

**Highlights of the 10th Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (IESBA) and NATIONAL
STANDARD SETTERS (NSS)**

Held on May 7, 2018 in Vienna, Austria

The 10th IESBA-NSS meeting was attended by IESBA representatives and NSS participants¹ from Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, South Africa, UK, and USA. A participant from Mexico attended the meeting as an observer.

A. Jurisdictional Developments of International Relevance

Participants commended the IESBA on its achievements over the past year, especially the successful completion of the restructuring of the Code. Among other matters, participants highlighted various ethics-related developments in their jurisdictions that may be of international relevance, including: national activities relating to adoption of or convergence with recent changes to the IESBA Code, particularly NOCLAR, long association, and the revised and restructured Code; specific implementation support projects at the national level; national projects on topics of international relevance, including professional skepticism, communication with those charged with governance, and developments in technology; implementation challenges for the new EU audit legislation; implementation of legislation addressing money laundering and terrorist financing; and discussions at the national level regarding the Monitoring Group's (MG's) proposals for reform to the governance and oversight of the international audit-related standard-setting Boards.

Participants also briefly noted a number of specific developments, including:

- The implementation of mandatory firm rotation in South Africa, effective 2023.
- In Hong Kong, a bill establishing a new audit oversight authority independent of the profession now pending final legislative approval.
- The revision of the Ethical Standard for auditors in the UK.

Dr. Thomadakis highlighted adoption of the revised and restructured Code as a strategic opportunity for NSS given its many improvements and the fact that many jurisdictions are adopters of various antecedent versions of the Code.

B. Lessons from South Africa

Participants received a presentation from Mr. Imran Vanker, Director of Standards at the Independent Regulatory Board for Auditors (IRBA) regarding recent unwelcome corporate developments in South Africa. Among other matters, he highlighted instances where apparent behavioral lapses have thrust a number of large firms into the public limelight, leading to not only clients and other stakeholders severing their links to the firms to eliminate association, but also public trust in the broader profession being shaken. He then outlined a number of questions from the lessons learned, including whether professional skepticism needs to be elevated; whether more needs to be done with respect to effectiveness and enforceability of NOCLAR; the commitment of firm leadership to ethics and quality; and how safeguards can be toughened against the strong incentives from commercial considerations.

Among other matters, participants shared the following reactions:

¹ The list of participants is included in the Appendix.

- There is a major gap between what the public expects the auditor to do and what the auditor can actually do. Communication is key to managing that expectation gap.
- In the last decade, a committee of the US Treasury has been focused on the health of the US profession. In this context, one of the key issues that has been identified is market concentration.
- A key question arising from the developments in South Africa is the commitment of large firms to ethical conduct.
- Inspections conducted by members of the International Forum of Independent Audit Regulators (IFIAR) have highlighted a consistently high rate of deficiencies with respect to audit quality around the world. Post-Sarbanes-Oxley Act, the situation does not appear to be improving, raising a question about the commitment of the firms to audit quality. In this regard, the large firms have recently committed to a reduction of 25% of IFIAR audit inspection findings.

Dr. Thomadakis noted that a key question that the IESBA has asked IFIAR is extent to which deficiencies are linked to lapses in behavior rather than deficiencies of the standards, adding that while audit inspections are important, there is a need to raise awareness of the Code as a way to shape public expectations. He also emphasized that the Code should connect the entire profession, including professional accountants in government, and not just address the audit profession. Finally, he highlighted that the IESBA's recently finalized inducements provisions will be very important given the developments in South Africa.

IESBA Action

Participants' input as well as the presentation and pre-read material will be shared with the Emerging Issues and Outreach Committee for further consideration.

C. Restructured Code Rollout

Participants were briefed on the IESBA's rollout initiatives aimed at promoting awareness and adoption and implementation of the revised and restructured Code. These initiatives include the development of implementation support tools and resources as well as a communication strategy that leverages IFAC's communications infrastructure.

Participants broadly supported the initiatives. Among other matters, they shared the following:

- The IAASB has established a Task Force to look into aligning terminology and cross-references in IAASB standards to the new Code. That task is not straightforward. Similar alignment will be needed at the national level in many jurisdictions.
- There is a need for clarity regarding plans for translation into French and other languages.
- A challenge to greater access to the Code on the IESBA website is the pre-registration or login that users need to complete in order to be able to access it.
- There could be much demand for experts who can provide training on the new Code. Accordingly, it would be helpful if a register of such experts were available.
- As the Code can be quite abstract, illustrations of application in practice would be very helpful, especially to SMPs who do not have the resources to develop their own internal support.
- NSS should endeavor to engage with their local stakeholders. The dialogue should not be limited to the NSS liaison group only.

- The new Code has the potential to be a template for the broader marketplace beyond the profession and to generate a conversation in that broader context. Accordingly, consideration should be given to how to provide greater guidance in this regard.

IESBA Action

Participants' input will be shared with the Rollout Working Group and IESBA for further consideration.

D. E-Code

Participants were briefed on the IESBA's initiative to develop an e-Code leveraging the revised and restructured Code, including Working Group activities to date, planned approach and next steps. The e-Code is intended to be an innovative way to increase the functionality, accessibility and ease of use of the Code, thus creating an improved user experience and thereby contributing to the effective implementation of the Code.

Participants broadly supported the initiative, with NSS from Australia, Brazil, Hong Kong, India, New Zealand, South Africa and the US (NASBA) expressing clear interest in it. Among other matters, participants shared the following perspectives or suggestions:

- Having visibility to FAQs or other IESBA Staff publications would be helpful. Importantly, the e-Code should provide an ability to copy extracts of the Code.
- A challenge for jurisdictions that wish to utilize the e-Code is how to deal with national add-ons. Another challenge also arises where NSS have adopted only part of the Code, for example, where their remit covers assurance engagements only.
- As the Code is not automatically used directly by all jurisdictions, consideration should be given to the risk of the IESBA investing resources into developing a "white elephant." Nevertheless, there is merit in making the Code more accessible.
- A concern is that the 2018 Code is currently available only in English. There would be broader adoption if there were versions in French and other languages, and correspondingly, e-tools to support those versions.
- There is also a need for electronic access to IAASB standards, with basic functionalities such as copy, links to implementation support materials, etc.
- Consideration should be given to field testing the e-Code with regulators. In addition, they would need an archiving function as they enforce compliance against versions of the Code in effect at given points in time.
- It is a good investment to research technological tools, and there can be benefits for practitioners in an e-Code.

Dr. Thomadakis remarked that an important question to address is the extent of functionality that should be pursued relative to the cost of developing it. Nevertheless, he added that as the Code is a public good, it does not lend itself well to a strict cost-benefit analysis, since benefits are hard to measure.

IESBA Action

Participants' input will be shared with the E-Code Working Group and IESBA for further consideration.

E. Professional Skepticism

Participants received an update on the IESBA's Professional Skepticism initiative, including recent activities of its Working Group and the Working Group's coordination efforts with representatives of the IAASB and IAESB in the development of a consultation paper on the topic. The consultation paper explores the behavioral characteristics comprised in professional skepticism, whether all professional accountants should apply these behavioral characteristics, and whether the Code should be further developed as a result.

Participants were informed that the IESBA had approved the consultation paper, [Professional Skepticism – Meeting Public Expectations](#), the previous week. The consultation paper will form the basis for engaging with a broad range of stakeholders on the issues at a series of three global roundtables in Washington, DC (June 11), Paris (June 15) and Tokyo (July 12).

Participants commended the IESBA on a balanced consultation paper on an important topic, noting that the paper will generate robust discussion among stakeholders. Among other matters, they shared the following reactions:

- With respect to the list of behavioral characteristics identified from stakeholders' various comments, an addition would be a passion or doggedness to follow through an issue to the end. Also, in addition to diligence under the concept of a "diligent mindset," there should be dedication to follow a matter through for the public interest.
- There is a strong connection between professional judgment and professional skepticism, and that connection should be articulated. The judgments are made on behalf of clients, and there is therefore a need to describe that aspect in terms of the professional accountant's attitude or mindset. Expressions of that mindset will vary in different circumstances as judgments can change depending on the circumstances.
- It will be difficult for the IAASB to replace the term "professional skepticism" in its standards with another term. The definition of the term in IAASB standards is very closely tied to the practitioner's work effort, which will have implications for practitioners performing engagements other than assurance engagements if the applicability of the concept as embodied in IAASB standards were extended to them.

IESBA Action

Participants' input will be shared with the Professional Skepticism Working Group and IESBA for further consideration.

F. Non-assurance Services

Participants were briefed on the background to the IESBA's non-assurance services (NAS) initiative, including the issues that the NAS Working Group would be discussing with a broad range of stakeholders at the Washington DC, Paris and Tokyo roundtables in June and July 2018.

On the issue of what the general policy objective with respect to NAS should be, participants broadly supported harmonized provisions that would be capable of being applied globally, noting that a proliferation of rules runs counter to the public interest. There were views that a harmonized approach should set a high bar, although this should not preclude variations to accommodate national specificities and circumstances.

Among other matters, participants also shared the following reactions to the other issues:

- With respect to prohibiting specific types of NAS, there is not only a third option of prohibiting all NAS to audit clients but also a fourth option of permitting all NAS subject to appropriate safeguards and oversight.
- There should continue to be a distinction between public interest entities (PIEs) and entities that are not PIEs.
- Pre-approval of NAS by those charged with governance is an option that should be pursued in the Code.
- With respect to the option of disclosure about NAS, the Code might only realistically approach this through the auditor's report given that the Code cannot dictate what entities should disclose in their financial statements.
- There should be clarity regarding the use of the terms "non-assurance services" and "non-audit services."

IESBA Action

Participants' input will be shared with the NAS Working Group and IESBA for further consideration.

G. Fee-related Matters

Participants received an update on the fact finding work of the IESBA's Fees Working Group. They were then briefed on (a) highlights from the responses to the November 2017 stakeholder survey [questionnaire](#) on the topic, and (b) the Working Group's tentative recommended way forward, both of which will form part of the Working Group's final report for the June 2018 IESBA meeting. The Working Group's four areas of focus are: level of audit fees for individual audit engagements; relative size of fees to the partner, office or the firm, and the extent to which partners' remuneration is dependent upon fees from a particular client (fee dependency); ratio of non-audit services fees to audit fees paid by an audit client; and the provision of audit services by a firm that also has a significant non-audit services business (business model).

Among other matters, participants shared the following comments or reactions:

- The question of fee dependency at the partner level is an important one given the experience with the Enron scandal.
- There may be a case for considering a threshold with respect to the level of fees received from non-PIE clients.
- In determining how best to move forward on the topic of fees, it is important to be mindful of anti-trust law in many countries.
- Whether the Working Group has considered the nature of the threats that can be created in the four different areas.
- Consideration should be given to merging the IESBA's initiatives on fees and NAS as there is a degree of overlap between the two.
- The IESBA should consider how to take a thought leadership position on this and related topics (including NAS and Professional Skepticism) and in a timely manner, especially topics others are reluctant to deal with such as firms' business model.
- There is a need to avoid developing complex rules that will be difficult to operationalize or will increase compliance costs.

Regarding the topic of firms' business model, Dr. Thomadakis explained that the IESBA had not addressed it yet as it involves a number of other significant aspects beyond ethics and that one cannot control the business model effectively through the Code. He added that if there is to be a discussion about the topic, it cannot be just within the IESBA as there needs to be strong regulatory participation.

IESBA Action

Participants' input will be shared with the Fees Working Group and IESBA for further consideration.

H. Monitoring Group Review

Participants were briefed on recent IESBA activities relating to the MG's proposals regarding strengthening the governance and oversight of the international audit-related standard-setting Boards, including participation of IESBA representatives at the MG roundtables in London, Washington, DC, and Singapore in January 2018; submission of an IESBA response to the MG's November 2017 consultation paper highlighting the IESBA's key concerns regarding the proposals; and an upcoming meeting with the MG in London on May 24, 2018 together with IAASB representatives. Participants were made aware of another series of roundtables that the MG would be holding with stakeholders in Australia, Singapore and Hong Kong in June 2018. Participants also noted that IFAC had published a report from an independent law firm that it had commissioned to undertake an independent analysis of the public responses to the MG consultation paper.

For purposes of informing further IESBA dialogue with the MG as the MG embarks on the development of its white paper, participants were invited to share perspectives on aspects of the MG's proposals or its consultation process. Among other matters, the following were raised:

- It was unclear whether the MG had a mandate to address unlisted audits and whether they are in fact addressing the part of the profession that deals with such audits.
- There is much uncertainty about the proposed public interest framework that is fundamental to the way forward, and its timing is unclear.
- The lack of transparency regarding the MG's process of consultation with stakeholders is a significant cause for concern. In this regard, some participants noted that they had become aware of the upcoming further series of roundtables in Asia Pacific only through second-hand sources.
- While the IESBA might be taking a "business as usual" approach to its forward strategy, this does not reflect the reality that the MG's review is already impacting or interfering with national processes for adoption of the IESBA's standards.

IESBA Action

Participants' input will be considered in informing the IESBA's further interactions with the MG as it develops its final set of proposals.

NSS Action

Participants were asked to reflect on the IESBA's [key concerns](#) regarding the MG's proposals, particularly a merged Board and splitting of the Code, and to convey their views to the MG through the channels available to them. Participants were also encouraged to comment on the IESBA's Strategy and Work Plan 2019-2023 [consultation paper](#).

Next Meeting

Proposed timing for the next IESBA–NSS meeting will be communicated to participants in due course, after coordination with IAASB representatives.

APPENDIX

2018 IESBA–NSS Meeting Participants

Australia	Craig Farrow and Jacinta Hanrahan
Brazil	Vivienne Bauer
Canada	Genevieve Mottard and Michele Wood-Tweel
China	Xiaofeng Cai and Jianhua Tang
France	Cédric Gelard and Isabelle Tracq-Sengeissen
Germany – IDW	Wolfgang Boehm
Germany – WPK	Reiner Veidt and Jens Poll
Hong Kong SAR	Christopher Joy and Selene Ho
India	Sanjiv Kumar Chaudhary
Japan – FSA	Chie Ikami and Hiroyuki Natori
Japan – JICPA	Sayaka Shimura and Tetsuo Kitagawa
The Netherlands	Anton Dielman and Jan Thijs Drupsteen
New Zealand	Robert Buchanan and Sylvia Van Dyk
South Africa	Imran Vanker and Riana Fourie
United Kingdom	Marek Grabowski and Sue Harris
United States – AICPA	Toni-Lee Andrews and Samuel Burke
United States – NASBA	Gaylen Hansen
United States – PCAOB	Martin Baumann ²

Observer

Mexico	Fernando Ruiz
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IESBA

Representatives

IESBA Chairman	Stavros Thomadakis
IESBA Deputy Chair	Richard Fleck
E-Code Task Force Chair	Don Thomson
IESBA Staff	Ken Siong (Senior Technical Director), Diane Jules (Deputy Director), Geoff Kwan and John Morrow

² Any views expressed by Mr. Baumann, where noted in the meeting highlights, are his own and do not necessarily reflect the views of the PCAOB members or its staff.