

IESBA

Emerging Issues and Outreach Committee

Winifred Kiryabwire, EIOC Chair

IESBA Meeting
Virtual
March 17, 2021

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Objectives

- To update the Board on EIOC activities since December 2019
- To receive a presentation on jurisdictional developments from the United States, United Kingdom, Europe and Australia



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EIOC Activities since December 2019

- February 2021 video conference
 - To onboard new EIOC members (Vania Borgerth, Laurie Endsley, Marta Kramerius)
 - To discuss agenda materials for the March IESBA Meeting
 - Update on key regulatory developments from United States, United Kingdom, Europe and Australia.
 - For Board's noting - 2020 Jurisdictional Developments
Compilation of NSS Input (**Agenda Item 6-B**)



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A. UNITED STATES

SEC independence rule changes

- In October 2020, the US SEC changed its independence rules (Rule 2-01) regarding definition of “affiliates of audit client”
 - Effect: reduces the number of audit client affiliates that would otherwise be scoped into the definition of “audit client” under the current definition, and thereby increases the number of entities to which firms could provide services or with which they could have relationships that would not be deemed independence impairing
- Also lifted auditor restrictions on certain student loans and de minimus consumer loans
- SEC noted that these amendments were based on recurring fact patterns that the SEC staff had observed over years of consultations. In these fact patterns, certain relationships and services triggered “technical” violations without necessarily impairing an auditor’s objectivity and impartiality

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A. UNITED STATES

PCAOB's standard-setting agenda updates in 2020

- PCAOB proposed quality control standard changes, which have some convergence with ISAs, but some US-specific differences. Public comment period closed in March 2020, but no significant movement since
- Other focus areas for standard changes: supervision of "other auditors" (in cross-border engagements) and auditor independence

US regulatory landscape under Biden administration

- Nominee for US SEC Chairman Gary Gensler has active enforcement record and has subject matter familiarity with crypto-assets
- Biden administration has all but explicitly supported SEC rules on ESG-related disclosures, which could potentially call for independent assurance

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B. UNITED KINGDOM

Developments since 2019: The Future of Audit

- Government consultation imminent
- Consultation will cover recommendations from Kingman, Competition and Markets Authority and Brydon reviews
- 155 recommendations – 140 accepted (including with amendment) and 15 rejected
- Consultation will be supported with a Regulatory Impact Assessment

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B. UNITED KINGDOM

Developments since 2019: The Future of Audit

- Anticipated proposals
 - Audit Committee Regulatory Framework
 - Extension to the definition of Public Interest Entity (PIE)
 - Internal Controls review (Sarbanes Oxley style)
- Operational separation of major audit firms
- Creation of ARGA not anticipated now until 2023

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C. EUROPEAN UNION

EU Audit Policy Developments

- EC will carry out evaluation of EU Audit framework with focus on audit quality, auditor independence and enhancing competition. The evaluation will take into account:
 - EC audit market monitoring report and EC study on audit framework's effectiveness
 - ESMA report on financial supervision in Wirecard case as well as results of Wirecard investigation
- Impact of the Wirecard case
- EC audit market monitoring report (2015-2018) confirms trends of concentration with the number of statutory auditors and audit firms shrinking and the Big Four dominating the market
- EC launched a study into the effects of EU audit legislation on statutory audit market on improving transparency, audit quality and competition. Will also examine effects of economic crisis caused by Covid-19 on audit sector

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C. EUROPEAN UNION

EU non-financial/ESG reporting (NFR) initiatives

- Investor expectations for Paris-aligned Accounts' publication (IIGCC):
 - An affirmation by companies that climate risks are incorporated into the accounts
 - Auditors to call out where accounts are ignoring material climate risks / are not 'Paris-aligned'
- Discussions on shaping EU NFR standard-setting continue:
 - Changes to EFRAG governance structure and financing
 - Preliminary work for NFR standard-setting (EFRAG Lab PTF NFRS)
- EU Green Deal / NFR reporting – several publications expected Q1/Q2 2021
 - Proposals for the revision of the Non-Financial Reporting Directive, including strengthened audit/assurance requirements

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D. AUSTRALIA

Developments in Australia

- Release of final report of [Parliamentary Joint Committee into Audit Regulation](#) (the Audit Enquiry)
 - Final report has 10 recommendations, 6 of which have links to the Code of Ethics
- Audit regulator, ASIC, issued its most recent [audit inspection report](#)
- Findings from another [Parliamentary Committee Joint Committee into litigation funding](#) (the Litigation Funding Enquiry)
 - Minimum return to plaintiffs, changes to continuous disclosure rules

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D. AUSTRALIA

Recommendations from the Audit Enquiry

10 recommendations 6 with relevance to the Code:

- #3 – Audit and non-audit fees – categories, disclosure and prohibitions
- #4 – Independence declaration to make a specific statement regarding non-audit services
- #5 – Audit partners not to be incentivized for selling non-audit services
- #6 – Disclosure of audit tenure in financial reports – partner and firm
- #7 – Mandatory tendering every ten years; if not completed, disclosure of reason why not
- #9 – Requirement for entities to have an internal control framework for financial reporting; management and auditor make an annual assessment (Au SOX!)

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D. AUSTRALIA

ASIC Audit Inspection Findings

- Scope of report – 1 July 2019 to 30 June 2020; 53 audit files; 13 firms (all large 6)
- 27% of the 179 key audit areas do not obtain reasonable assurance that the financial report as a whole was free of material misstatement (26% in prior report)
- Reports of each of the large firms now public
- Key areas of findings
 - Impairment and Asset Valuations
 - Revenue / receivables
 - Investments, Financial Instruments

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D. AUSTRALIA

ASIC Audit Inspection Findings (continued)

- Three findings in relation to conflicts of interest
 - The firm was the largest trade debtor of the audited entity. This matter was identified during the firm's independence compliance testing
 - The auditor did not adequately assess threats to independence where the firm continued to compile information to lenders relating to debt covenant compliance for an investee in which the entity had a significant investment and where there was a likely takeover of the investee
 - The auditor's fees for non-audit services were over nine times the audit fees and included tax advisory work that supported figures in the financial report
- No other comments in relation to the Code of Ethics

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Questions?



Views on, or reactions to, the matters presented

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