

Meeting: IESBA CAG
Meeting Location: New York
Meeting Date: September 10-11 2013

Agenda Item



Future Strategy and Work Plan

Objectives of Agenda Item

1. To provide a report-back on proposals of CAG Representatives on this initiative as discussed at the April 2013 CAG Meeting.
2. To note the brief report-back on the project to revise the definition of the term “those charged with governance” in the Code (the IESBA approved the revised definition at its June 2013 meeting).
3. To obtain CAG Representatives’ views on a draft of the proposed consultation paper, *IESBA Strategy and Work Plan 2015-2018 (CP)*.

Project Status and Timeline

4. The IESBA released in early January 2013 its Strategy and Work Plan (SWP) survey seeking input to the development of its next SWP (strategy survey).
5. At its April 2013 meeting, the CAG received a high level update on the responses to the strategy survey.
6. At its June 2013 meeting, the IESBA considered the IESBA Planning Committee’s preliminary analysis of the responses to the strategy survey, including detailed suggestions from IOSCO. The IESBA also was briefed on input received from its National Standard Setters (NSS) liaison group. An overview of the strategy survey input, together with a summary of the IESBA’s considerations with respect to the significant matters raised therein, are provided in the Appendix to this paper
7. At its September 2013 meeting, the IESBA will consider the draft CP set out in Agenda Item I-1 with a view to approving it for issuance at its December 2013 meeting.

April 2013 CAG Discussion

8. Below are extracts from the draft minutes of the April 2013 CAG discussion on the SWP item,¹ and an indication of how the Planning Committee or IESBA has responded to CAG Representatives’ comments.

Representatives’ Comments	Planning Committee/IESBA Response
In relation to the topic of disclosure of compliance with ethical requirements in auditors’ reports, Mr.	Point noted. The IESBA agreed not to prioritize this topic for its next SWP as the IAASB is currently

¹ The minutes will be approved at the September 2013 IESBA CAG meeting.

Representatives' Comments	Planning Committee/IESBA Response
<p>Hansen highlighted the importance of coordination with the IAASB. Mr. Holmquist noted that the IESBA has already been working closely with the IAASB, including through quarterly liaison between the leaderships of the two boards and on projects such as the revision of ISA 610² to address the use of internal auditors to provide direct assistance on the external audit.</p>	<p>revising its Auditor Reporting standards, and any IESBA action on the topic would need to await completion of the IAASB's Auditor Reporting project.</p> <p>Nevertheless, at its June 2013 meeting, the IESBA considered a proposal by the IAASB's Auditor Reporting (ISA 700) Drafting Team regarding the inclusion of an explicit statement of compliance with relevant ethical requirements in the auditor's report. The IESBA's input assisted the IAASB in finalizing this aspect of its proposals with respect to a revised auditor's report, leading to the IAASB's issuance of its auditor reporting exposure draft in July 2013 (https://www.ifac.org/publications-resources/reporting-audited-financial-statements-proposed-new-and-revised-international).</p>
<p>Ms. de Beer noted that it would be important for the CAG to provide input to the development of the IESBA's strategy at the September 2013 CAG meeting. She suggested that a further level of detail, such as how the timelines of current projects feed into the work plan, be provided to the CAG to enable representatives to provide proper input regarding priorities.</p>	<p>Point accepted.</p> <p>See the illustrative work plan in Appendix 2 of the draft CP (Agenda Item I-1).</p>
<p>Mr. Holmquist asked representatives for their views as to what the highest priority for the IESBA should be. Ms. de Beer expressed the view that the IESBA should focus on developing the right structure for the Code to facilitate adoption and implementation.</p>	<p>Point taken into account. See the draft CP (Agenda Item I-1).</p>

Matters for CAG Consideration

MAIN OUTCOME OF JUNE 2013 IESBA DISCUSSION AND DRAFT CP

9. Pursuant to its consideration of the Planning Committee's analysis of the survey input, the IESBA tentatively agreed the following:
- Extending its current SWP through to the end of 2014 on the basis set out in the draft CP.
 - Maintaining the current work plan, recognizing in particular the strong stakeholder support for the Structure of the Code initiative.

² ISA 610, *Using the Work of Internal Auditors*

- Maintaining outreach as a high priority.
 - Addressing the following matters under the Non-Assurance Services project:
 - Considering the need to clarify the guidance in the Code pertaining to the concept of “routine and mechanical” accounting and bookkeeping services, and the need for further safeguards.³
 - Considering whether to remove the exemption in the Code with respect to the provision of accounting and bookkeeping services and preparation of tax calculations to a public interest entity audit client in emergency or other unusual situations when it is impractical for the client to make other arrangements.⁴
 - Engaging in further dialogue with the regulatory community to explain the Board’s views on the conceptual framework of “threats and safeguards” in the Code and the principles-based approach to standard setting; and developing appropriate publications to convey the Board’s views on such matters.
 - Considering at its September 2013 meeting what its long-term vision for its future strategy should be in order to guide goal setting.
10. The IESBA also asked the Planning Committee to further reflect on the merits of pursuing the following topics as part of the future SWP:
- (a) A review of the safeguards included in the Code from the perspectives of appropriateness and effectiveness.
 - (b) A review of matters relating to fees with respect to auditor independence, including fee dependency.
 - (c) The application of the “related entity” definition in the Code to collective investment vehicles and related issues.
 - (d) Further guidance regarding the “reasonable and informed third party” test.
 - (e) Consideration of the need for prohibitions on business, employment and financial relationships between auditors and their audit clients.
 - (f) An “annual improvements”-type project.
11. The Planning Committee has further considered the items noted in paragraph 9 above and, on the bases set out in the draft CP, proposes that items 9(a)-(c) be included in the next SWP.
12. Given anticipated capacity limitations over the next strategy period, the Planning Committee does not propose that items 9(d)-(f) be taken forward at this time for the following main reasons:
- 9(d): Out of the nine topics suggested as possible projects in the strategy survey, this topic only ranked 7th overall in terms of importance from respondents’ perspectives.

³ Paragraphs 290.171 and 290.173 of the Code provide examples of circumstances in which the rendering of accounting and bookkeeping services to an audit client would be considered to be of a “routine or mechanical nature.”

⁴ Section 290, *Independence – Audit and Review Engagements*, paragraphs 172, 174, and 185-186.

- 9(e): There has been little evidence of major issues arising in practice around the world. Nevertheless, the Planning Committee recommends that the Board monitor any developments in this area.
 - 9(f): The Planning Committee does not believe that an “annual-improvements”-type project should be a priority at this time given more urgent and important topics. In addition, it is likely that amendments to the IESBA’s due process would be necessary to accommodate this type of project. The Planning Committee’s recommendation is that IESBA staff keep track of any matters that may merit minor improvements to the Code for the IESBA’s consideration in future, time and resources permitting.
13. The draft CP in Agenda Item I-1 sets out the Planning Committee’s proposals for the SWP for the four-year period 2015-2018, including the context and rationale for these proposals. It also articulates proposed strategic themes to lay out a vision for the medium to longer term to guide the identification and prioritization of the Board’s activities over the strategy period.

Matters for CAG Consideration

1. Representatives are asked for views on the following:
 - (a) Are the strategic themes identified in Section II of the draft CP appropriate for the IESBA for the 2015-2018 period?
 - (b) Do the potential actions identified in Section III of the draft CP and summarized in Appendix 1 of the draft CP, as they relate to each strategic theme, represent the appropriate priorities for the IESBA during the strategy period?
 - (c) Are the relative priorities of the actions identified for the strategy period, as summarized in Appendix 1 and illustrated in Appendix 2 of the draft CP, appropriate.
 - (d) Are there any actions not identified in the draft CP that should be included in the SWP 2015-2018? If so, why, and which action already identified in the draft CP should be deferred or eliminated given anticipated capacity limitations?
2. Are there any other matters the IESBA should take into account in finalizing the CP?

Material Presented – CAG Paper

- Agenda Item I-1 Draft Consultation Paper—IESBA Strategy and Work Plan 2015-2018
- Agenda Item I-2 Report-Back – Definition of Those Charged with Governance

Material Presented – CAG Reference Paper

- IOSCO Comment <http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%206-B%20-%20IOSCO%20C1%20Comment%20Letter.pdf>
Letter to Strategy
Survey

APPENDIX

Overview of Responses to Strategy Survey and Related IESBA Considerations

1. The strategy survey closed on March 15, 2013 and 115 responses were received. In addition, in early May 2013, IOSCO submitted a comment letter with detailed suggestions in response to the survey.
2. The table below summarizes the number of responses received by stakeholder group:⁵

Stakeholder Group	# Responses	Percentage
Representative of an IFAC member body	32	28%
Professional accountants (PAs) in public practice	27	24%
Users of financial statements other than regulators and audit oversight bodies	12	10%
NSS	12	10%
Regulators and audit oversight bodies	9	8%
Academia	4	3%
Professional accountants in business (PAIBs)	4	3%
PAs in government	2	2%
Other	14	12%
TOTAL	116	100%

OVERALL THEMES

General Comments from Monitoring Group Member IOSCO

3. In its comment letter to the strategy survey, IOSCO expressed the view that the IESBA should continue to focus on improving the Code. IOSCO stated in particular its view that there are opportunities for further improvements to the auditor independence requirements in the Code, especially with respect to audits of public interest entities (PIEs).
4. IOSCO also expressed a general concern that the Code may adopt a lowest common denominator approach that is not appropriate for PIE audits. It felt that the Code seems to reflect a number of compromises to address perceived practical issues in some, particularly smaller, jurisdictions. It suggested that the Code should have regard to potentially higher thresholds set by users of financial reports and users of accounting/audit services in the more developed capital markets.

⁵ For a detailed listing of respondents' countries, see Appendix A to Agenda Item 6-A of the June 2013 IESBA meeting: <http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%206-A%20-%20Strategy%20-%20Summary%20of%20Survey%20Responses%20and%20PC%20Recommendations.pdf>

Themes from Other Responses

5. A number of general themes arose from other responses to the survey. Some of these themes appear of a recurring nature or support pre-existing IESBA priorities. These themes include:
 - Significant support for a reconsideration of the structure of the Code to facilitate enforcement and adoption and implementation.
 - A greater focus on providing support for implementation and learning, particularly to address the needs with respect to small- and medium-sized practices (SMPs) and small- and medium-sized entities (SMEs).
 - The need to maintain a stable platform for a period of time to allow the 2009 Code, which became effective on January 1, 2011, to bed down.
 - Support for expanded outreach to raise awareness of the Code and the robustness of its provisions.
 - Support for a review of Part C of the Code to address ethical issues faced by PAIBs.
6. No respondents to the survey indicated any significant concerns regarding the prioritization of the projects or initiatives on the Board's current agenda.
7. Generally, there were no particular suggestions from the other respondents for specific projects or initiatives that achieved any significant degree of agreement among the respondents.

SUGGESTIONS FOR POSSIBLE FUTURE PROJECTS

8. Respondents to the survey were first asked for suggestions as to specific projects or initiatives, other than those listed in the survey, that they believe would be important for the IESBA to address in the next SWP.

IOSCO Suggestions

9. IOSCO had a number of suggestions for possible future projects. Two of these suggestions concern projects that are already under way, as follows:

- *Long association*

Noting that paragraphs 290.151 to 290.155 of the Code permit the key audit partner to play a significant role in the audit of a PIE for up to 7 years, IOSCO suggested that the IESBA review this period given the shorter regulatory requirement of 5 years in many jurisdictions.

In relation to paragraph 290.154 of the Code, which permits a key audit partner who has already served for six or more years when the audit client first becomes a PIE to continue to serve in that capacity for an additional two years, IOSCO suggested that the maximum period should not be extended when an entity first becomes a PIE. IOSCO expressed the view that the focus should be on the current status of the entity and the total length of the relationship.

IOSCO also suggested that there should be maximum terms for other senior members of the audit team and for entities controlled by PIEs.

In relation to the topic of audit firm rotation, IOSCO suggested that the IESBA monitor developments in the EU and the U.S.

- *Non-assurance services (NAS)*
 IOSCO suggested that the IESBA review the types of NAS that an auditor may provide to PIEs to reconsider whether the auditor’s performance of such NAS has an inappropriate influence on the auditor’s objectivity and independence in conducting the audit of the entity.
10. The IESBA agreed that except for the matter of audit firm rotation, these specific comments should be considered by the Task Forces for these two projects. With respect to audit firm rotation, the IESBA has already been monitoring relevant developments in the EU and the US, and it plans to continue to do so through its Emerging Issues and Outreach initiative going forward.
 11. A third IOSCO suggestion relates to the topic of breaches of the provisions of the Code. Specifically, IOSCO suggested that the IESBA consider further opportunities to improve the Code with respect to breaches, including:
 - Clearly defining what the term “significant” means in relation to a breach, including what benchmark is to be used to measure the significance of a breach.
 - When it is appropriate for an auditor to take action to address the consequences of a breach of the independence requirements rather than resign.
 - Working with the IAASB on public reporting of an auditor’s compliance with the Code through the audit report, including reporting of breaches.
 12. In relation to this third suggestion, the IESBA agreed not to undertake further work in this area until it has been able to assess the implementation of the new Breaches standard in the next few years. With respect to public reporting of an auditor’s compliance with the Code through the audit report, the IESBA has been providing input to the IAASB on the IAASB’s Auditor Reporting project, as noted in the report-back above. The IESBA noted, however, that the content of the auditor’s report is a matter for the IAASB to determine.
 13. IOSCO’s two other suggestions for specific projects or initiatives, and the IESBA’s considerations thereon, are set out below:

IOSCO Suggestion	IESBA Considerations
<p>(a) <u>Safeguards</u></p> <p>IOSCO believes many safeguards in the Code addressing independence are inappropriate or ineffective. It commented that some safeguards merely duplicate existing requirements imposed by the quality control and auditing standards or the existing best practice for situations that do not involve a threat to independence. IOSCO suggested that in these cases, the Code should specify additional safeguards or remove inappropriate safeguards and specify that the situation is not acceptable.</p> <p>IOSCO quoted paragraph 290.107 in the Code, which permits an audit firm retirement plan to hold a direct or indirect financial interest in an audit client provided safeguards are in place to reduce any threats identified to an acceptable level.</p>	<p>The IESBA noted that the question raised relates more to the nature of safeguards than the threats and safeguards approach to independence in the Code. The IESBA also noted that the specific matter of safeguards may already be covered as part of the considerations in the Long Association and NAS projects.</p> <p>Nevertheless, the IESBA asked the Planning Committee to consider the matter further.</p>

IOSCO Suggestion	IESBA Considerations
<p>IOSCO noted that it did not believe that there can be any safeguards to mitigate the threat to independence in this situation.</p>	
<p>(b) <u>Definition of a PIE</u>⁶</p> <p>IOSCO noted that some countries have accepted the minimum definition in the Code without amendment. It also noted that the Code presumes that regulators can set a definition but that many regulators do not have the power to set requirements.</p> <p>IOSCO therefore suggested that the Board consider aligning the term “public interest entity” with the term “public accountability” in the International Financial Reporting Standards (IFRS). IOSCO commented that public accountability concerns entities filing financial reports with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market, or holding assets in a fiduciary capacity for a broad group of outsiders.</p> <p>IOSCO added that consistency in the approaches between the proposed Code and the accounting standards will be simpler and may reduce any possible confusion amongst auditors and audit clients in jurisdictions that use IFRS.</p>	<p>The IESBA noted that it had considered the option of aligning the definition of a PIE with the concept of public accountability in IFRS when it was developing the revised definition as part of the Independence I project. The IESBA had settled on the current scope for the revised definition in recognition of the diversity of circumstances around the world, and hence the need for jurisdictions to have the flexibility to define PIEs as they see relevant and appropriate in their national contexts.</p> <p>The IESBA also noted that the current definition accommodates the differences in circumstances internationally, and there is a risk that a more precise definition will not be appropriate for all jurisdictions given differences in nature and size of entities and in the organization of the national markets.</p>

Specific Suggestions from Auditor Oversight Bodies

14. Suggestions received from a few auditor oversight bodies, and the IESBA's considerations thereon, are as follows:

Suggestions from Auditor Oversight Bodies	IESBA Considerations
<p>(a) In coordination with the IAASB, develop a standard addressing the ethical dimensions of remediation of a deficient</p>	<p>The IESBA noted that this is a matter the IAASB should first consider as the matter is first and foremost an auditing one. Accordingly, the IESBA did not support</p>

⁶ The Code defines a PIE as:

- (a) A listed entity; and
- (b) An entity:
 - (i) Defined by regulation or legislation as a public interest entity; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Suggestions from Auditor Oversight Bodies	IESBA Considerations
audit report.	prioritizing this topic until the IAASB has determined to address it.
<p>(b) Initiate a work stream to address the enforceability of the Code, which could include a reassessment of the benefits and drawbacks of the “threats and safeguards” approach to independence in the Code.</p> <p>(Note: In relation to the matter of enforceability, IOSCO noted its concern regarding securities regulators’ inability to enforce the Code due to, among other matters, the lack of precision of various requirements throughout the Code and the flexibility for auditors to exercise significant judgment in complying with the requirements. IOSCO suggested that the IESBA should review the requirements within the Code to enhance the Code’s enforceability by securities regulators.)</p>	<p>The IESBA noted that the Structure of the Code Working Group is currently exploring ways to enhance the visibility of the requirements and prohibitions in the Code, and whether further clarity may be warranted with respect to who within a firm should have responsibility for complying with the requirements. The IESBA agreed that any improvements to the Code in those respects may facilitate compliance and enforcement.</p> <p>The IESBA firmly believes in a principles-based Code, including the “threats and safeguards” approach to independence in the Code, because the Code cannot cater for every possible eventuality. Importantly, a principles-based approach is intended to stimulate PAs to think about what their ethical conduct should appropriately be in their particular circumstances.</p> <p>The IESBA nevertheless agreed to engage further in dialogue with regulators and auditor oversight bodies to explain its views on the topic. The IESBA also agreed to develop appropriate publications to convey its views on this topic.</p>
<p>(c) Consider the need for ethical requirements for joint auditors, including in connection with European audit reform.</p>	<p>The IESBA noted that it is not aware of evidence of difficulty in applying the principles in the Code in the context of joint audits. These audits are mandated in only a limited number of jurisdictions around the world and until such time as they become commonplace, the IESBA believes that any specific ethical issues that may arise with respect to those audits should best be addressed at the national level. The IESBA also noted that no other respondents have highlighted this area as a priority for the Board.</p>
<p>(d) Consider the need for ethical requirements vis-à-vis entities that are not audit clients themselves but are parents or subsidiaries of the audited entities.</p>	<p>The IESBA noted that further research would be needed to understand the particular ethical issues that arise in this area. The IESBA also noted that the Code already defines the concept of a “related entity” and contains guidance, including in paragraph 290.27, addressing related entities.</p> <p>In addition, no other respondents have highlighted this</p>

Suggestions from Auditor Oversight Bodies	IESBA Considerations
	as a priority item for the future SWP. The IESBA therefore determined that this item should not be prioritized at this time.

Specific Suggestions from Other Respondents

15. Other suggestions that were shared by a few other respondents, and the IESBA's considerations thereon, are as follows:

Suggestions from Other Respondents	IESBA Considerations
<p>(a) <u>Addressing the needs of SMPs</u></p> <ul style="list-style-type: none"> • Explore the top 3-5 requirements with which SMPs find compliance most difficult and considering the appropriateness of these requirements for that constituency. • Consider additional guidance for SMPs, including sole practitioners, to assist them in complying with the requirements in the Code. • Consider the relevance and proportionality of the Code for SMPs and SMEs. 	<p>The IESBA noted that the Structure of the Code Working Group is currently exploring ways to enhance the usability, accessibility and understandability of the Code. This initiative has to a significant extent been influenced by the concerns expressed by the SMP/SME constituency. The IESBA believes that any improvements to the Code in that regard will likely be of benefit to that constituency.</p> <p>The IESBA also noted that its SME/SMP Working Group has identified a number of action items arising from the Working Group's October 2011 report. These action items are aimed at addressing issues SMEs and SMPs face in implementing the Code. These items are currently being addressed.</p>
<p>(b) <u>Collective investment vehicles</u></p> <p>Consider a project to address the application of the related entity definition in the case of investment vehicles⁷ (such as mutual funds) when a firm audits the vehicles, the sponsor/advisor of the vehicles, or both. It was noted that this issue had been raised with the Board in the previous strategy consultation. The respondents expressed the view that the issue is important and in the public interest because of the significant amount of money invested in these vehicles.</p>	<p>The IESBA noted that this topic was included in the proposed SWP for 2010-2012 that was issued for exposure. The IESBA subsequently determined not to include it in the final strategy for 2011-2012 based on the responses to the exposure draft. Several respondents had expressed concern about prioritizing such a project given that the way such vehicles are structured differs significantly among jurisdictions and, therefore, a global standard would be difficult to develop and complex to apply. Some respondents also had felt that the topic is too specialized for a global code. The Board at the time had therefore felt that any guidance on this topic would likely need to be high level</p>

⁷ The definition of a related entity in the Code is based on control and significant influence. This construct does not work well with collective investment vehicles such as mutual funds. For example, while the fund manager may determine the types of instrument in which the collective vehicle invests, the manager does not "control" the vehicle in the same way that a majority owner of a corporation controls that corporation.

Suggestions from Other Respondents	IESBA Considerations
	<p>in nature.</p> <p>However, given the increasing footprint of these vehicles globally, the IESBA asked the Planning Committee to consider the topic further.</p>

RELATIVE PRIORITIES OF ITEMS IDENTIFIED IN THE SURVEY

16. The following table summarizes respondents' relative prioritization of the various possible projects or initiatives identified in the survey:

#	Project or Initiative	Respondents Ranking as Important or Very Important	Excluding PAs in Public Practice
1.	Structure of the Code	76%	75%
2.	Ethical guidance for PAs in public practice providing NAS ⁸	74%	81%
3.	Guidance on the meaning of public interest	74%	75%
4.	Considering linkage between ISAs and the code ⁹	73%	71%
5.	Guidance on preparing accounting records and financial statements for an audit client ¹⁰	63%	59%
6.	Implications of disclosure of compliance with ethical requirements in auditors' reports ¹¹	59%	59%
7.	Guidance on reasonable and informed third-party test	58%	62%
8.	Guidance on objectivity when independence is	54%	52%

⁸ Part B of the Code addresses all professional services provided by PAs in public practice. The project would address additional ethical guidance for PAs in public practice who provide non-assurance services such as financial advisory services, taxation services, and actuarial advisory services.

⁹ This initiative would consider the linkage between ISAs and the Code with respect to whether a statement of compliance with the ISAs can be made by auditors in their reports without the auditors having also complied with relevant ethical requirements (including those pertaining to independence) that are not less stringent than those stated in the Code; and, if so, whether this linkage should be better clarified.

¹⁰ Paragraphs 290.171 and 290.173 of the Code provide examples of circumstances in which the rendering of accounting and bookkeeping services to an audit client would be considered to be of a "routine or mechanical nature." This project would consider whether the Code should provide further guidance regarding the provision of these services, including how to determine whether the services are routine and mechanical in nature, the extent to which client management needs to understand the accounting entries and classifications, and related safeguards to address any self-review threat.

¹¹ In its June 2012 [Invitation to Comment](#) on its project on improving the auditor's report, the IAASB has suggested that auditors include in their reports a statement of compliance with relevant ethical requirements applicable to financial statement audits, including independence requirements. Given differences in independence requirements across jurisdictions, this initiative would consider the implications of including such a statement in the standard auditor's report.

#	Project or Initiative	Respondents Ranking as Important or Very Important	Excluding PAs in Public Practice
	not required ¹²		
9.	Independence requirements for PAs not in public practice who perform assurance engagements ¹³	51%	52%

17. The IESBA agreed that the strong support from respondents for the Structure of the Code initiative effectively endorses its decision to add this work stream to its current SWP.
18. The IESBA agreed that the topic of guidance on preparing accounting records and financial statements for an audit client should be addressed under the NAS project.
19. In response to comments at its June 2013 meeting, the IESBA asked the Planning Committee to further reflect on the topic of guidance on the reasonable and informed third-party test.
20. The IESBA agreed not to prioritize the other items above given the need to be selective in the light of respondents' suggestions for other possible topics to include in the next SWP.

OTHER MATTERS

Comments from IOSCO

21. IOSCO provided a number of detailed suggestions for other matters the IESBA should consider. These matters, together with the IESBA's considerations thereon, are as follows:

IOSCO Suggestion	IESBA Considerations
<p>(a) <u>Fee dependence</u></p> <p>IOSCO expressed the view that the safeguards for fee dependency do not appear to be commensurate with the potential threats to independence that the Code seeks to prevent. IOSCO suggested that the Code should:</p> <ul style="list-style-type: none"> • Outline circumstances where the auditor is required to decline an engagement as a safeguard to eliminate any self-interest or intimidation threat that may arise from significant fee dependency. • Require an external review from the outset, not just in the second or subsequent year audits. IOSCO noted 	<p>The IESBA acknowledged that fees can have a significant impact on auditor behavior. In addition, it noted that the issue of undue fee pressure has been raised by a number of stakeholders, including regulators and audit oversight bodies, given the potential effect of such pressure on auditor behavior and audit quality.</p> <p>The IESBA therefore asked the Planning Committee to reflect on whether to prioritize this topic for the</p>

¹² Some European audit regulators have raised a question as to the meaning of objectivity when independence is not required, particularly in the context of external auditors' use of internal auditors to provide direct assistance on the external audit. The issue has also arisen in the context of compilation engagements. This project would consider whether the Code should provide guidance regarding the application of the fundamental principle of objectivity when independence is not required.

¹³ Sections 290 and 291 of the Code address independence requirements for assurance engagements. The sections apply to PAs in public practice. The project would consider whether guidance is needed on how the independence requirements in Sections 290 and 291 of the Code should apply to PAs not in public practice who perform assurance engagements, for example, accountants in government and internal auditors.

IOSCO Suggestion	IESBA Considerations
<p>that the requirement for an engagement quality control review to be performed on a listed engagement prior to the issuance of the auditor's report is an existing requirement of the auditing standards and does not provide any additional safeguard against fee dependency with respect to PIEs.</p> <ul style="list-style-type: none"> • Require pre-issuance reviews in all instances as post-issuance reviews are a detective measure rather than a preventative measure. • Include quantitative guidance as to the level of acceptable fees for non-PIEs. <p>IOSCO also noted that the level of NAS provided to audit clients may threaten independence but that this is not considered in the Code. Accordingly, it suggested that the Code should include guidance in relation to when the quantum of NAS may threaten independence.</p>	<p>next SWP.</p>
<p>(b) <u>Emergency situations and other exemptions</u></p> <p>IOSCO suggested that the Board consider removing the exemption for providing accounting and bookkeeping services and preparation of tax calculations in emergency or other unusual situations when it is impractical for the audit client to make other arrangements. This exemption is included in paragraphs 172, 174, and 185-186 of Section 290 of the Code.</p> <p>Noting its significant concerns regarding this exemption, IOSCO expressed the view that the exemption creates a self-review threat and undermines the purpose of an independent audit. It felt that the exemption is unnecessary because there are relatively large numbers of qualified accountants in most jurisdictions who could be engaged to provide those services other than the auditor.</p> <p>IOSCO also suggested that the Code should be reviewed in detail for other inappropriate and unnecessary exemptions.</p>	<p>The IESBA agreed that this suggestion should be considered as part of the NAS project.</p>
<p>(c) <u>Business, employment and financial relationships</u></p> <p>IOSCO suggested that the Board consider:</p> <ul style="list-style-type: none"> • The need for prohibitions on business, employment and financial relationships between auditors and their audit clients. • Whether there should be an extension to the 12-month 	<p>The IESBA noted that the Code cannot prohibit a former partner of a firm from joining an audit client but only require the firm to withdraw from the audit engagement in the relevant circumstances.</p> <p>The IESBA noted that this is a topic that</p>

IOSCO Suggestion	IESBA Considerations
<p>cooling off period for retiring audit partners who join an audit client that is a PIE to 2 years (paragraphs 290.139 and 290.140 of the Code).</p> <ul style="list-style-type: none"> Requiring a 5-year cooling off period before a former partner of the firm can become an officer or director of an audit client, when another former partner of the firm at the time when the firm audited the client is an officer or director of the client. 	<p>would lend itself well to benchmarking relative to what the specific jurisdictional requirements are around the world. The IESBA asked the Planning Committee to reflect further on whether this suggestion should be prioritized for the next SWP.</p>
<p>(d) <u>Internal audit services – direct assistance</u></p> <p>In relation to the matter of using internal auditors to provide direct assistance on an external audit, IOSCO suggested that the Board further consider how auditors use internal auditors as part of the external audit work. IOSCO commented that, notwithstanding an external auditor’s review of internal auditors’ work and other safeguards, some of its members believe that internal auditors should not be part of the external audit process as they are employees of the entity.</p>	<p>The IESBA noted that it had fully debated in 2012 the change in the definition to establish that internal auditors are not to be considered part of the audit team for those jurisdictions that do not prohibit direct assistance. With respect to the suggestion that it consider how external auditors use internal auditors as part of the external audit work, the IESBA does not believe that this would be within its remit.</p>
<p>(e) <u>Internal audit services – other matters</u></p> <p>IOSCO also suggested that the Board:</p> <ul style="list-style-type: none"> Amend the Code to prohibit the auditor from providing internal audit services where there is any self-review threat, not only where management functions are assumed. Consider prohibiting internal audit services despite the provisions in paragraph 290.198, given the remaining self-review threat and the perception of a lack of independence. More clearly define what constitutes “internal audit” and clarify the distinction from similar other services (paragraph 290.195 of the Code). IOSCO suggested that equivalent services not labeled as internal audit services should be treated in an equivalent manner in the Code. 	<p>The IESBA agreed that this suggestion be considered as part of the NAS project.</p>
<p>(f) <u>Materiality</u></p> <p>IOSCO suggested that the Code provide guidance on how to evaluate materiality with respect to material contraventions. It also suggested that the Code prohibit the following</p>	<p>The IESBA noted that it has chosen not to define materiality in the Code to allow for the exercise of appropriate professional judgment. It also noted that</p>

IOSCO Suggestion	IESBA Considerations
<p>arrangements irrespective of materiality and significance:</p> <ul style="list-style-type: none"> • A firm, a member of the audit team or a member of that individual's immediate family may make or guarantee a loan to an audit client, provided the loan or guarantee is immaterial to the firm or individual and the client (paragraph 290.122). • A firm, or a member of the audit team, or a member of that individual's immediate family may enter into certain business relationships with the audit client or its management and hold a financial interest arising from such relationships provided the financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management (paragraphs 290.124 and 290.125). 	<p>the ISAs themselves have not defined materiality but provided some guidance that describes the concept in general terms.</p> <p>With respect to the two other specific matters highlighted by IOSCO, the IESBA noted that these may not warrant a separate project on their own as they appear to be of limited scope. Nevertheless, the IESBA asked the Planning Committee to reflect on whether these matters may warrant inclusion in an "annual improvements"-type project.¹⁴</p>
<p>(g) <u>Documentation</u></p> <p>IOSCO suggested that the Board consider making the documentation requirements in paragraph 290.29 of the Code applicable to any threats to independence requiring analysis, not only those requiring significant analysis.</p> <p>It also suggested that there should be consistency between the general documentation requirement in paragraph 290.29 and the specific documentation requirements in other paragraphs of the Code. As an example, IOSCO highlighted paragraph 290.38 as only requiring documentation of certain interests and/or relationships which have not been successfully terminated by the effective date of the merger or acquisition for situations described in paragraphs 290.34 to 290.36.</p>	<p>Given the limited-scope nature of this suggestion, the IESBA asked the Planning Committee to reflect on whether it might be addressed in the context of an "annual improvements"-type project.</p>

¹⁴ The IESBA's due process and working procedures do not currently provide for the IESBA to undertake annual improvements to the Code along the lines of the International Accounting Standards Board's process for annual improvements to the IFRS.