

Overview of IESBA and IESBA Code

Dr. Stavros Thomadakis, IESBA Chairman
Ken Siong, Senior Technical Director

SARAS Virtual Seminar

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About IESBA

- Independent global standard-setting [Board](#) formed 2005
- Mission:
Serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable Code of Ethics



About IESBA

- 18 members
 - 9 practitioners, 9 non-practitioners (incl. 4 public members)
 - Independent Chair
- Official observers
 - Japanese FSA and CAG Chair
- Global representation
 - Africa, Asia, Europe, North America, Oceania, South America
- Structures and processes facilitated by [IFAC](#)



Oversight and Consultation

- Oversight by [PIOB](#)
 - PIOB members appointed by Monitoring Group (Basel Committee on Banking Supervision, EC, Financial Stability Board, IAIS, IFIAR, IOSCO, World Bank)
- Advised by [Consultative Advisory Group](#) (CAG)
 - 22 member organizations and 3 official observer organizations
 - E.g. Basel Committee, CFA Institute, IAIS, ICGN, IOSCO, Islamic Financial Services Board, OECD, World Bank, etc



Public Interest Oversight Board



Engagement and Collaboration with Stakeholders

- Strong stakeholder engagement and communications
 - Close dialogue with international and national regulators, e.g. IFIAR, CEAOB, IOSCO, Basel Committee, etc
 - But also focused on strengthening dialogue with the profession, e.g. [Forum of Firms](#), IFAC SMP and PAIB Advisory Groups, IFAC member organizations
- Leveraging global alliances and partnerships
 - E.g. [IAASB](#), national standard setters, IFAC, INTOSAI, etc



Global Adoption (Restructured Code effective since June 2019)



International Ethics Standards
Board for Accountants®

Handbook of the
International Code of Ethics
for Professional Accountants
including
International Independence Standards

2018 Edition

Adopted / in process of adopting new Code as of Oct 2020 (85)

Albania, **Australia**, Austria, Azerbaijan, Bahamas, Bangladesh, Barbados, Botswana, **Brazil**, Bulgaria, Burkina Faso, Cayman Islands, **China**, Croatia, Cyprus, Czech Republic, Denmark, eSwatini, Finland, Georgia, **Germany**, Ghana, Guatemala, Guyana, Hong Kong SAR, Hungary, **India**, **Indonesia**, **Italy**, Iran, Ireland, Jamaica, **Japan**, Kenya, Kosovo, Kuwait, Lao PDR, Latvia, Lesotho, Liberia, Lithuania, Luxembourg, Madagascar, Malaysia, Malawi, Malta, Mauritius, **Mexico**, Mongolia, Montenegro, Mozambique, Namibia, Netherlands, New Zealand, Nigeria, Palestine, Pakistan, Papua New Guinea, Peru, Poland, Portugal, Romania, **Russia**, Rwanda, **Saudi Arabia**, Serbia, Singapore, Slovenia, **South Africa**, **South Korea**, Spain, Suriname, Sweden, Switzerland, Tanzania, Trinidad and Tobago, **Turkey**, UAE, Uganda, **UK**, Ukraine, **United States (unlisted entities)**, Vietnam, Zambia, Zimbabwe

- **Adopted by the largest 31 international networks of firms (the Forum of Firms) for transnational audits**
- **Translated in over 40 languages, including all major UN languages**

Prohibition on Assuming Management Responsibilities



R600.7 A firm or a network firm shall not assume a management responsibility for an audit client.

600.7 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

600.7 A2 Providing a non-assurance service to an audit client and self-interest threats if the firm or network firm assumes management responsibility when performing the service. This management responsibility also creates a familiarity threat because the firm or network firm create an advocacy threat because the firm or network firm are closely aligned with the views and interests of management.

600.7 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities considered a management responsibility include:





Revised 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)

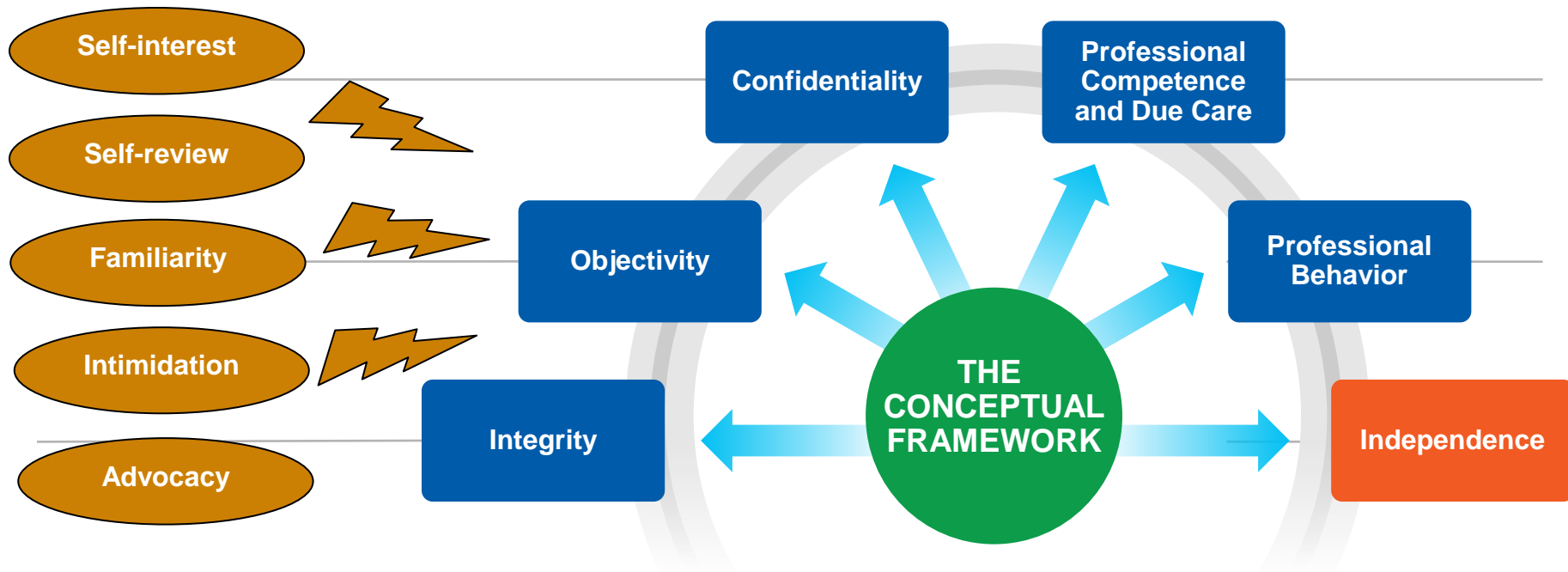
Part 4B—Independence for Assurance Engagements
Other than Audit & Review Engagements

(Sections
900 to 999)

GLOSSARY

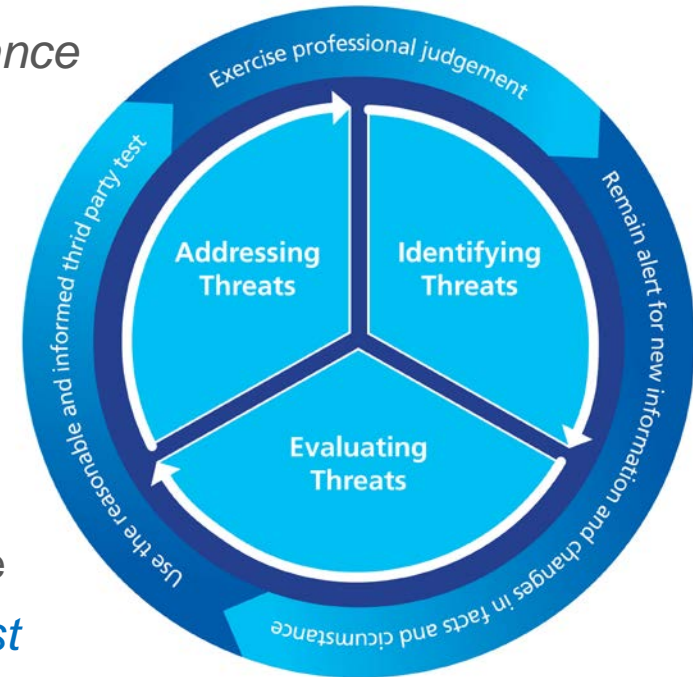
(All Professional Accountants)

Fundamental Principles (FPs), Conceptual Framework and Independence



What is the Conceptual Framework?

- A 3-step approach to deal with *threats to compliance with FPs and, where applicable, independence*
 1. Identify threats
 - From professional activities, interests and relationships
 2. Evaluate identified threats
 3. Address the threats
 - Eliminate circumstances creating the threats
 - Apply safeguards; or
 - Decline or end the specific professional activity/service
- Must use *reasonable and informed third party test*



A photograph of a piece of white lined paper with the word "Questions?" written in black cursive. A black marker is visible at the bottom right, having just finished writing the question mark. A long, thin, curved line is drawn below the word.

NOCLAR Standard: Effective 15 July 2017

- Major focus on public interest action by *all* PAs, including auditors. *Do not turn blind eye.*
- Scope of laws and regulations covered
 - L&R with direct effect on material amounts/disclosures in the financial statements
 - Other L&R that may be fundamental to entity's business
- E.g. L&R dealing with:
 - Fraud, Bribery and Corruption | Money Laundering | Terrorist Financing | Financial Products and Services | Taxation | Data Protection | Environmental Protection | Public Health and Safety



Auditors – Taking Action Using Professional Judgment

- Establish legal or regulatory obligations in PA's jurisdiction and comply with them
- Raise the matter with management/TCWG and assess appropriateness of response
- Determine whether to take further action
 - E.g. disclose to appropriate authority | withdrawal
- Framework guidance for exercising right to disclose
 - Depends on nature & extent of actual/potential harm to stakeholders; existence of appropriate authority; availability of legal protection; threats to physical safety of PA or others. **Use professional judgment.**



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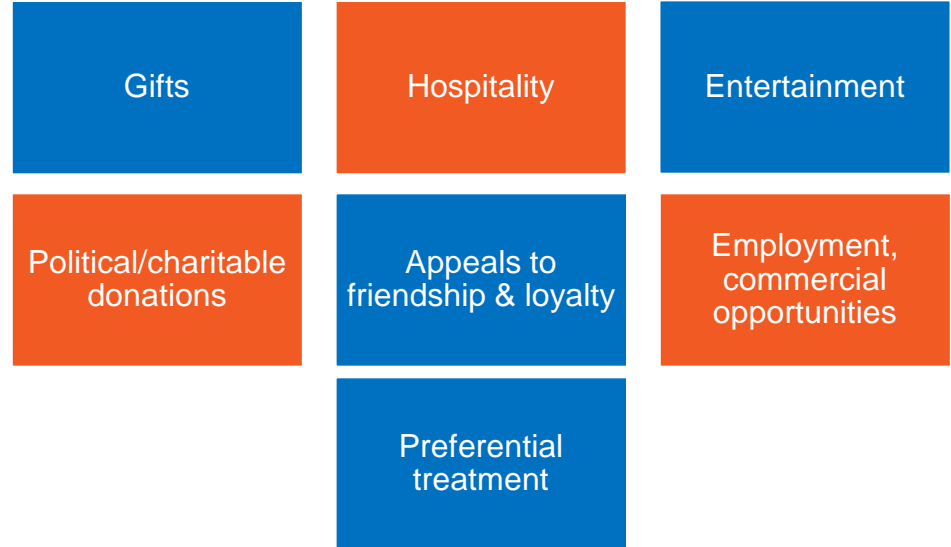
Part 4A – IISs for Audit and Review Engagements

Section 400, *Applying the Conceptual Framework to Independence for Audits and Reviews*

- **S 410, Fees**
- S 411, *Compensation and Evaluation Policies*
- **S 420, Gifts and Hospitality**
- S 430, *Actual or Threatened Litigation*
- S 510, *Financial Interests*
- S 511, *Loans and Guarantees*
- S 520, *Business Relationships*
- S 521, *Family and Personal Relationships*
- S 522, *Recent Service with an Audit Client*
- S 523, *Serving as a Director or Officer of an Audit Client*
- S 524, *Employment with an Audit Client*
- S 525, *Temporary Personnel Assignment*
- **S 540, Long Association of Personnel with an Audit Client**
- **S 600 Provision of Non-Assurance Services to an Audit Client**
- S 800, *Reports on Special Purpose F/S (Restriction on Use...)*

Gifts and Hospitality

- Clarifies appropriate boundaries for offering and accepting of inducements
- Can be illegal (e.g. bribery/corruption)
- Even if not illegal, prohibited to offer or accept inducements with intent to improperly influence behavior (even if trivial & inconsequential)
- If no improper intent, apply conceptual framework



Long Association – Strengthened Requirements

➤ Creating an environment for more effective *fresh look*

- Adequate time
- Restrictions on activities by previous partner

Partners	Time-on	Cooling-off
EP	7	5
EQCR	7	3
Other KAPs	7	2

-  Technical/industry-specific consultation with audit team or client (except matters in last year of audit)
-  Relationship partner
-  Leading/coordinating services to the audit client
-  Significant or frequent interaction with senior management or TCWG
-  Exert influence on audit

Breach of Independence Requirements

- Evaluate significance, determine whether action can be taken or whether resignation necessary
- Report all breaches asap to TCWG, unless TCWG have specified alternative timing for less significant breaches
 - Communication should be in writing
- Consider reporting to professional body or regulator when common practice or expected
- Documentation of all identified breaches, actions taken to address them, and all matters discussed with TCWG and, if applicable, relevant regulators





Revised Fees-related Provisions

- Responds to regulatory stakeholders and PIOB concerns about fees charged by audit firms
- IESBA fact finding report June 2018
- Fees project closely coordinated with
 - Non-assurance Services (NAS) project
 - IAASB
- Final provisions approved Dec 2020
 - Effective Dec 2022, subject to PIOB approval

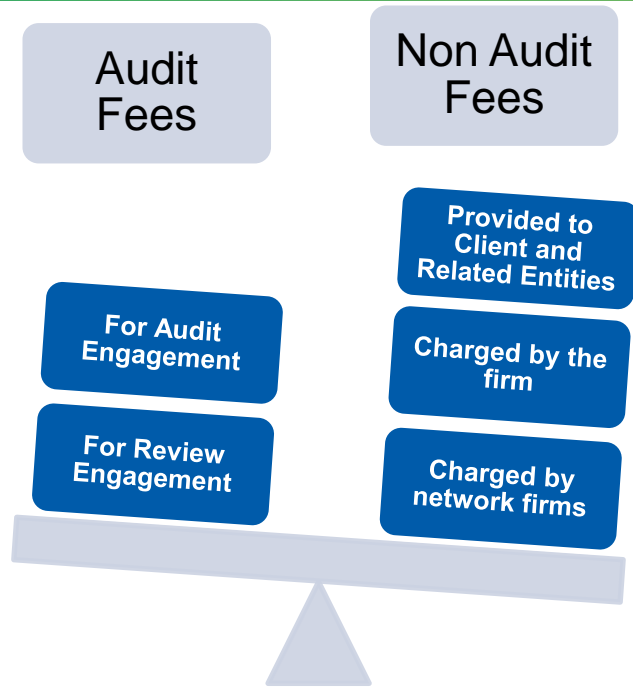


Fees Paid by Audit Client and Level of Audit Fees

- Guidance on factors to evaluate level of self-interest and any intimidation threats created when fees (*audit or non-audit*) are paid by audit client
- Revisions emphasize importance of audit fee as a standalone fee
 - Requirement for a firm not to allow audit fee to be influenced by provision of services other than audit by firm or network firm
 - But firm may take into account cost savings achieved as a result of experience derived from provision of services other than audit



Proportion of Fees



- No threshold/ratio as a cap or to reevaluate threats
- Fees charged by *firm and network firms* to the audit client + *related entities*
- No specific period included → period during which independence is required

Fee Dependency – Non-PIE Audit Clients

1st to 4th year

Evaluate level of threats;
and address such threats
if they are not at an
acceptable level

From 5th year

Determine whether any of the
following actions could be a
safeguard and, if so, apply it

- (a) Pre issuance review by a PA
outside of the firm
- (b) Post-issuance review by a PA
outside of the firm or by
professional body

Fees from audit client exceed **30 %** of total fees of the firm

Fee Dependency – PIE Audit Clients

1st year

Evaluate level of threats and address threats that are not at an acceptable level

From 2nd year

Determine whether a pre-issuance review performed by a PA outside of the firm can be a safeguard, and if so apply it

From 5th year

Exit the engagement, unless:

1. There is a compelling reason in public interest
2. Professional body or independent regulatory body concurs to continue

Fees from audit client exceed **15 %** of total fees of the firm

Communication with TCWG

Audit Fees

- Fees for audit of f/s
- Firm's evaluation of level of threats & safeguards applied

Non-audit Fees

- Total fees for services other than audit (charged during the period of f/s and only to downstream related entities)
- Firm's evaluation of level of threats & safeguards applied

Fee dependency

- Fact of fee-dependency (no exact ratio)
- Safeguards applied
- Any proposal to continue after 5 years

Public Disclosure

- Requirement for firms to ensure public disclosure of:

Fee for the audit
of f/s (firm and
network firms)

Total fees for
services other
than audit (client
and controlled
related entities
consolidated)

Fact of fee
dependency, if
applicable



- Flexible approach to transparency (timely and accessible manner)
- Comply first with legal or regulatory disclosure requirement; if none, discuss with TCWG benefits of disclosure by client
- To the extent disclosure not made by client, firm required to publicly disclose

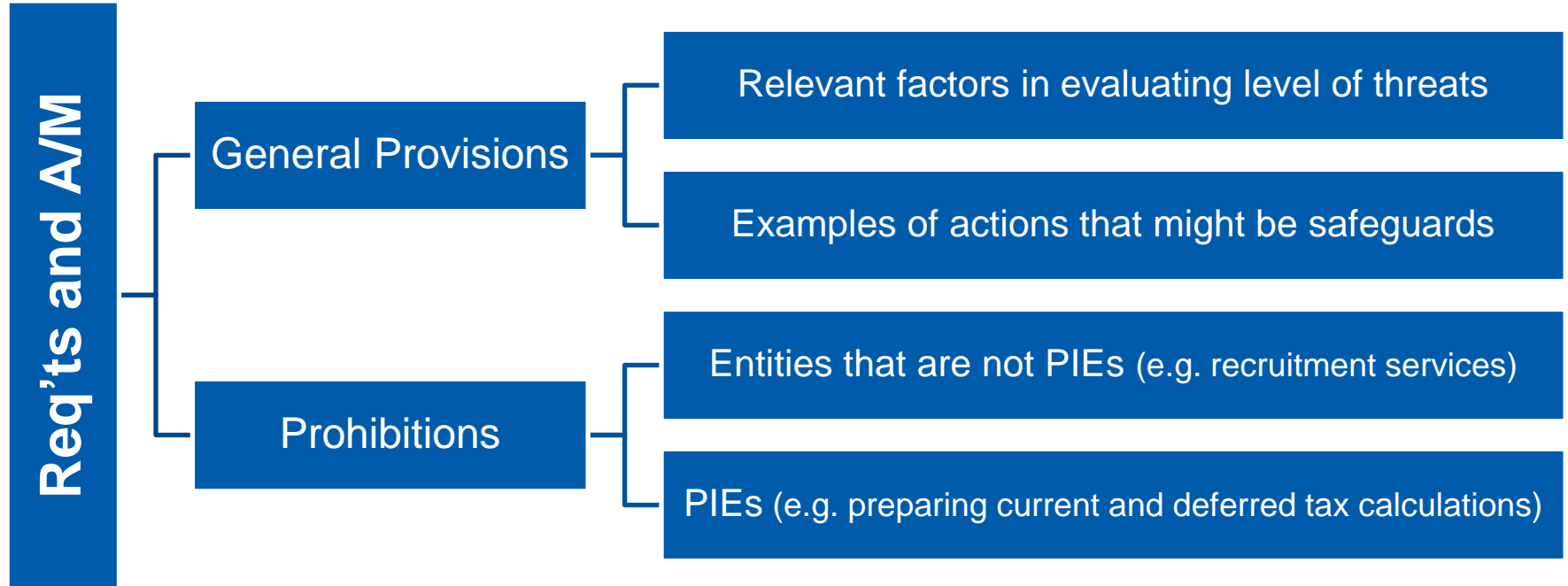
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Revised Non-assurance Services (NAS) Provisions

- Responding to regulatory concerns regarding 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)
- Approved Dec 2020; effective Dec 2022 subject to PIOB approval



Revised Structure of NAS Subsections



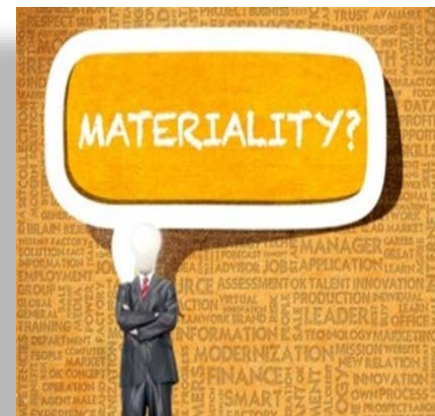
Self-review Threat (SRT) Prohibition

- New prohibition on providing NAS that might create SRT
 - SRT 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
- Evaluate whether there is a risk that:
 - Results of NAS will form part of, or affect, accounting records, internal controls over financial reporting, or f/s
 - As part of audit, audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in providing the NAS
- Guidance to help in identifying and evaluating NAS-related threats

A firm or network firm shall not provide a NAS to an audit client that is a PIE if the provision of that service *might create a self-review threat* in relation to the audit of the f/s.

Materiality

- Materiality qualifier withdrawn (both PIEs and non-PIEs)
 - Tax planning/tax advisory services when effectiveness of advice is dependent on a particular accounting treatment or presentation that the audit team has doubts about
 - Corporate finance services when effectiveness of advice depends on a particular accounting treatment or presentation that the audit team has doubts about
- Materiality qualifier withdrawn (PIEs)
 - Acting in an advocacy role in resolving a dispute or litigation before a tribunal or court



Providing Advice and Recommendations (A&R)

- Provision of A&R to an audit client **might create a self-review threat**
 - Depends on specific facts and circumstances
- In the case of PIEs, if:
 - Self-review threat might be created → NAS is prohibited
 - Self-review threat will NOT be created → NAS permissible if management responsibility not assumed and other threats are addressed
- Examples of A&R that might be provided in the course of the audit



Tax Advice that Does Not Create Self-review Threat



Provision of tax advisory and planning services permitted provided such services:

- (a) Are supported by a tax authority or other precedent;
- (b) 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
- (c) Has a basis in tax law the *firm is confident* is likely to prevail.

Acting as an Expert Witness

- 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
- Enhanced clarity about circumstances in which firm might give evidence to court or tribunal
 - No advocacy threat if appointed by court or tribunal



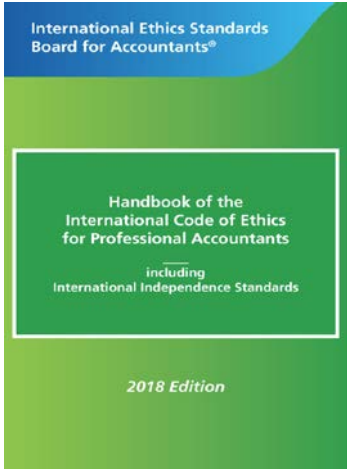
Communication with TCWG for PIE Audit Clients

- Guidance for firms to agree suitable communication and clearance process with TCWG
- For PIEs, firms to obtain concurrence from TCWG before providing NAS to the audit client, to related entities over which the audit client has direct or indirect control, or to a parent entity
- Matters to be considered with TCWG include:
 - ✓ Nature and scope of NAS to be provided
 - ✓ Basis for firm's assessment regarding threats to independence

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

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

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The Ethics Board

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