



IESBA[®]



Trust and Accountability in Times of Crisis

Saadiya Adam, IESBA Technical Advisor

Virtual Conference

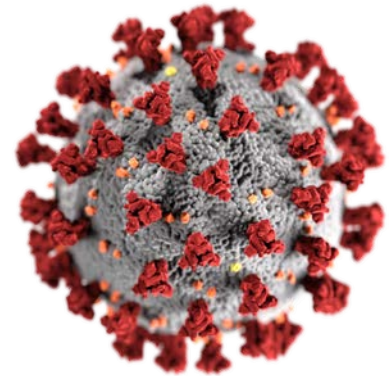
December 3, 2020

Agenda

- A Changing Landscape
- About the IESBA Code, including recent and upcoming revisions
- Responding to Risks and Uncertainties, including COVID-19
 - Staff Q&As publication: *Ethics & Independence Considerations*
 - Other resources
- Available Resources

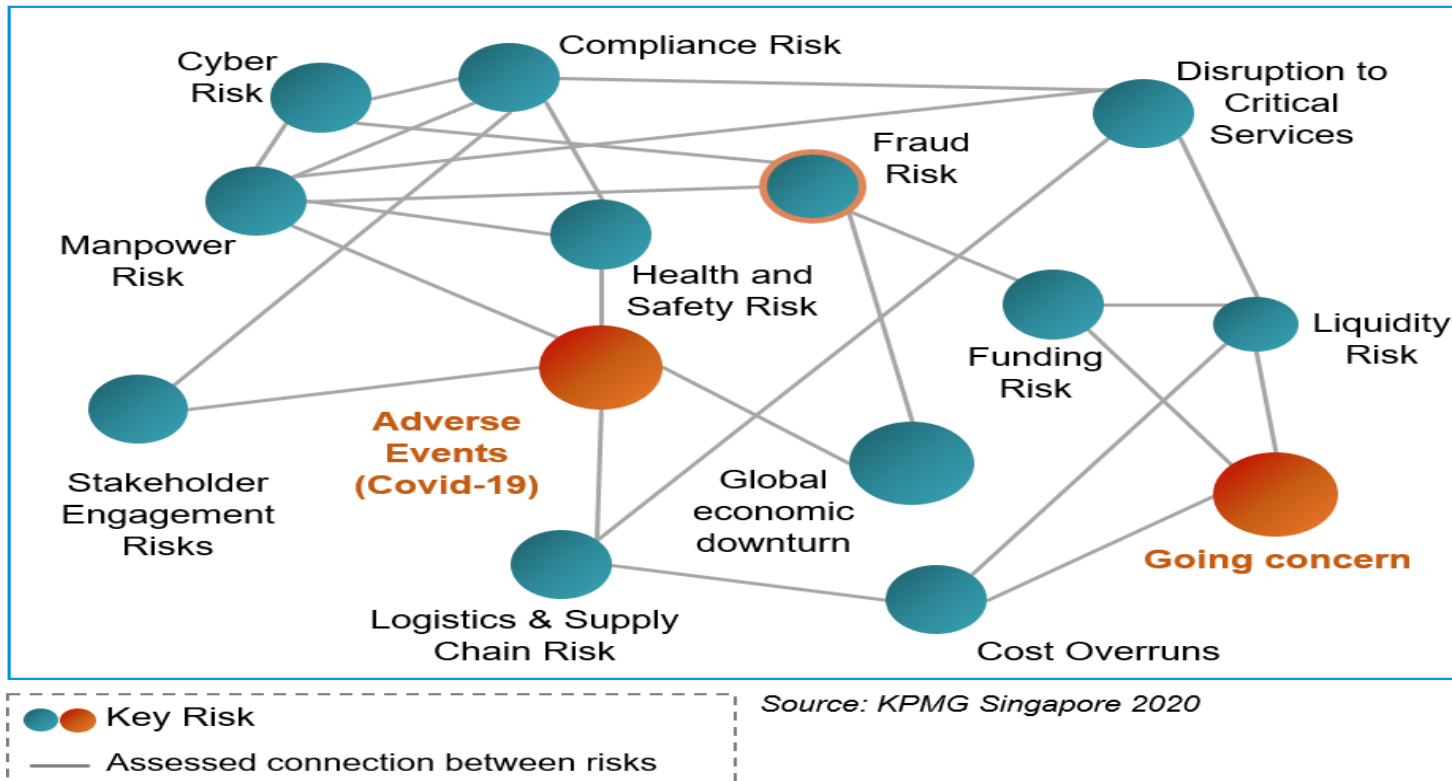
The Landscape is Changed ...

- Health, social and financial crisis → Unprecedented challenges for all, including those in the accounting profession
- Trust is especially important in adverse times
 - Accountants are advantaged by having a Code of Ethics to guide judgements & behaviors
 - Accountants have an important role in recovery → Produce, analyze, deliver and opine on information upon which critical decisions will be made
- More than ever, accountants must focus on ethics and their responsibility to act in the public interest
 - Pace of changes require accountants to be agile
 - Discussions/ cooperation with regulators, PAOs and others may sometimes be necessary



Risks are Dynamic and Highly Connected

Many risks are occurring simultaneously...



Ethics/ independence may be impacted



Safeguard may no longer be available



Pressure to achieve financial results



Changing control environment (digital)



Individual stress from fear and uncertainty



Opportunism in times of crisis – monetary v humanitarian



Compliance with government notices

About the IESBA Code

Adoption of IESBA Code

- Code is robust, high-quality and globally-operable
- Adopted, used as basis for national ethics standards or ethics codes of IFAC member bodies in 120+ countries
- Adopted by the largest international networks of firms (the [Forum of Firms](#)) for transnational audits
- Translated in about 40 languages, including all major UN languages (Chinese, French, Japanese, Russian and Spanish)



About the Revised and Restructured Code

- Restructured based on extensive research and stakeholder consultation globally over 4 years
 - Responsive to calls for clearer and more robust ethics and independence provisions
 - Completely rewritten; New design – easier to navigate, use and enforce
 - Substantive revisions; New user guide
 - Effective since June 15, 2019
- Renamed *International Code of Ethics for Professional Accountants (including International Independence Standards)*
- Digital version available at www.IESBAeCode.org

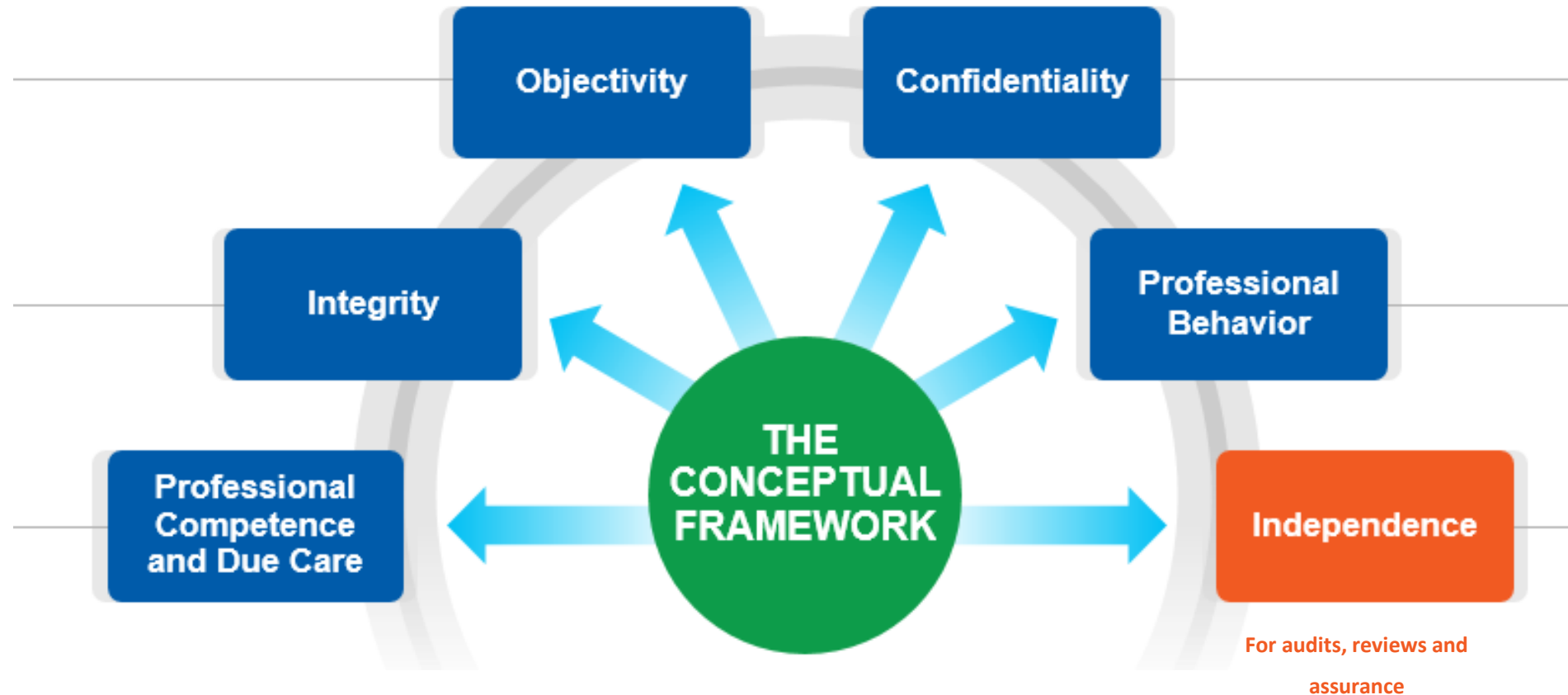


**MORE
USER-
FRIENDLY**

A green icon of a hand with the index finger pointing towards a target symbol, which is a circle with concentric lines.

2018 Edition of IESBA Code

The Basics: Fundamental Principles & the Conceptual Framework



2018 Edition of the Code

Recent and Upcoming Changes

- Upcoming changes for 2021
 - Part 4B (Revisions) released in Jan 2020; **effective Jun 2021**
 - Role & Mindset released in Oct 2020; **effective Dec 2021**
- Coming Soon!
 - Objectivity of EQR approved in Sept 2020, effective in Dec 2022
 - Approval of final text with revised *NAS* and *Fees* provisions anticipated in Dec 2020
 - Exposure draft with proposed revised *Definition of Public Interest Entity* anticipated in Q1 2021

NEW

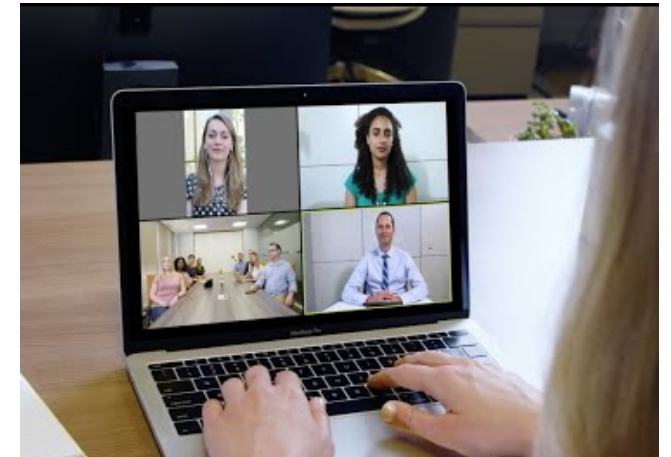


[Click here](#) to access new pronouncements!

Responding to Risks & Uncertainties, including COVID-19

IESBA' COVID-19 Response

- Near-term impacts:
 - Virtual IESBA board meetings
 - IESBA staff are working from home
 - Decreased stakeholder responsiveness → implications for pace for some work streams
- Issuance of Staff publications & guidance
- Enhanced collaboration with IFAC and national standards setters
- Dedicated COVID-19 webpages




COVID-19 Related Guidance

- IESBA-NSS WG formed Q2 2020
 - Australia, Canada, China, South Africa, UK and US
- Joint staff publications released July and October 2020
 - [Scenarios in taxation and valuation services](#) (APESB-IESBA)
 - [Using specialists in the COVID environment](#) (AICPA-IESBA-IAASB)
- Coming soon!
 - Considerations relating to fraud (IRBA-IESBA-IAASB)
 - Money laundering and terrorist financing (CPA Canada-IESBA)



IESBA Staff Q&As

- Issued May 2020
- Highlights aspects of Code that are especially relevant during pandemic
 - Stresses the importance of complying with the fundamental principles of ethics during the pandemic; crisis is not an excuse for unethical behavior
 - Includes ethics guidance for all PAs, including preparers, PAs in business, not-for-profit sector, government; education, and in public practice
 - Includes independence guidance for auditors

International Ethics Standards Board for Accountants®

Staff Questions & Answers | May 2020

COVID-19: Ethics and Independence Considerations

Foreword from IESBA Chairman, Dr. Stavros Thomadakis

Disruption of production, loss of business and employment, and financial distress are becoming economic landmarks of the global COVID-19 pandemic. Revitalization and growth will hopefully follow the present economic malaise, once the health crisis is securely behind us.

Being honest, competent and objective are virtues heavily valued for all professionals, particularly in adversity. Professional accountants are advantaged by having a highly developed, clear and well-structured International Code of Ethics guiding their judgment and behavior.

Reliable and truthful financial reporting and independent auditing are now highly needed by investors and other stakeholders and have a large role to play in managing outcomes of, and exit from, the sudden calamity. Trust in financial statements is critical, especially in adverse times, to minimizing damage and redeploying resources for recovery. The application of the *International Code of Ethics for Professional Accountants, (including International Independence Standards)* is key to preservation and expansion of trust.

The pandemic creates many financial, operational and personal difficulties. Professional accountants must now, more than ever, remain focused on the public interest and their ethical responsibilities. In business or public practice, compliance with the fundamental principles remains an indispensable feature: integrity, competence and due care, objectivity, professional behavior and confidentiality—each draws a sharper meaning in the special circumstances of today.

With sudden uncertainty, circumstances change rapidly and many companies unexpectedly face serious distress. Professional accountants must be flexible, alert and skeptical to maintain fidelity to the fundamental principles. Auditors must be ready to re-evaluate the level of threats and revisit actions they take to maintain independence.

In serious crisis, companies and organizations have to change quickly ways of working—going digital and working remotely are the foremost examples—and need help to seek special public or private assistance. Professional accountants will of course advise and support their employing organizations or their clients to adjust and recover; however, they must balance advice and support without giving into pressures to act contrary to their ethical responsibilities. For auditors, this means not assuming a management responsibility for an audit client. Intensified communication with those charged with governance will prove essential in these circumstances.

Accountants in the public sector also need to intensify focus on ethical duties. The crisis is necessitating rapid expansion of governments' financial interventions. Public sector actions will involve important choices in pursuit of policies combining public health, economic and social goals. The quality of information will be critical in decision-making, evaluating policy outcomes and maintaining fiscal integrity.

This publication includes questions and answers to guide all users of the Code who come face to face with the large and small dilemmas of the present adversity. Thanking the IESBA staff for this timely effort, I also want to assure that we will remain close to the voices of all our stakeholders through this crisis that is testing and changing all of us.

TABLE OF CONTENTS

- 2 Topics of Relevance to All Professional Accountants
- 2 Threats to the Fundamental Principles
- 3 Safeguards
- 4 Pressure
- 5 Preparing and Presenting Information
- 5 Non-compliance with Laws and Regulations (NOCLAR)
- 6 Topics of Relevance to Auditors and Other Professional Accountants in Public Practice
- 6 Fees
- 7 Non-assurance Services, Including Providing Advice and Assistance
- 8 Long Association, Including Partner Rotation
- 8 Communication with Those Charged with Governance


This Questions and Answers (Q&A) publication was developed by the Staff of the IESBA to highlight aspects of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) that might be relevant in navigating ethics and independence challenges and risks as a result of the COVID-19 pandemic.

This publication does not amend or override the Code, the text of which alone is authoritative. Reading this publication is not a substitute for reading the Code. The Q&As are not meant to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

[Click here](#) to access more COVID-19 resources!


Safeguards

- COVID-19 related health risks/ restrictions might make it difficult/ impossible to apply safeguard(s)
 - Designated reviewers may be unavailable due to illness or may have been re-assigned; furloughed or laid-off
- Individual PAs and firms should apply alternate safeguards or take other another action to address threat
 - [Installment 4](#) of *Exploring the IESBA Code* series explain how to address threats to compliance with the fundamental principles of ethics

 International Federation of Accountants®


EXPLORING THE IESBA CODE

Installment 4: The Conceptual Framework – Step 3, Addressing Threats



The *IESBA Code* helps professional accountants (PAs) meet their responsibility to act in the public interest. The Code provides a conceptual framework which specifies a three-step approach that all PAs are to apply in order to identify, evaluate and address threats to compliance with the Code's fundamental principles.

The first *Installment* of Exploring the IESBA Code explained the Code's five fundamental principles. *Installment 2* highlighted three steps specified in the conceptual framework and examined how PAs are to identify threats to compliance with the principles. *Installment 3* focused on evaluating threats, including how to use the *reasonable and informed third party test* to determine whether a threat is at an *acceptable level*. The next step is to address threats that are not at an acceptable level.



If any identified threats are determined to not be at an acceptable level, then the PA must take steps to address them by:

- Eliminating the circumstance, interest or relationship creating the threat(s);
- Applying safeguards (where available) to reduce the threat(s) to an acceptable level; or
- Declining or ending the specific professional activity or engagement that gives rise to the threat(s).

PAs have an ongoing obligation to remain alert for changes in facts and circumstances that might impact the evaluation of the level of threats and the appropriateness of safeguards. If such changes arise, the PA must re-evaluate and address that threat.



Safeguards are actions, individually or in combination, that the professional accountant takes to effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Preparing and Presenting Information



- PAs & firms are best positioned to skills to help prepare and present information during the pandemic
 - Important to exercise professional judgments in describing the nature business transactions and activities; as well as classifying and recording information appropriately
 - PAs may exercise discretion when making judgments; but must not do so with an intention to mislead others or influence contractual or regulatory outcomes in appropriately

Pressure

- Organizations, businesses, governments and firms are under pressure
 - Concerns about covering operating costs; or continuing as a going concern
 - Pressure may be exerted by clients, superiors, or may be self-imposed
 - Code includes specific examples of situations that might create pressure to act unethically (see [Section 270](#))
- Stresses and pressures, including those due to COVID-19 do not excuse unethical behavior
 - PAs must not succumb to pressure to breach fundamental principles of ethics




Non-compliance with Laws and Regulations

- COVID-19 pandemic has created significant opportunities for fraud
 - Financial challenges & other pressures might affect implementation and oversight of NOCLAR-related policies
- PAs have a duty to act if they become aware of NOCLAR during the pandemic
 - Responding to NOCLAR involves discussion with management, escalating issues with others; and assessing management's response to determine whether further action is needed in the public interest
 - Comprehensive framework for PAIBs in [Section 260](#) and for auditors, and other PAPPs in [Section 360](#)
 - More guidance on IESBA [NOCLAR webpage](#)



Non-assurance Services


- Firms, especially SMPs may receive requests for assistance from their audit clients
 - Compliance with independence provisions in [Section 600](#) essential
 - Firm shall not assume a management responsibility for an audit client
 - Certain types of services/ activities are prohibited
 - Threats to independence must be addressed



International
Ethics Standards
Board for Accountants®

529 Fifth Avenue, New York, NY 10017
T +1 (212) 286-9344 F +1 (212) 286-9570
www.ethicsboard.org

Summary of Prohibitions Applicable to Audits of Public Interest Entities¹
November 2019



The [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) contains prohibitions that apply when a firm audits a public interest entity. If a service, interest, or relationship is not covered by one of the prohibitions below, the firm is required to apply the [conceptual framework](#) to comply with the [International Independence Standards](#). The application of the conceptual framework involves a rigorous analysis of the service, interest, or relationship to identify, evaluate and address threats to independence, and involves a [reasonable and informed third party](#) test. If the service, relationship or interest creates a threat that cannot be eliminated and if [safeguards](#) are not available to reduce the threat to an [acceptable level](#), the firm is required to decline or end the service or audit engagement.


Prohibited Non-Assurance Services

Prohibited Without Regard to Materiality

- Assuming a management responsibility
- Serving as General Counsel
- Accounting and bookkeeping services, including preparing accounting records and financial statements²
- Promoting, dealing in, or underwriting client shares.
- Negotiating for the client as part of a recruiting service.
- Recruiting directors/officers, or senior management who will have significant influence over accounting records or financial statements
- Evaluating or compensating a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client

Prohibited if Material to the Financial Statements

- Valuation services
- Calculations of current/deferred taxes
- Tax or corporate finance advice that depends on a particular accounting treatment/financial statement presentation with respect to which there is reasonable doubt as to its appropriateness
- Acting as an advocate before a public tribunal or court to resolve a tax matter
- Internal audit services relating to internal controls over financial reporting, financial accounting systems, or financial statement amounts/disclosures
- Designing/implementing financial reporting IT systems



¹ This is high-level summary is not a substitute for reading the Code, which provides details on the application of these prohibitions. The [IESBA sCode](#) provides a complete list of the explicit prohibitions in the Code.

² Can only be provided to divisions/related entities if routine/mechanical, if specified conditions are met.

Fees

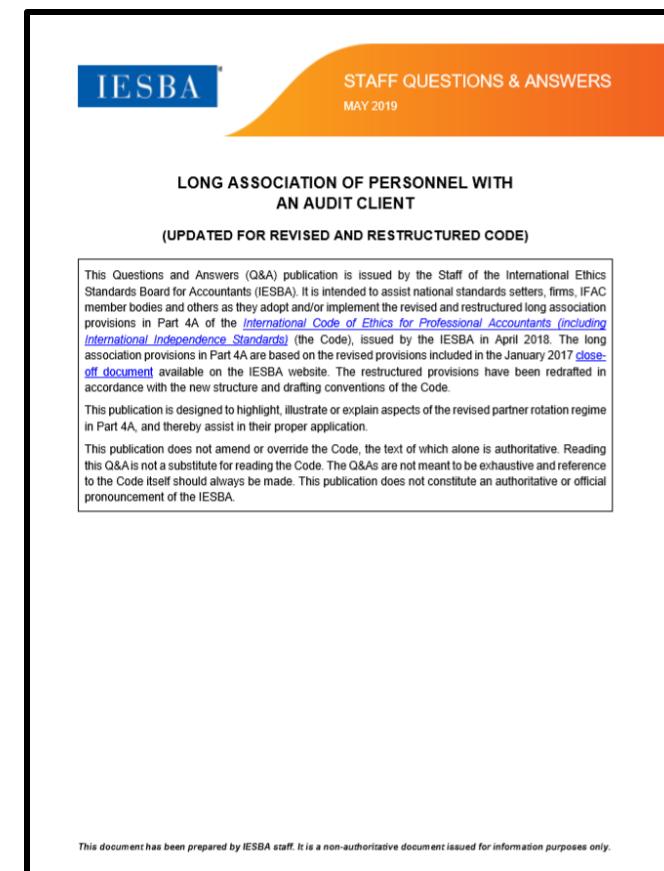
- Many entities are experiencing liquidity issues and financial difficulties due to COVID-19
 - Some clients are requesting fee reduction for services in progress/ services already provided; others may not be able to pay
- Code does not specify the level of fees that firms should quote; but for audit clients the fee quoted:
 - *Creates a self-interest threat to professional competence and due care* if the fee quoted makes it difficult to perform the engagement in accordance with applicable technical and professional standards
 - *Creates a self-interest or intimidation threat to independence*

When a significant amount of audit fees remains unpaid for a long time, firm must determine:

1. Whether fee = loan
2. Whether it is OK to continue the audit

Long Association, including Partner Rotation

- Firms, especially SMPs are experiencing reduction in resources due to COVID-19
 - Some may not be able to execute a planned partner rotation for audit and may question whether the Code provides relief
- Exception to partner rotation requirement if the appropriate regulator grants an exemption
 - COVID-19 is a circumstance that warrants contacting regulator to request an exemption; regulator must specify the other requirements including exemption period
 - More guidance in IESBA [Long Association Staff Q&A](#)




Communication with Those Charged with Governance

- Pandemic is affecting information flow and communication more broadly, including between auditors and TCWG
 - Virtual communications may not be as effective as in-person
 - Designated representatives of TCWG may not be accessible due to COVID-19 related illness
 - Security may also a concern for some SMPs and their clients
- Proactive and more frequent interactions may be needed to communicate with TCWG about ethics and independence matters
 - May be necessary to agree to contingency plans or alternative arrangements as circumstances change
 - It may make sense to communicate to all TCWG vs a representatives or subgroup

Available Resources

- Dedicated COVID-19 webpages
 - [IESBA](#) – Ethics & independence
 - [IAASB](#) – Audit & assurance
 - [IPSASB](#) – Public sector accounting
 - [IFAC](#) – Audit, ethics & independence, financial reporting, business continuity & recovery, professional & personal wellness, general information
- IFAC Publication series, [*Exploring the IESBA Code*](#)

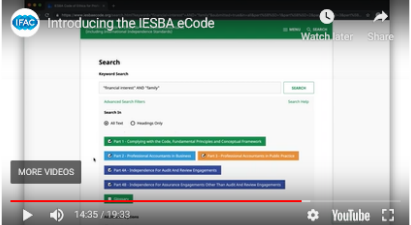
International Ethics Standards Board for Accountants®



WELCOME TO THE IESBA ECODE

The eCode is an electronic version of the currently effective International Code of Ethics for Professional Accountants (including International Independence Standards).

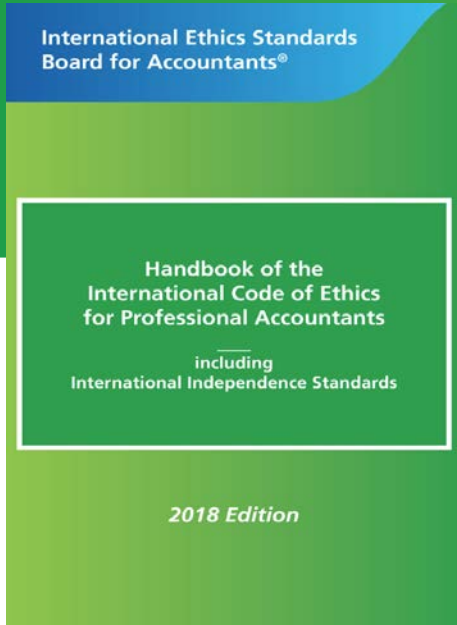
Watch a demonstration of the eCode features.



Terms of Use

Copyright © July 2018 by the International Federation of Accountants (IFAC). All rights reserved. By using this eCode, you agree to the following terms of use. This 2018 edition of the eCode may be reproduced in part solely for professional and personal reference and research work. For all other uses of the eCode, including reproduction, translation, modification or adaptation, please direct permission requests to permissions@ifac.org.

[AGREE AND ENTER ECODE](#)



The Ethics Board

www.ethicsboard.org

 @ethics_board |  company/iesba