

To: IAESB
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International Ethics Standards Board for Accountants (IESBA) – 2016Q2 Progress Report

Responding to Non-Compliance with Laws and Regulations

The IESBA considered plans for a number of initiatives to roll out its new NOCLAR pronouncement and to provide related implementation support. The IESBA agreed to commission IESBA staff to undertake the initiatives.

At its September 2016 meeting, the IESBA will consider draft IESBA Staff Q&As with a view to facilitating effective implementation of the pronouncement. At that meeting, the IESBA will also consider a draft of the restructured text of the pronouncement prepared using the new Structure format for the Code.

Structure of the Code

The IESBA considered significant comments received on its December 2015 Exposure Draft, [*Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*](#) (ED 1), and related Task Force proposals. The IESBA broadly supported the direction of the Task Force's proposals on the significant matters raised on exposure. Topics discussed included: increasing the prominence of the fundamental principles and the independence requirements; clarifying the linkage between independence and the fundamental principles; the application of the conceptual framework to independence; the interaction between specific requirements and application material and the requirement to comply with the fundamental principles; the positioning and drafting of exceptions; and reconsideration of the titles of the parts of the Code within the new structure.

The IESBA will consider a revised draft of the ED 1 provisions, together with a revised draft of its proposed ED 2, at its September 2016 meeting. The IESBA agreed to work towards reaching agreement-in-principle on Phase 1 at its December 2016 meeting and approval of ED 2 at that meeting. The meeting material will include a hyperlink to a separate document that will contain the complete proposed restructured Code for respondents' reference.

Review of Safeguards in the Code

Phase 1

The IESBA considered significant comments received on its December 2015 Exposure Draft, [*Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*](#) (Safeguards ED-1), and related Task Force proposals. The IESBA broadly supported the direction of the Task Force's proposed revisions to Safeguards ED-1 in the light of the feedback from respondents. Topics on which the IESBA provided input for purposes of refining the revised text of Safeguards ED-1 included: the description of the conceptual framework, in particular, the requirements for professional accountants to re-evaluate new information or changes in facts and circumstances, and to form overall conclusions about whether threats are addressed; the description of the reasonable and informed third party test; and how best to emphasize in the Code that there are situations when there can be no safeguards to eliminate threats

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or reduce them to an acceptable level.

At its September 2016 meeting, the IESBA will consider a revised draft of Safeguards ED-1 with a view to closing off significant deliberations on key issues. The IESBA will also consider at that meeting safeguards-related conforming amendments to other areas of the Code, including Part C, Long Association, and NOCLAR.

Phase 2

The IESBA considered a first-read draft of revisions to proposed Section 600, *Provisions of Non-assurance Services to an Audit Client*. Topics discussed included: the positioning of prohibitions regarding the provision of certain types of non-assurance service (NAS) to an audit client in the Code; the identification, evaluation and addressing of threats created from providing a NAS to an audit client; the approach to explaining the concept of materiality in considering independence with respect to the provision of NAS; and examples of safeguards relating to the provision of NAS.

At its September 2016 meeting, the IESBA will consider a revised draft of proposed changes to the Code pertaining to NAS.

Long Association of Personnel with an Audit Client

The IESBA considered significant comments received on its February 2016 Exposure Draft, [Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client](#), and related Task Force proposals. The IESBA supported the Task Force's proposals regarding the three remaining issues that were subject to exposure, namely the duration of the cooling-off period for the engagement quality control reviewer (EQCR) on the audit of a public interest entity (PIE); whether to allow a reduction in the cooling-off period for engagement partners (EPs) and EQCRs on PIE audits where jurisdictions have established alternative requirements to address threats created by long association; and how long an individual should cool off from a PIE audit after having served in a combination of EP, EQCR or other key audit partner roles.

The IESBA will consider a revised draft of the provisions with a view to finalizing them under the extant structure and drafting conventions of the Code at its September 2016 meeting. The IESBA will also consider at that meeting a draft of the restructured text of the proposed final provisions, prepared in accordance with the new Structure format for the Code.

Review of Part C of the Code – Phase 1

The IESBA considered a second read of the restructured text of the [Part C Phase 1 close-off document](#) and the explanatory paragraph clarifying how Part C applies to professional accountants in public practice. The IESBA supported the direction of the revised proposals and provided structural and drafting feedback, including placement of the explanatory paragraph within the Code, for the Task Force's consideration.

The IESBA also considered issues relating to the revision of Section 350, *Inducements*. Among other matters, the IESBA discussed the scope of the revised section, types of inducements, the application of a "motivation test" when considering the appropriateness of an inducement, the implications of cultural differences, and evaluating and addressing threats to compliance with the fundamental principles created by inducements.

At its September 2016 meeting, the IESBA will further discuss issues relating to Section 350. It will also

consider at that meeting a revised draft of the restructured text of the Part C Phase 1 close-off document and the explanatory paragraph relating to the applicability of Part C to professional accountants in public practice.

Professional Skepticism

The IESBA received an update on the work of the joint IAASB-IAESB-IESBA Professional Skepticism Working Group. The IESBA was also briefed on the main feedback from outreach on the IAASB's Invitation to Comment, [Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits](#). The IESBA then discussed preliminary conceptual matters relating to professional skepticism, including the approach to be taken regarding the meaning of professional skepticism and its application in the Code and in the standards of the IAASB and the IAESB; and whether and how the concept of professional skepticism should be addressed in the proposed restructured Code.

At its September 2016 meeting, the IESBA will receive a further update on the work of the joint Working Group and continue its discussion of how the concept of professional skepticism can be enhanced in the Code.