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Overview of Revised and Restructured IESBA Code

Prepared by IESBA Staff
June 2018

Purpose and Disclaimers

This set of PowerPoint slides has been developed by IESBA Staff to assist national standard setters (NSS), regulators and audit oversight bodies, firms, IFAC member bodies, educators and others as they adopt and implement, educate and train, and enforce the revised and restructured [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#), which the IESBA issued in April 2018.

These slides provide only an *overview* of the new Code and do not purport to present all the detailed changes. The slides should be read in conjunction with the new Code, the text of which alone is authoritative. The slides do not form part of the Code.

The IESBA does not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

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Agenda

- About the New Code
 - Overview, What is Included, and Architecture
 - Overarching Requirements Relating to Fundamental Principles and Independence
 - The Enhanced Conceptual Framework
- Using the New Code
- Other Substantive Revisions
- Effective Date
- Awareness, Adoption and Implementation
- Additional Tools and Resources

About the New Code

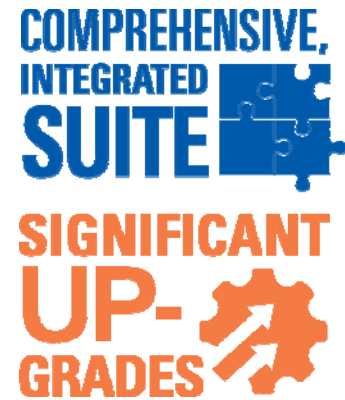
- New design – easier to navigate, use and enforce
 - Completely rewritten
 - Req'ts clearly distinguished from application material
 - New user guide and updated glossary
- Increased focus on compliance with the fundamental principles (FPs) and independence as overarching req'ts
- Enhanced conceptual framework (CF)
 - Clearer and more robust safeguards
 - More tightly integrated into relevant sections of the Code



About the New Code

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
 - Strengthened Long Association provisions
 - Strengthened provisions re preparing or presenting information
 - New provisions addressing pressure to breach FPs
 - NOCLAR
 - Applicability of relevant PAIB provisions to PAPPs clarified
 - Strengthened provisions regarding inducements
 - New guidance re professional judgment and professional skepticism



About the New Code

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)

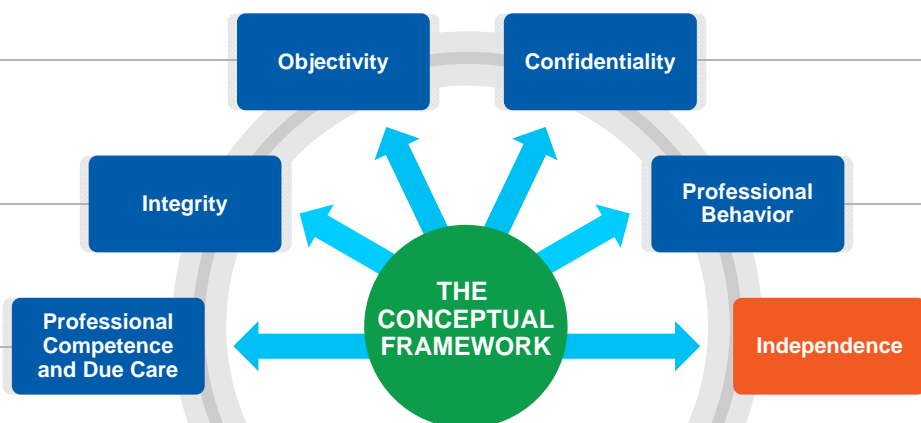
Part 4B—Independence for Assurance Engagements Other than Audit & Review Engagements

(Sections 900 to 999)

GLOSSARY | *(All Professional Accountants)*

About the New Code

Overarching Requirements



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About the New Code

Categories of Threats

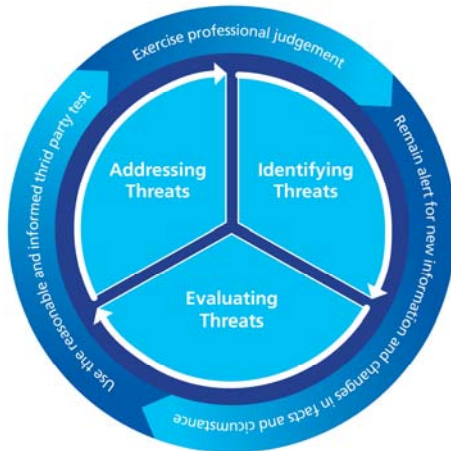


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About the New Code

The Enhanced Conceptual Framework



- What is it?
 - Dedicated provisions that apply to all PAs, in all circumstances, when dealing with ethics and independence issues
- Why have a conceptual framework?
 - Because establishing an exhaustive list of facts and circumstances that might trigger ethics and independence issues is impracticable

About the New Code

Using the New Code

- Material in Code is integrated, minimal repetition
- Users of Code required to understand and apply:
 - All provisions in Part 1 which deal with FPs and CF
 - Other relevant provisions in subsequent Parts and Sections of the Code (e.g. Parts 1 and 2 apply to PAIBs)
- New headings emphasize scalability
 - Applicable in all circumstances titled either:
 - “General”
 - “All Audit Clients” (i.e., PIEs and non-PIEs) in Section 600
 - “Audit Clients that are not PIEs”
 - “Audit Clients that are PIEs”



About the New Code

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
- Safeguards, RITP and other key concepts clarified
 - Safeguards now more to identified threats
- Emphasis that if threats cannot be addressed, PA must decline or end the specific professional activity
- New req't to “step back” in forming overall conclusion



Other Substantive Revisions – PAIBs

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



Other Substantive Revisions – PAIBs

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
- Practical examples to illustrate different situations in which pressure might arise



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Other Substantive Revisions – PAIBs and PAPPs

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)



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Other Substantive Revisions – Independence

Long Association

- Strengthened general provisions addressing long association
- A strengthened partner rotation regime for PIE audits, including:

Extant	Revised
7-year time-on: all KAPs	No change
2-year cooling-off: all KAPs	5-year cooling-off: EP
	3-year cooling-off: EQCR
	2-year cooling-off: all other KAPs

Other Substantive Revisions – Long Association

Restrictions on Activities During Cooling-off

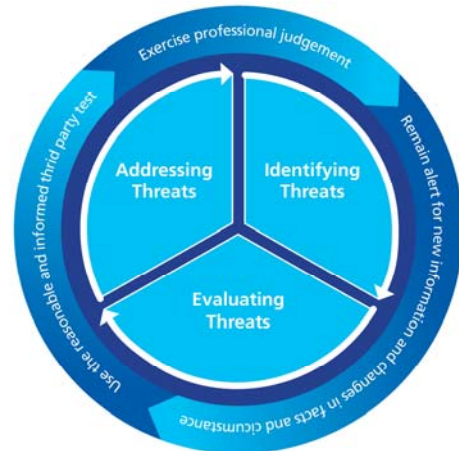
- Continuing prohibition on consulting with engagement team or client re technical or industry-specific issues, transactions or events
- But new restrictions:
 - Acting as “client relationship” partner
 - Undertaking any other role or activity (including providing NAS) that would result in individual having significant or frequent interaction with senior management or TCWG, or directly influencing outcome of audit



Other Substantive Revisions – Independence

Non-assurance Services (NAS)

- New and improved guidance to assist in proper application of CF
 - New factors for evaluating threats
 - Enhanced guidance on addressing threats, including revised safeguards provisions
- Prohibition on assuming management responsibilities now more prominent
- Existing prohibitions on provision of certain types of NAS in certain circumstances retained
 - But new prohibition re recruiting services



Other Substantive Revisions (NAS)

Recruiting Services

- Enhanced general description of recruiting services
- Clearer guidance re types of recruiting services prohibited
- New provisions to help avoid assuming management responsibilities when providing recruiting services
 - Similar to IT and internal audit
- Prohibition on providing certain recruiting services now applies to all entities
 - Searching for or seeking out candidates
 - Undertaking reference checks of prospective candidates



Other Substantive Revisions

Applicability of PAIB Provisions to PAPPs

- New requirement and 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:
 - Whether as contractors, employees or owners of the firm
- Illustrations of situations in which provisions in Part 2 apply to a PAPP



Other Substantive Revisions

Professional Judgment and Professional Skepticism

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



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



Awareness, Adoption and Implementation

- IESBA rollout strategy: Prepare, Engage, Activate
 - Social media, e.g., Twitter, Linked-in
 - In-person presentations and other targeted outreach
 - Webcasts and webinars
 - Articles
- Important for others to embrace improvements and support adoption and implementation of new Code
 - NSS, regulators and audit oversight bodies, IFAC member bodies, firms, educators, etc



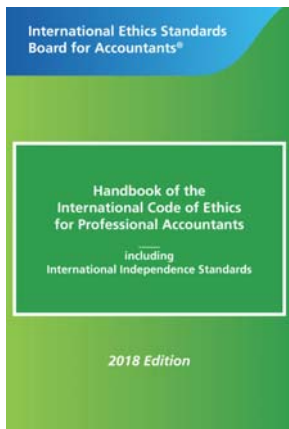
Resources and Tools

- Now Available
 - Flyer
 - Basis for Conclusions
 - Webinars
 - Videos
- More to Come
 - At-a-Glance
 - Fact Sheet
 - Staff Q&As



www.ethicsboard.org/restructured-code

Coming Soon!



- Handbook
 - Expected by September 2018
- E-Code
 - Easy to access and navigate
 - Improved functionality and overall user experience
 - Phase 1 by Q4 2019





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The Ethics Board

www.ethicsboard.org

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