

IESBA Meeting Highlights and Decisions

September 2013

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This summary of decisions of the International Ethics Standards Board for Accountants (IESBA) has been prepared for information purposes only. Except for approval of documents for public exposure and issuance of final pronouncements, decisions reported are tentative, reflect only the current status of discussions on projects, and may change after further deliberation by the IESBA.

Responding to a Suspected Illegal Act

The IESBA considered a revised draft of a straw man of an alternative to the approach set out in the Exposure Draft, *Responding to a Suspected Illegal Act*, regarding a professional accountant's responsibilities when encountering a suspected illegal act. Among other matters, the IESBA discussed and agreed to align the term "suspected illegal act" with the term "non-compliance with laws or regulations" used in the International Standards on Auditing (ISAs); it explored the possibility of establishing a presumption, which can be rebutted, that disclosure will be made under certain conditions by professional accountants for clients that are public interest entity audit clients; and it discussed documentation, changes to other sections of the Code, and communication between successor and predecessor accounting firms.

The IESBA will consider a first-read draft of a possible re-Exposure Draft at its December 2013 meeting.

Structure of the Code

The IESBA received an update on the Structure of the Code Working Group's preliminary analysis of research findings regarding ways to improve the usability of the Code. Amongst other matters, the IESBA discussed the topics of enhancing the visibility of the Code's requirements; clarifying responsibility for compliance with the Code's requirements; simplifying the language in the Code; repackaging parts of the Code; and an electronic Code.

The IESBA will receive the Working Group's preliminary report at its December 2013 meeting.

Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client

The IESBA considered preliminary matters arising from the research undertaken in the project to review the long association provisions in Section 290 of the Code to ensure that they continue to provide robust and appropriate safeguards against the familiarity and self-interest threats arising from long association with an audit client. Amongst other matters, the IESBA discussed: potential structural changes affecting the profession; the involvement of those charged with governance in rotation decisions; who on the engagement team should be subject to rotation with respect to audits of public interest entities; how long the “time on” period should be; the duration of the “cooling off” period; permissible activities during the “cooling off” period; exceptions to rotation requirements; and the need for rotation requirements for audits of entities that are not public interest entities.

The IESBA will continue its deliberation of the issues at its December 2013 meeting.

Emerging Issues and Outreach

The IESBA discussed and broadly supported proposals by the Emerging Issues and Outreach Working Group for processes to deal with emerging issues and outreach.

At its December 2013 meeting, the IESBA will consider with a view to approval:

- Refinements to the proposed processes; and
- Draft Terms of Reference for a standing working group to oversee the Emerging Issues and Outreach activities on a going forward basis.

Review of Part C of the Code

The IESBA discussed a straw man of a proposed new section to the Code to address the topic of pressure from superiors and others to engage in unethical or illegal acts, and related issues. Amongst other matters, the IESBA discussed the scope of the guidance and the application of the threats and safeguards approach to the topic.

The IESBA will consider the topic of preparation and reporting of information at its December 2013 meeting.

Provision of Non-Assurance Services (NAS) to an Audit Client

The IESBA approved a project proposal to review the NAS provisions in Section 290, *Independence – Audit and Review Engagements*, and Section 291, *Independence – Other Assurance Engagements*, of the Code as these relate to the following three areas:

- Management responsibilities;
- Services of a routine or mechanical nature; and
- Emergency exceptions for bookkeeping and taxation services.

The IESBA also discussed possible elements of a paper that would set out its views and positions on NAS and related matters.

The IESBA will consider a first-read draft of proposed changes to the Code related to the above three areas at its December 2013 meeting.

Future Strategy and Work Plan

Audit Quality

The IESBA discussed a number of matters arising from the International Auditing and Assurance Standards Board's (IAASB) Audit Quality project that may have implications for the IESBA's future strategy and work plan (SWP). These matters included: the need for additional guidance to expand upon some of the fundamental principles in the Code as these apply to auditors; information sharing by auditors with respect to shareholders and regulators, and between auditors when there is a change of auditors; the need for, and who should be involved in developing, guidance on audit firm governance; and the need for a process to analyze root causes of audit failures.

The IESBA Planning Committee will consider the way forward in relation to these matters.

Proposed SWP Consultation Paper

The IESBA discussed an initial draft of the Consultation Paper, *IESBA Strategy and Work Plan 2015-2018*. The draft consultation paper set out the context for the IESBA's future strategy, proposed strategic themes for 2015 to 2018, and potential actions and priorities.

The IESBA will consider a revised draft of the Consultation Paper for approval at its December 2013 meeting.

Liaison with IFAC SMP Committee

The IESBA approved in principle, subject to comments from the IFAC Small and Medium Practices (SMP) Committee, a statement of principles to guide the IESBA's liaison activities with the IFAC SMP Committee. The IESBA will consider the statement of principles for final approval at its December 2013 meeting.

The IESBA also received an update on actions regarding the October 2011 report of the IESBA Small- and Medium-Sized Entity (SME)/SMP Working Group.

Presentation on Context and Issues in Hong Kong and Mainland China

The IESBA received a presentation from Albert Au, a member of the IFAC SMP Committee, on the context and issues relating to ethics standards for professional accountants in Hong Kong and mainland China.

Next Meeting

The next meeting of the IESBA will be held in New York, USA, on December 4-6, 2013.