

AGENDA PAPER

Item Number: 6

Date of Meeting: 6 March 2020

Subject: International and other activities

Action required For discussion For noting For information

Purpose

To provide an update to the Board on:

- the IESBA Board Meetings;
- International and other developments of interest; and
- APESB submissions, presentations and other activities.

IESBA

IESBA Board Meeting

IESBA held a Board Meeting on December 3 – 6, 2019 in New York, USA, which included the following key agenda items:

- Fees;
- Non-assurance services;
- Definitions of Listed Entity and PIE;
- Technology;
- Tax planning and related services; and
- Role and mindset.

At this meeting, the IESBA approved the following three exposure drafts:

- [Proposed Revisions to the Fee-related Provisions of the Code](#) (comments due 4 May 2020);
- [Proposed Revisions to the Non-Assurance Services Provisions of the Code](#) (comments due 4 May 2020) and
- [Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers](#) (comments due 16 March 2020).

Further details on the contents of these exposure drafts are set out in Agenda Item 7 of this Board Meeting.

Other key decisions at the IESBA Board meeting included:

- the establishment of a Technology project and Task Force to consider potential enhancements to the Code.
- the establishment of a Working Group to consider the definition of the engagement team.
- the approval for a project to review the definitions of 'listed entities' and 'public interest entities.'

Refer to Agenda Item 6(a) for the IESBA Meeting Highlights and Decisions, or access the highlights podcast from the [IESBA website](#).

The next IESBA Board meeting will be held in New York, USA, on March 16 – 18, 2020.

Other IESBA developments

Revisions to Part 4B of the Code

In January 2020, the IESBA released the standard [Revisions to Part 4B of the Code to reflect terms and concepts used in ISAE 3000 \(Revised\)](#), effective from 15 June 2021. The main revisions, developed in coordination with the IAASB, include:

- Changes in key terminology, including a revised definition of the term “assurance client”;
- Amendments to certain independence requirements in light of the revised assurance client definition;
- Greater clarity as to the parties to an assurance engagement and their roles and responsibilities, and the related independence requirements that apply; and
- A clearer distinction between the types of assurance engagement covered in Parts 4A and 4B of the Code.

IESBA Board movements

In January 2020, the IESBA announced the appointments of two new Board members: Mrs. Laurie Endsley (United States) and Mr. Richard Huesken (United States). The Board also confirmed the re-appointment of Mr. Hiro Fukukawa (Japan), Ms. Kim Gibson (United States), and Ms. Caroline Lee (Singapore), with Mr. Richard Fleck (United Kingdom) being reappointed as the Deputy Chair for a further year.

The departing IESBA Board members are Alden Leung (China), Patricia Mulvaney (United States) and Sylvie Soulier (France).

The IESBA also welcomed two new technical advisors, Ms. Laura Friedrich (Canada) and Ms. Kristen Wydell (Australia).

IESBA Webinars

The IESBA has announced dates for two webinars focused on the recently released Exposure Drafts relating to Non-assurance services (NAS) and Fees that further reinforce auditor independence.

The hour-long webinars will be held on 17 March 2020 for the NAS proposals and on 19 March 2020 for the Fees proposals.

More information on these webinars, including registration, is on the [IESBA website](#).

International and Other Developments

International Auditing and Assurance Standards Board (IAASB)

IAASB Board Meeting

The IAASB held a Board meeting on December 9 – 13, 2019, in New York, USA.

The IAASB discussed stakeholder feedback to the ISQM 1 and 2 exposure drafts. The Board supported changes to the structure of the proposed ISQM 1, including simplifying and improving the readability of the standard, as well as including a risk-based approach to monitoring and remediation. The Board also supported changes to ISQM 2, including the scope and the inclusion of a mandatory cooling-off period for EQ reviewers. A revised draft of the proposed ISQM 2 will be presented at the March 2020 meeting.

The IAASB meeting highlights are available on the [IAASB website](#).

The next meeting will be held on March 16 – 20, 2020, in New York, USA.

International Federation of Accountants

Exploring the IESBA Code

Over the next twelve months, IFAC will release monthly information sheets on *Exploring the IESBA Code* to promote a greater understanding of the revisions and application of the restructured Code of Ethics. To date, IFAC has released two information sheets:

- [The Five Fundamental Principles](#) released 21 November 2019; and
- [The Conceptual Framework: Step 1 - Identifying Threats](#), released 30 January 2020.

Five Factors for High-Quality Audits

In February 2020, IFAC set out its recommendations for achieving high-quality audits. IFAC has identified five essential factors required in order to achieve high-quality audits: the right process, the right people, the right governance, the right regulation, and the right measurement.

The details of the recommendations are available on the [IFAC website](#).

Financial Reporting Council – UK (FRC)

Revised Ethical Standard

In December 2019, the UK FRC released its revised Ethical Standards, which is effective from March 2020. The revised Standards incorporate changes to align with the IESBA Code and prohibit auditors from providing recruitment and remuneration services or playing any part in management decision-making. Public interest entity auditors will now only be able to provide non-audit services that are closely linked to the audit itself or required by law or regulation. The FRC believe this will dramatically reduce the risk of a damaging conflict of interest, where the commercial interests of an auditor are perceived to be the most important factor in an audit relationship, rather than a focus on a high quality audit.

Refer to the [Media Release](#) or the [revised Ethical Standard](#) for further details.

International Forum of Independent Audit Regulators (IFIAR)

Annual Survey of Inspection Findings

In February 2020, the IFIAR released its 2019 [Survey of Inspection Findings](#), which summarises the results of inspections of its 55-member regulators on the six largest global networks. The survey included inspection of 926 PIE audits and indicated that on the overall, 33% of the listed PIE audits inspected had at least one finding (compared to a higher rate of 47% in 2014). Findings included departures from auditor independence and ethical requirements which had an impact on audit quality.

UK Government - State for Business, Energy and Industrial Strategy (BEIS)

Report of the Independent Review into the Quality and Effectiveness of Audit (the Brydon review)

Sir Donald Brydon's final report into the quality and effectiveness of the audit was released in December 2019. This report makes 64 recommendations (listed in full in Agenda Item 6(b)) which encompass:

- A redefinition of audit and its purpose;
- The creation of a corporate auditing profession governed by principles;
- The introduction of suspicion into the qualities of auditing;
- The extension of the concept of auditing to areas beyond financial statements;
- Mechanisms to encourage greater engagement of shareholders with audit and auditors;
- A change to the language of the opinion given by auditors;
- The introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement;
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance;
- Greater clarity around the role of the audit committee;
- A package of measures around fraud detection and prevention;
- Improved auditor communication and transparency;
- Obligations to acknowledge external signals of concern;
- Extension of the audit to new areas including Alternative Performance Measures; and
- The increased use of technology.

The [full report](#) and supporting documents are available on the [UK Government website](#).

Financial Adviser Standards and Ethics Authority (FASEA)

Preliminary responses - guidance on the FASEA Code of Ethics

In December 2019, FASEA released a [report](#) that addresses some of the stakeholder feedback they received on their guidance document FG002 *Financial Planners and Advisers Code of Ethics 2019 Guidance*. The report clarifies common questions, including the operation of Standard 3 of the FASEA Code and the forms of remuneration.

The full report may be found on the [FASEA website](#).

FASEA Board movements

FASEA has announced the [appointment](#) of Mr. Will Hamilton to their Board, effective 9 December 2019, as well as the [departure](#) of Ms. Catriona Lowe, effective 31 January 2020.

Australian Securities and Investments Commission (ASIC)

Audit inspection findings

In December 2019, ASIC released an [audit inspection findings summary report](#) for the twelve months ending 30 June 2019. ASIC reported that in 26% of the key audit areas that were inspected, the auditor failed to obtain reasonable assurance that the financial report was free of material misstatement.

The following accounting firms have also chosen to release their individual reports on their websites: [Deloitte](#), [PwC](#), [EY](#), [KPMG](#), [Grant Thornton](#) and [BDO](#).

Australian Accounting Standards Board

Additional disclosures in special purpose financial statements for specific entities

In November 2019, the AASB issued [AASB 2019-4](#), which includes new disclosure requirements for Not-for-Profit Private Sector Entities preparing Special Purpose Financial Statements on compliance with recognition and measurement requirements. This is effective for annual reporting periods ending on or after 30 June 2020.

Auditing and Assurance Standards Board (AUASB)

Reissue of ASA 102

In December 2019, the AUASB reissued ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews, and Other Assurance Engagements*, operative for engagements with financial reporting periods ending on or after 31 December 2019. This standard gives legal backing to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

More information may be found on the [AUASB website](#).

Research Report 4 – the provision of NAS by audit firms in Australia

In December 2019, the AUASB released Research Report 4 *The provision of Non-Audit Services by Audit Firms in Australia: 2012-2018*, authored by Professor Elizabeth Carson of UNSW. This report provides an evidence-based perspective on the size and changes in the non-audit services market in Australia for ASX listed companies and demonstrates that non-audit services provided by auditors to their audit clients have declined in the period from 2012 to 2018.

Further details are available in the [media release](#) or the [full report](#) on the AUASB website.

Tax Practitioners Board

Whistleblowing legislation

In November 2019, the Tax Practitioners Board (TPB) released guidance on the new whistleblower legislation that commenced on 1 July 2019. The guidance outlines what is covered by the whistleblowing legislation and includes some questions and answers. The guidance is available on the [TPB website](#).

APESB submissions, presentations and other activities

APESB appearance at PJC inquiry into audit regulation

Ms. Nancy Milne OAM and Mr. Channa Wijesinghe presented evidence at the 7 February 2020 Public Hearing of the Parliamentary Joint Committee Inquiry into the Regulation of Auditing in Australia (PJC Inquiry). The Hansard for this hearing is available on the [Parliament website](#).

APESB Submissions and Correspondence to the PJC inquiry into audit regulation

In addition to APESB's original submission to the PJC Inquiry, APESB has provided a further [supplementary submission](#) clarifying the requirements relating to the provision of insolvency services by audit firms.

In addition, APESB also provided an additional [letter](#) to the PJC Inquiry to clarify comments made at the 19 November 2019 Public Hearing of the PJC Inquiry about the mandatory nature of the Code and its prohibitions.

Refer to Agenda Item 8 for an update on the PJC Inquiry.

APESB submission to the IESBA ED on Role and Mindset

In November 2019, APESB submitted a response to the IESBA's Exposure Draft, *Proposed Revisions to the Code to promote the Role and Mindset expected of Professional Accountants*. The submission notes APESB's support for the project's objective but raises concerns about restricting the definition of Independence to assurance engagements.

The submission is available on the [APESB website](#).

Presentation to other Boards

Ms. Nancy Milne OAM and Mr. Channa Wijesinghe presented on the APESB's activities (including changes to APESB's constitution and Board, PJC inquiry into audit regulation, current APESB Projects and future IESBA projects of importance) to the following Boards:

- Financial Reporting Council (FRC) Board meeting – 6 November 2019
- AUASB Board Meeting – 4 December 2019

ACNC Fireside Chat Panel

Mr. Channa Wijesinghe was a speaker at the ACNC's Fireside Chat panel discussion in November 2019 of all the standards setters in the accounting profession. Mr. Wijesinghe spoke about the importance of professional ethics, the current APESB projects including the restructured Code of Ethics, the PJC inquiry into audit regulation, and future IESBA projects.

Media Statement on Auditor Independence

In January 2020, APESB published a media statement on the strong auditor independence requirements being a key feature of the revised Code of Ethics. The full media statement is available on [APESB's website](#).

Recommendation

That the Board note the update on international and other activities.

Materials Presented

Agenda Item 6 (a)	IESBA Meeting Highlights - December 2019
Agenda Item 6 (b)	Brydon report - List of recommendations

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Date:	21 February 2020
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