Part 2 are applicable to them when they perform professional activities pursuant to their relationship with the firm, whether as
 - Contractors
 - Employees or
 - Owners of the firm



Long Association – Strengthened Requirements



5-year cooling-off for engagement partner



Prohibition on acting as client relationship partner during cooling off



3-year cooling-off for EQC reviewer



Additional restrictions on permissible activities during cooling-off



Technical consultations during cooling off prohibited



Strengthened general provisions

Enhanced NAS Provisions

- Clarification about how to identify, evaluate and address threats created by providing NAS to audit clients
- More prominent prohibitions and more guidance
 - New application material for evaluating and addressing threats
 - Clearer safeguards that are more closely aligned to threats
 - More prominent prohibition re assuming management responsibilities
 - Emphasis that if threats cannot be addressed, must decline or end specific professional activity

Revisions Relating to Recruiting Services

- Prohibition on providing certain types of recruiting services
 - Searching for or seeking out candidates
 - Undertaking reference checks of prospective candidates
- Prohibition now applies to all entities
- Enhanced general description of recruiting services
- Clarity about types of prohibited recruiting services
- New material re avoiding assuming management responsibilities when providing recruiting services

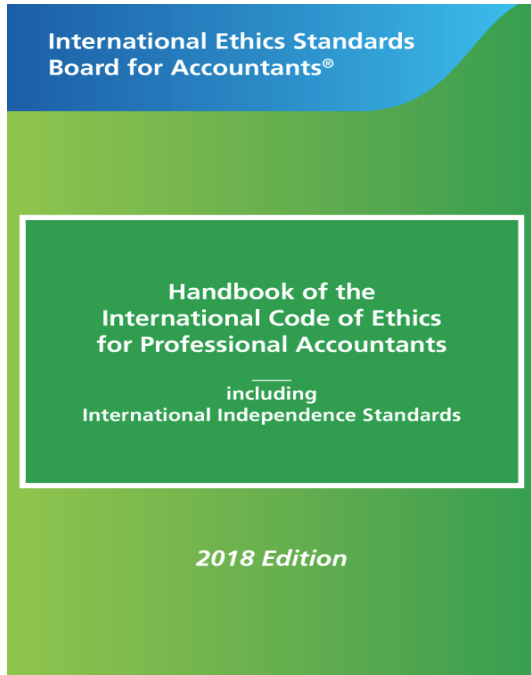


Effective Date

- New Code (including safeguards-related changes)
 - Parts 1, 2 and 3: June 15, 2019
 - Part 4A: audits and reviews of financial statements for periods beginning \geq June 15, 2019
 - Part 4B: for assurance engagements with respect to subject matter covering periods: periods beginning \geq June 15, 2019; otherwise June 15, 2019
- Above does not override effective dates of [NOCLAR](#) and [Long Association](#) provisions
 - Drafted under current structure and drafting conventions



Adoption and Implementation Support



- One stop-shop for resources & tools, including NOCLAR and Long Association
 - Available
 - IESBA Handbook 2018 Edition
 - Videos | Press Release | Flyer | PowerPoint slides
 - Basis for Conclusions and more
 - More to Come
 - Articles | Staff Q&As | FAQs
- Visit: www.ethicsboard.org/restructured-code

Other Players Have Crucial Role

- National standard setters
- Firms
- IFAC member organizations and PAOs
- Governments, legislators, regulators
- PAIBs/ preparers
- TCWG, including audit committees
- Academia and other educators



Future Strategy and Work Plan

Strategy and Work Plan 2019-2023

- SWP [consultation paper](#) released April 2018
- Aiming to fulfill distinct but broad goals:
 - Relevance and applicability in a world of changing technologies, business methods and public expectations
 - Strengthening both public interest objectives and trust in the accountancy profession as an integral whole
- Comment deadline July 16, 2018
 - Full review of respondents' feedback in September 2018
- Finalization anticipated by Q4 2018



Pre-commitments

Professional skepticism

NAS

Fee-related matters

E-Code

Rollout of Revised and Restructured Code

Long Association post-implementation review

NOCLAR post-implementation review

Part 4B vs ISAE 3000 (Revised)



eCode

- Revised and restructured Code to be digitized into eCode
 - Innovative way to enhance access to Code
 - Will help users better navigate and use Code in a manner that reinforces its “building blocks” structure and scalability
 - Responsive to stakeholders’ requests for tools aimed at facilitating learning, compliance and enforcement of the Code
 - Supports adoption and implementation



Fees

- Determine whether relationship exist between fees and threats to independence/ compliance with FPs
 - Level of audit fees for individual audits
 - Relative size of fees to partner, office or firm
 - Ratio of NAS fees to audit fees paid by audit client
 - Provision of audit services by a firm that also has a significant NAS business (firms’ “business model”)
- Final Report and Recommendations June 2018
- Project proposal September 2018



Non-assurance Services and Prof Skepticism Roundtables

- Washington DC, Paris, Tokyo and Melbourne
- To discuss key public interest issues in two high-priority commitments in SWP 2019-23
 - How best to delineate boundaries of NAS that firms may provide to audit clients
 - How best to meet public expectations regarding exercise of “professional skepticism” by all PAs
- Input to inform direction of IESBA’s standard-setting responses



General Policy Objective for NAS

Harmonized
global NAS
provisions?

Relevant and robust
NAS provisions
intended for global
applicability

Specific NAS provisions
reflective of national
laws, reg'ns, norms and
customs

Provisions that
accommodate
jurisdictional
circumstances?

Other NAS Issues

- Materiality
- PIE and non-PIE provisions
- Unconditional NAS prohibitions (i.e., “black list”)
- New and emerging services
- Auditor communication with TCWG
- Disclosure and other matters

Professional Skepticism

- Matters included in May 2018 CP relate to
 - Identifying the behavioral characteristics underpinning the concept of PS
 - Determining whether all PAs should apply the behavioral characteristics underpinning the concept of PS
 - Whether and how Code should be revised, and what other actions are needed
- IESBA to consider feedback on roundtables and CP and WG proposals, including a project proposal in September 2018

Proposed New Initiatives

Trends and developments in technology

Emerging or newer models of service delivery

Tax planning and related services

Definitions of PIE and listed entity

Materiality

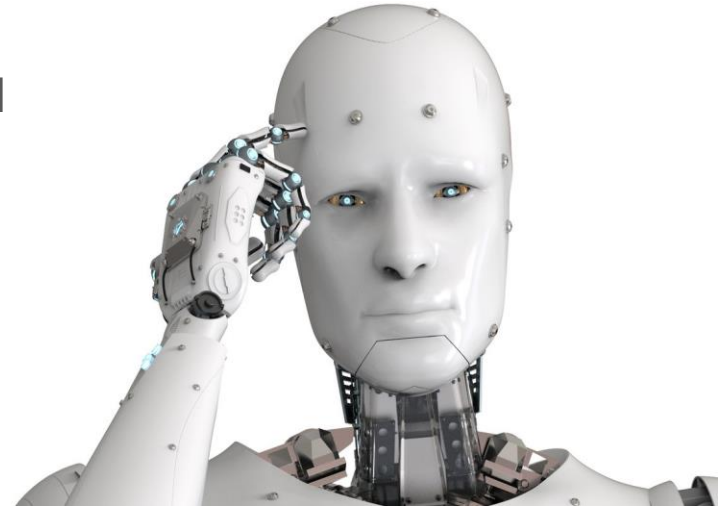
Communication with TCWG

Documentation



Technology

- WG established in December 2017 with a focus on
 - Establishing a “working knowledge” of new and emerging technologies (e.g., artificial intelligence, robotics, automation, block chain, cybersecurity, big data etc.,)
 - Identifying ethical implications created as a results of their use for PAIBs and PAPPs
 - Exploring options for a way forward
- WG to meet in September 2018



Questions?



The Ethics Board

www.ethicsboard.org

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