Trust and Accountability in Times of Crisis

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Agenda

• A Changing Landscape
• About the IESBA Code, including recent and upcoming revisions
• Responding to Risks and Uncertainties, including COVID-19
  – Staff Q&As publication: *Ethics & Independence Considerations*
  – Other resources
• Available Resources
The Landscape is Changed …

- Health, social and financial crisis → Unprecedented challenges for all, including those in the accounting profession

- Trust is especially important in adverse times
  - Accountants are advantaged by having a Code of Ethics to guide judgements & behaviors
  - Accountants have an important role in recovery → Produce, analyze, deliver and opine on information upon which critical decisions will be made

- More than ever, accountants must focus on ethics and their responsibility to act in the public interest
  - Pace of changes require accountants to be agile
  - Discussions/ cooperation with regulators, PAOs and others may sometimes be necessary
Many risks are occurring simultaneously...

A Changing Landscape

Risks are Dynamic and Highly Connected

Ethics/ independence may be impacted

- Safeguard may no longer be available
- Pressure to achieve financial results
- Changing control environment (digital)
- Individual stress from fear and uncertainty
- Opportunism in times of crisis – monetary v humanitarian
- Compliance with government notices

Source: KPMG Singapore 2020

IESBA
About the IESBA Code
Adoption of IESBA Code

• Code is robust, high-quality and globally-operable
• Adopted, used as basis for national ethics standards or ethics codes of IFAC member bodies in 120+ countries
• Adopted by the largest international networks of firms (the Forum of Firms) for transnational audits
• Translated in about 40 languages, including all major UN languages (Chinese, French, Japanese, Russian and Spanish)
About the Revised and Restructured Code

• Restructured based on extensive research and stakeholder consultation globally over 4 years
  – Responsive to calls for clearer and more robust ethics and independence provisions
  – Completely rewritten; New design – easier to navigate, use and enforce
  – Substantive revisions; New user guide
  – Effective since June 15, 2019

• Renamed *International Code of Ethics for Professional Accountants (including International Independence Standards)*

• Digital version available at [www.IESBAeCode.org](http://www.IESBAeCode.org)
2018 Edition of IESBA Code

The Basics: Fundamental Principles & the Conceptual Framework

Click here to access Exploring the IESBA Code, Installment 1, The Fundamental Principles and Installment 5, Independence
2018 Edition of the Code
Recent and Upcoming Changes

• Upcoming changes for 2021
  – Part 4B (Revisions) released in Jan 2020; **effective Jun 2021**
  – Role & Mindset released in Oct 2020; **effective Dec 2021**

• Coming Soon!
  – Objectivity of EQR approved in Sept 2020, effective in Dec 2022
  – Approval of final text with revised **NAS** and **Fees** provisions anticipated in Dec 2020
  – Exposure draft with proposed revised **Definition of Public Interest Entity** anticipated in Q1 2021
Responding to Risks & Uncertainties, including COVID-19
IESBA’ COVID-19 Response

• Near-term impacts:
  – Virtual IESBA board meetings
  – IESBA staff are working from home
  – Decreased stakeholder responsiveness → implications for pace for some work streams

• Issuance of Staff publications & guidance

• Enhanced collaboration with IFAC and national standards setters

• Dedicated COVID-19 webpages
COVID-19 Related Guidance

• IESBA-NSS WG formed Q2 2020
  - Australia, Canada, China, South Africa, UK and US

• Joint staff publications released July and October 2020
  - Scenarios in taxation and valuation services (APESB-IESBA)
  - Using specialists in the COVID environment (AICPA-IESBA-IAASB)

• Coming soon!
  - Considerations relating to fraud (IRBA-IESBA-IAASB)
  - Money laundering and terrorist financing (CPA Canada-IESBA)
IESBA Staff Q&As

- Issued May 2020
- Highlights aspects of Code that are especially relevant during pandemic
  - Stresses the importance of complying with the fundamental principles of ethics during the pandemic; crisis is not an excuse for unethical behavior
  - Includes ethics guidance for all PAs, including preparers, PAs in business, not-for-profit sector, government; education, and in public practice
  - Includes independence guidance for auditors

Click here to access more COVID-19 resources!
Safeguards

- COVID-19 related health risks/ restrictions might make it difficult/ impossible to apply safeguard(s)
  - Designated reviewers may be unavailable due to illness or may have been re-assigned; furloughed or laid-off
- Individual PAs and firms should apply alternate safeguards or take other action to address threat
  - **Installment 4** of *Exploring the IESBA Code* series explain how to address threats to compliance with the fundamental principles of ethics

Click here to access Exploring the IESBA Code, Installments 2-4, which explain The Conceptual Framework
Preventing and Presenting Information

- PAs & firms are best positioned to use their skills to help prepare and present information during the pandemic.
  - Important to exercise professional judgments in describing the nature of business transactions and activities; as well as classifying and recording information appropriately.
  - PAs may exercise discretion when making judgments; but must not do so with an intention to mislead others or influence contractual or regulatory outcomes inappropriately.
Pressure

• Organizations, businesses, governments and firms are under pressure
  – Concerns about covering operating costs; or continuing as a going concern
  – Pressure may be exerted by clients, superiors, or may be self-imposed
  – Code includes specific examples of situations that might create pressure to act unethically (see Section 270)

• Stresses and pressures, including those due to COVID-19 do not excuse unethical behavior
  – PAs must not succumb to pressure to breach fundamental principles of ethics

Click here to access Exploring the IESBA Code, Installment 10, Pressure to Breach the Fundamental Principles
Non-compliance with Laws and Regulations

• COVID-19 pandemic has created significant opportunities for fraud
  – Financial challenges & other pressures might affect implementation and oversight of NOCLAR-related policies

• PAs have a duty to act if they become aware of NOCLAR during the pandemic
  – Responding to NOCLAR involves discussion with management, escalating issues with others; and assessing management’s response to determine whether further action is needed in the public interest
  – Comprehensive framework for PAIBs in Section 260 and for auditors, and other PAPPs in Section 360
  – More guidance on IESBA NOCLAR webpage

Click here to access Exploring the IESBA Code, Installments 8-9, Responding to Non-Compliance with Laws and Regulations
Non-assurance Services

- Firms, especially SMPs may receive requests for assistance from their audit clients
  - Compliance with independence provisions in Section 600 essential
  - Firm shall not assume a management responsibility for an audit client
  - Certain types of services/activities are prohibited
  - Threats to independence must be addressed
• Many entities are experiencing liquidity issues and financial difficulties due to COVID-19
  – Some clients are requesting fee reduction for services in progress/services already provided; others may not be able to pay
• Code does not specify the level of fees that firms should quote; but for audit clients the fee quoted:
  – Creates a self-interest threat to professional competence and due care if the fee quoted makes it difficult to perform the engagement in accordance with applicable technical and professional standards
  – Creates a self-interest or intimidation threat to independence

When a significant amount of audit fees remains unpaid for a long time, firm must determine:
1. Whether fee = loan
2. Whether it is OK to continue the audit
COVID-19

Long Association, including Partner Rotation

- Firms, especially SMPs are experiencing reduction in resources due to COVID-19
  - Some may not be able to execute a planned partner rotation for audit and may question whether the Code provides relief
- Exception to partner rotation requirement if the appropriate regulator grants an exemption
  - COVID-19 is a circumstance that warrants contacting regulator to request an exemption; regulator must specify the other requirements including exemption period
  - More guidance in IESBA Long Association Staff Q&A
Communication with Those Charged with Governance

- Pandemic is affecting information flow and communication more broadly, including between auditors and TCWG
  - Virtual communications may not be as effective as in-person
  - Designated representatives of TCWG may not be accessible due to COVID-19 related illness
  - Security may also a concern for some SMPs and their clients

- Proactive and more frequent interactions may be needed to communicate with TCWG about ethics and independence matters
  - May be necessary to agree to contingency plans or alternative arrangements as circumstances change
  - It may make sense to communicate to all TCWG vs a representatives or subgroup
Available Resources

• Dedicated COVID-19 webpages
  - IESBA – Ethics & independence
  - IAASB – Audit & assurance
  - IPSASB – Public sector accounting
  - IFAC – Audit, ethics & independence, financial reporting, business continuity & recovery, professional & personal wellness, general information

• IFAC Publication series, Exploring the IESBA Code

Click here to access general IESBA Support & Resources!
The Ethics Board

www.ethicsboard.org

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