

Matters Identified for Board Attention

This paper summarizes the matters beyond the scope of the Structure and Safeguards projects which includes matters identified over the course of the projects. The Board will have an opportunity to consider these matters when developing its 2019-2022 Strategy and Work Plan.

References to Parts and paragraphs are to the draft restructured text as presented in **Agenda Item 3-B**. (Adjacent references in parenthesis refer to the extant Code.)

Public Interest

1. 100.1 (100.1)¹ – The Code refers to public interest in several places, notably in Part 1 (extant Part A) and the new material dealing with non-compliance with laws and regulations. The draft restructured Code, consistent with the extant Code, does not expand upon individual public interest obligations and therefore contains little application material relating to a professional accountant's public interest responsibilities.

Requirements in the Code with Little or No Application Material

2. 111-115 (110-150)² Distinguishing requirements from application material has highlighted certain requirements in the Code with little or no application material. This is most apparent in Part 1's (extant Part A's) application material related to the fundamental principles. There is little explanatory material for these terms, for example, regarding the fundamental principle of integrity, truthfulness is not contrasted to honesty, which is a requirement.

Breaches of the Code

3. R100.4 (100.10) – A respondent to Structure ED-1 suggested that the Code include a reference to actions to prevent a breach of the Code.³ The respondent noted that the extant Code requires a professional accountant to address the consequences of the breach and determine whether to report the breach, but no specific action must be taken to stop the activity that causes the breach.
4. R100.4 (b) – A respondent to Structure ED-1 commented that there should be no optionality on whether an accountant has to report a breach or not.⁴
5. Section 120⁵ and R400.81⁶ (Section 100 and 290.45) – The disclosure required when breaches occur and the professional accountant is unable to end a service is not specifically addressed in the conceptual framework.

¹ Proposed Part 1 (Part 1), *Complying with the Code, Fundamental Principles and Conceptual Framework*, Section 100 – *Complying with the Code* (Extant Part A, *General Application of the Code*, Section 100, *Introduction and Fundamental Principles*)

² Part 1, Subsections 111 – *Integrity*, 112 – *Objectivity*, 113 – *Professional Competence and Due Care*, 114 – *Confidentiality* and 115 – *Professional Behavior* (Extant Part A, Section 110 - *Integrity*, 120 – *Objectivity*, 130 – *Professional Competence and Due Care*, 140 – *Confidentiality* and 150 – *Professional Behavior*)

³ **Other Prof Org FEE**

⁴ **Regulator and Oversight Authority IOSCO**

⁵ Part 1, Section 120, *The Conceptual Framework*

⁶ Part 4A, *Independence for Audits and Reviews* (Extant Part B, Section 290, *Independence – Audit and Review Engagements*)

Documentation

6. The Code's documentation requirements and application material are located in various areas of the Code, dealing with particular topics. Some stakeholders have asked that the documentation requirements be reviewed, and have in some cases provided specific suggestions. For example:
- 110.3 A6 (100.22) – The application material dealing with ethical conflict resolution encourages documentation. A respondent to Structure ED-1 recommended that documentation be required.⁷
 - R400.60 (290.29) – Certain documentation of independence is required. In addition to material in the Code, the ISAs establish audit documentation standards. A respondent to Structure ED-1 recommended that the Code require independence documentation to be of a standard that would enable another professional to understand the judgments made, and the reasoning.⁸
 - 400.60 A1 (290.29) – The draft restructured Code, consistent with the extant Code, states that “a lack of documentation does not determine whether a firm has considered a particular matter or whether it is independent.” A respondent to Structure ED-1 expressed the view that this paragraph is unnecessary, and can undermine the documentation requirements and their enforceability.⁹

Use of the Phase “Generally Necessary”

7. Instances in the Code where the phrase “generally necessary” was used have been reduced, but one remains as follows:

310.10 A3 (220.11)¹⁰ – It is generally necessary

- (a) To disclose the nature of the conflict of interest and any related safeguards to clients affected by the conflict; and
- (b) When safeguards are required to reduce the threat to an acceptable level, to obtain the consent of the affected clients to perform the professional services.

A respondent to Structure ED-1 recommended that this be redrafted as a requirement.¹¹

Professional Appointments

8. 320.3 A3 (210.5)¹² – The Code encourages a professional accountant to conduct periodic reviews of acceptance decisions for recurring client engagements. A respondent to Structure ED-1 recommended that this be a requirement.¹³

⁷ Regulator and Oversight Authority IOSCO

⁸ Regulator and Oversight Authority IOSCO

⁹ Regulator and Oversight Authority IOSCO

¹⁰ Proposed Section 310.1 – *Conflicts of Interest* (Extant Section 220 – *Conflicts of Interest*)

¹¹ Regulator and Oversight Authority IOSCO

¹² Proposed Section 320 – *Professional Appointments* (Extant Section 210 – *Professional Appointment*)

¹³ Regulator and Oversight Authority IRBA

9. R320.5 (210.14) – The draft restructured Code requires “other reasonable steps to obtain information” if a proposed professional accountant is unable to communicate with the existing professional accountant. A respondent to Structure ED-1 recommended that, where a proposed client refuses to give permission for the proposed auditor to communicate with the existing auditor, or fails to do so, the proposed auditor shall decline the appointment, unless there are certain exceptional circumstances.¹⁴

Public Interest Entities

10. 400.9 (290.26) The Code encourages firms and member bodies to determine whether to treat additional entities, or certain categories of entities as PIEs. A respondent to Structure ED-1 recommended that this be made a requirement.¹⁵

Fees

11. 330.3 A3, (new paragraph)¹⁶ R410.8 (290.222)¹⁷ and R410.9 (290.223) – A respondent to Structure ED-1 suggested that certain contingent fees might be prohibited as follows:¹⁸

“notwithstanding the paragraphs above, a professional accountant shall not charge contingent fees for assurance services provided to clients, or for the preparation of an original or amended tax return, as these services are regarded as creating a self-interest threat to objectivity for which appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level.”

12. R410.7 (290.218) and 410.7 A1 (290.220) – The Code refers to fees due from an audit client remaining unpaid for a long time, the significance of overdue fees”, and “generally appropriate” for the firm to require payment before releasing the audit report. A respondent to Structure ED-1 recommended further clarification.¹⁹

Materiality

13. Materiality is a concept that is applicable across the Code, both relating to non-assurance services (NAS) and for example in the independence standards. For example, paragraph 510.3 notes that the “Section 510, Financial Interests refer to the “materiality” or “significance” of a financial interest. Section 510 states that “for the purposes of determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.” A broader consideration of how the concept of materiality should apply in the context of the full Code, and not just NAS, might be needed and would require coordination with the IAASB and the International Accounting Standards Board.

¹⁴ **Regulator and Oversight Authority** IRBA

¹⁵ **Other Prof Org** SAICA

¹⁶ Section 330 – *Fees and Other Types of Remuneration*

¹⁷ Section 410 – *Fees*

¹⁸ **Regulator and Oversight Authority** IRBA

¹⁹ **Other Professional Organization** SAICA

Definitions and Descriptions

14. Alignment with ISAs – There are certain differences between the definitions in the Code and the definitions of the same terms in the ISAs. A list of these definitions was brought to the attention of the Board in January 2015: Assurance engagement; Engagement quality control review; Financial statements; Firm; Independence; Review engagement; and Special purpose financial statements. Subsequent to that discussion, certain stakeholders have suggested that the Code find an alternative to the word “audit client.”
15. Employee – It has been noted that the term “employee”²⁰ only covers employees of an audit client and does not clearly include others who may act in the capacity of an employee (e.g. a contractor).
16. Engagement Period – A respondent to Structure ED-1 recommended that the period not be limited to the date that the audit report is issued as the auditor has further responsibilities, such as addressing the effect on the opinion of matters that come to the auditors’ attention after conclusion of the audit.²¹
17. Financial Interest – A respondent to Structure ED-1 suggested that the definition might need to be revised, for example, to clearly cover interests in a trust.²²
18. Firm – It has been suggested that the definition is quite narrow, with a respondent indicating that it is not clear whether a firm could have non-member employees, and it is not clear what responsibility professional accountants have for employees others than professional accountants.²³
19. Network Firm – A respondent to Structure ED-1 suggested that consideration be given to a definition which requires the exercise of judgement rather than providing a list of examples.²⁴ A respondent expressed the view that borders between associations and networks are increasingly diffuse, and recommended consideration of any potential Code implications that might impact on the definition of network firm.²⁵ The description of network firm is sufficiently broad but the description of firm potentially narrow in its references to structures known to exist today – this might become limiting for the future.²⁶
20. Professional Accountant – A respondent to Structure ED-1 suggested that the definition might not adequately include retired or inactive professional accountants.²⁷
21. Professional Judgement - A respondent to Structure ED-1 recommended that this be defined as “the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagements.”²⁸

²⁰ Examples of this can be seen in paragraphs 521.4 (b) (290.127) and 521.6 (b) 290.130

²¹ **Regulator and Oversight Authority** IOSCO

²² **Regulator and Oversight Authority** IOSCO

²³ **Other Prof Org** CPA Canada

²⁴ **Regulator and Oversight Authority** UK FRC

²⁵ **Other Prof Org** IFAC SMPC

²⁶ **Other Prof Org** CPA Canada

²⁷ **Other Prof Org** CPA Canada

²⁸ **Regulator and Oversight Authority** IRBA