Agenda Item 10-A

Status of National Standard Setters' (NSS) Plans to Adopt Revised and Restructured Code[1]

(Note: Information about the current status of adoption of, or convergence with, the extant Code is also provided, particularly where plans to adopt the new Code have not yet been determined or finalized.)

AUSTRALIA (APESB)

Status of Incorporation of IESBA extant Code amendments into APES 110 *Code of Ethics for Professional Accountants* (APES 110)

To date, APESB has undertaken the following to align APES 110 with the extant international provisions:

- Issued an amending standard in respect of NOCLAR and Non-Assurance Services to Audit and Assurance clients (NAS) in extant format in May 2017 with an effective date of 1 January 2018.
  - NAS amending standard did not result in any significant changes to extant APES 110 NAS provisions.
  - See notes in item 3 below for more details on adoption of NOCLAR standard.
  - New Compiled APES 110 incorporating the NOCLAR and NAS amending standards was released in September 2017.
- Issued an amending standard on revised Long Association provisions in extant format in April 2018.
  - Effective for audits of financial statements for periods beginning on or after 1 January 2019 and for assurance engagements as of 1 January 2019. Early adoption is permitted.
  - Long Association amending standard is consistent with the provisions in the IESBA Long Association Close-off Document.
  - *The Audit Partner rotation requirements in Australia - Technical Staff Questions & Answers*, APESB Technical Staff guide to revised partner rotation requirements, was issued in December 2017.

The format of APES 110 is largely consistent with that of the IESBA Code – approximately 98% compliant. Notable differences include:

- Where a Member is requested to replace an existing auditor, the member must get the client's permission and communicate with the existing auditor;
- Stronger requirements regarding referral fees and commissions;

[1] Source: Participants in the IESBA-NSS liaison group

- The definition of Engagement Team in APES 110 does not exclude individuals within the client's internal audit function who provide direct assistance on an Audit Engagement;
- More flexibility for a Member in Business when reporting on financial statements as they may not be in the position to ultimately approve the financial statements; and
- APESB drafting conventions (e.g. Use of 'Member' instead of 'Professional Accountant', capitalisation of defined terms) – these are not substantive.

Status of Plans to incorporate the IESBA Restructured Code amendments into APES 110

APESB has commenced a project to revise APES 110 to incorporate the IESBA Restructured Code amendments. APESB is expecting to issue an Exposure Draft of restructured APES 110 (excluding Inducements) in early May 2018. The comment period will close 31 July 2018.

The exposure of the restructured Inducements provisions is planned for mid to late 2018 (dependent on release of the IESBA's restructured Inducements provisions).

At this stage APESB plans to issue the complete restructured APES 110 (including Inducements) in the late 2018 or early 2019 with an effective date of 1 January 2020. The restructured APES 110 will be largely consistent with the IESBA Code. Differences are primarily intended to comply with Australian legal or regulatory requirements. The key differences are:

- Requirements being set in a bold font, consistent with APESB's other Standards;
- The abbreviation of Non-Compliance with Laws and Regulations is NOCLAR rather than the term 'non-compliance' used in the IESBA restructured Code;
- Australian requirements (as noted above) will be retained except for the provision relating to when a Member replaces an existing auditor as it is now addressed in IESBA's restructured Code; and
- The *Guide to the Code* has been updated to include a section on APESB pronouncements.

CANADA (CPA CANADA PUBLIC TRUST COMMITTEE)

The Canadian provincial CPA bodies maintain codes of conduct that are largely harmonized and reflective of any jurisdictional differences. The provincial rules of professional conduct have been developed to be as stringent as the IESBA requirements unless there is a legal, regulatory, public interest or protection of the public reason not to do so. Consequently, the Canadian CPA profession is intensely interested in developments affecting the IESBA Code and it significantly invests in Exposure Draft consultation and responses to provide input. Currently, consultation is underway to consider the adoption of the IESBA independence requirements and the consideration of adopting a more-principles based code for the profession, such as the IESBA Code, is also on-going.

GERMANY (WPK)

Comparison between CoE-requirements and national regulations was conducted and finalized mainly in 2012 and 2013. A renewed assessment was conducted in 2015 in order to address the additional changes which the CoE had undergone in the meantime. The result of the aforementioned assessment was that the majority of CoE-provisions were covered by national rules.

The EU Audit Reform was implemented into German law recently, leading to various adjustments and modifications to the German Commercial Code (HGB), the Public Accountant Act (WPO) and the WPK by-laws (Professional Charter, Charter for Quality Assurance). Some of the previously existing minor differences between German law and the IESBA Code of Ethics are thereby eliminated. As a result German professional rules in combination with the EU Audit Regulation reach convergence with the IESBA Code of Ethics requirements. New IESBA releases are continually reviewed to ensure that the German ethical standards remain convergent with the IESBA Code.

HONG KONG (HKICPA)

The HKICPA Code of Ethics for Professional Accountants is based on the IESBA Code. The HKICPA Code (Parts A, B and C) has been converged with the IESBA Code since December 2005 http://www.hkicpa.org.hk/file/media/section6_standards/standards/051208e.pdf, with no substantive modifications. There is some clarification of requirements and guidance with reference to Hong Kong legislation and regulations. Part D of the HKICPA Code sets out additional ethical requirements on matters of relevance not covered by the IESBA Code, and is primarily derived from local legal or regulatory requirements. Part E of the HKICPA Code addresses specialized areas of practice – currently only liquidation and insolvency. **Part F of the HKICPA Code set out the Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants which came into effect on 1 March 2018.**

The HKICPA plans to adopt the IESBA Restructured Code.

JAPAN (Financial Services Agency of Japan, Japanese Institute of CPAs)

In Japan, the Ethical rules corresponding to the Code of Ethics of the IESBA, are defined in CPA Act and the Code of Ethics of JICPA.

JICPA has continued to revise the JICPA Code of Ethics and the Guidance to adopt the revision of IESBA Code. Provisions relating to the Ethics in Japan is more stringent (more restrictive, additional provisions) than the IESBA Code. As a result of this situation, JICPA adopts IESBA Code of Ethics.

In the process of revising the Code and guidance, JICPA explains IESBA's activities including the current status of EDs and efforts on continuing improvements to stakeholders such as Financial Service Agency, Japan Corporate Auditors Association etc., and discusses the impacts on Japan with those parties. JICPA also keeps informing the JICPA members about the activities of IESBA in the monthly journal.

JICPA is now in the process of finalizing a) the newly developed Guidance on NOCLAR (for PAPP) and the revision of b) the Code, c) the Guidance on Independence and d) the Interpretative Guidance for the Professional Ethics, to implement the revised IESBA Code which addressed 1) certain non-assurance services provisions for audit and assurance clients (revised in 2015), 2) NOCLAR (revised in 2016) and 3) Long Association (based on the close-off document released by IESBA in January 2017). JICPA plans to release the final pronouncements of above a) to d) in July 2018.

Additionally, JICPA has started to discuss the development of the Guidance on NOCLAR (for PAIB) in accordance with the IESBA Code aiming to release the final pronouncement or ED in 2019.

New Zealand Auditing and Assurance Standards Board (NzAuASB)

Work to develop a New Zealand exposure draft to adopt Part 1, 3 and 4 of the restructured Code has commenced. Discussing adoption in New Zealand context and considering:

- The need to retain existing additional New Zealand paragraphs.
- Part 2 and applicability to assurance practitioners.

The XRB has the legal mandate to issue ethical standards only for assurance practitioners. Target to issue New Zealand ED in July 2018 (and to include Inducements if available) and to issue the final standard before year end.

<u>Status of extant code: (From last year – new items underlined)</u>

Professional and Ethical Standard 1 (Revised) is substantially consistent with part A and B of the IESBA Code as it applies to assurance practitioners. The principles and requirements of PES 1 are consistent with the IFAC Code except for the following:

- The addition of a scope and application section. PES 1 (Revised) has a narrower scope and is meant to apply to all assurance practitioners appointed or engaged to perform an assurance engagement. PES 1 (Revised) refers to assurance practitioners whereas the IFAC Code refers to professional accountants. Section 230 Second Opinions has been deleted as it does not relate to assurance engagements. Part C of the IFAC Code, that applies to professional accountants in business has not been included in PES 1 (Revised).
- The addition of paragraphs and definitions prefixed as NZ in PES 1 (Revised). The additional definitions are of assurance services, assurance practitioner, FMC reporting entity considered to have a higher level of public accountability, key assurance partner, offer

document and public benefit entity. PES 1 (Revised) tailors the following IFAC defined terms in the New Zealand environment: assurance client, assurance team, audit client and public interest entity.

- NZ220.10.1 requires the assurance practitioner to disclose the nature of the conflict of interest and the related safeguards applied to eliminate the threat or reduce it to an acceptable level to all clients or potential clients affected by the conflict. It also requires the assurance practitioner to obtain the client's consent to perform the assurance services when safeguards are applied.
- NZ220.14 requires an assurance practitioner to disengage from the relevant assurance engagement if adequate disclosure to the client of a conflict of interest is restricted as a result of confidentiality requirements.

Non-compliance with laws and regulations

- The requirements of section 225 of the IFAC Code (paragraphs 225.12 – 38) that apply only to audits of financial statements have been broadened to apply to all assurance engagements. Paragraphs from the IFAC Code dealing with professional services other than audits of financial statements (paragraphs 225.39-225.56) have not been included in PES 1 (Revised) as these are similar to and are now captured by paragraphs 225.12-38 of PES 1 (Revised).
- Paragraphs specific to other professional services that apply to other assurance engagements (for example 225.44-48 covering communicating the matter to the entity's external auditor) have been moved and amended by the NZAuASB in paragraphs NZ225.17.1-5.
- A reference to reviews has been added to paragraph NZ 225.21.1 and paragraph NZ 225.22.1 to clarify that the requirements apply when an assurance practitioner is engaged to perform an audit or review of a component's financial statements.
- Paragraph NZ225.38 has been added to described the documentation requirements included in Assurance Standards of non-audit assurance engagements

Independence requirements

- NZ2901.1 extends the scope of section 290 to cover all assurance engagements in relation to an offer document of a FMC reporting entity in respect of historical financial information, prospective or pro-forma financial information or a combination of these.
- For the purposes of PES 1 (Revised), public interest entities include any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1[2].
- NZ290.11.1 and NZ291.10.1 requires that when an assurance practitioner identifies multiple threats to independence, which individually may not be significant, the assurance practitioner shall evaluate the significance of those threats in aggregate and apply safeguards to eliminate or reduce them to an acceptable level in aggregate.

[2] XRB A1 *Application of the Accounting Standards Framework*

- NZ290.146 specifically prohibits a firm from providing audit services to an entity if the partner or employee of the firm serves as an officer or director, liquidator or receiver in respect of the property of the client or in a similar role.
- NZ290.220.1 and NZ291.151.1 emphasises that an assurance practitioner shall decline or withdraw from an engagement where the total fees from the client represent a large proportion of the total fees of the firm and safeguards have not eliminated or reduced the threats to an acceptable level.
- The IFAC Code proposes to include an abbreviated version of the requirements to address a breach of a requirement of the Code. NZ291.33-44 includes the detailed requirements proposed for section 290.
- Additional guidance on temporary staff assignments as it relates to assurance engagements that are not audit or reviews has been added. (NZ291.131.1).
- In addition, the following more stringent requirements for assurance clients, that are not audit or review clients, that are PIEs have been added to section 291:
    - Impose a 7 year rotation period and a 5 year stand down period on key assurance partners for assurance clients that are PIEs. (NZ291.141.1-13) (this aligns the requirements of s291 with the amended long association requirements in s290.
    - Prohibit the provision of valuation services to assurance clients that are PIEs if the valuation is material to the subject matter on which the firm will express an opinion. (NZ291.150.1)
    - Prohibit the provision of IT system services involving the design or implementation of the IT systems that form a significant part of the internal control over the subject matter or generate information that is significant to the subject matter information to assurance clients that are PIEs. (NZ291.150.2)
    - Prohibit the provision of recruiting services for key positions able to exert significant influence over the subject matter or subject matter information of the engagement to assurance services that are PIEs. (NZ291.150.3)
    - Require a pre- or post- issuance review where total fees from an assurance client that is a PIE represent more than 15% of the total received by the firm. (NZ291.152.1)
- Paragraph NZ291.27.1 creates an exception to the independence requirements for public interest entities in section 291 in limited circumstances where the report includes restriction on use and distribution. This is similar to the exception allowed for in section 290 in the IFAC Code and has been added to section 291 in PES 1 (Revised) because the public interest entity requirements described above have been added to section 291.

South Africa (IRBA)

The IRBA Code of Professional Conduct for Registered Auditors (the IRBA Code), comprising Parts A and B of the IESBA Code of Ethics was adopted and issued under copyright from IFAC during 2010. The IRBA Code is prescribed by the IRBA for use by registered auditors in South Africa with effect from 1 January 2011. The IRBA does not regulate professional accountants (who are not in public practice) and thus does not have any jurisdiction to enforce ethical requirements for professional accountants. The IRBA did therefore not adopt Part C of the IESBA Code.

The IRBA Code applies only to registered auditors in public practice and their firms and engagement teams, as the IRBA is the regulator of the auditing profession, and not to the broader professional accountant in business as provided for in Part C of the IESBA Code. In the course of the adoption, the IRBA added certain more stringent requirements relevant to our jurisdiction.

The IRBA Code together with the IRBA Rules Regarding Improper Conduct (Rules) provides the basis for disciplinary action against registered auditors. The IRBA Code and Rules are published in English so translation issues do not arise.

The IRBA Code incorporated and adopted all subsequent changes to the IESBA Code, and the IRBA is in the process of adopting amendments issued in the Restructured IESBA Code of Ethics.

UK (Financial Reporting Council)

UK and Irish accountancy bodies issue a Code of Ethics based on IESBA Code. Section 290 of this material is replaced by the Ethical Standard issued by the FRC. The FRC is not aware of any significant instances where the relevant parts of the IESBA Code are more restrictive than the FRC's Ethical Standard. As noted above the FRC is undertaking a comparison of its Ethical Standard to the restructured IESBA Code.

For periods commencing on or after 17 June 2016 – when the new FRC Ethical Standard described above came in to effect – in the case of a network firm whose work is used in conduct of a group audit where any entity relevant to the engagement is a 'public interest entity', such a firm will need to comply with the FRC's Ethical Standard for the purpose of the audit. Other (non-network) firms whose work is used in such a group audit need to comply with the IESBA Code. For group audits that do not include a public interest entity, both network firms and other firms whose work is used for the group audit need to comply with the IESBA Code. A 'public interest entity' is as defined in UK law, which implements the definition in the EU Audit Directive (in essence, entities whose securities are listed on EU 'regulated market', credit institutions and insurance undertakings. The UK has not classified any other types of entity as public interest entities).

UNITED STATES (AICPA)

The Professional Ethics Executive Committee (PEEC) is a senior committee of the AICPA charged with the responsibility of interpreting and enforcing the AICPA Code of Professional Conduct (the Code). As an "interpreter" of the Code, the PEEC is responsible for promulgating new interpretations and rulings, and for monitoring those rules and making revisions as needed. The PEEC helps the AICPA carry out key parts of its mission, namely to promote public awareness and confidence in the integrity, objectivity, competence and professionalism of its members; establish and enforce professional ethics standards for the profession; and assist members in continually improving their professional conduct and performance.

The PEEC has an IFAC Convergence & Monitoring standing task force. This task force is charged with identifying the projects that need to be undertaken as a result of convergence inconsistencies between the AICPA and the IFAC's ethical exposure drafts. Current projects being monitored include Inducements, Structure of the Code, Safeguards, Strategy and Work Plan, Professional Skepticism, Non-Assurance Services, and Non-Compliance With Laws And Regulations (NOCLAR).