

***IESBA's Exposure Drafts  
and  
APESB's Long Association ED***

**APESB Roundtable**

*Melbourne, 29 March 2017*

# APESB Roundtable - Agenda

12.00 PM	Lunch and Networking
12.30 PM	Welcome and Background
12.40 PM	IESBA's <i>Safeguards Phase 2</i> ED
12.50 PM	IESBA's <i>Structure Phase 2</i> ED
1.00 PM	Roundtable discussions
1.40 PM	Afternoon Tea
1.50 PM	IESBA's <i>Applicability of Part C</i> ED
2.00 PM	APESB's <i>Long Association</i> ED
2.10 PM	Roundtable discussions
2.30 PM	Closing Remarks

# Welcome and Background

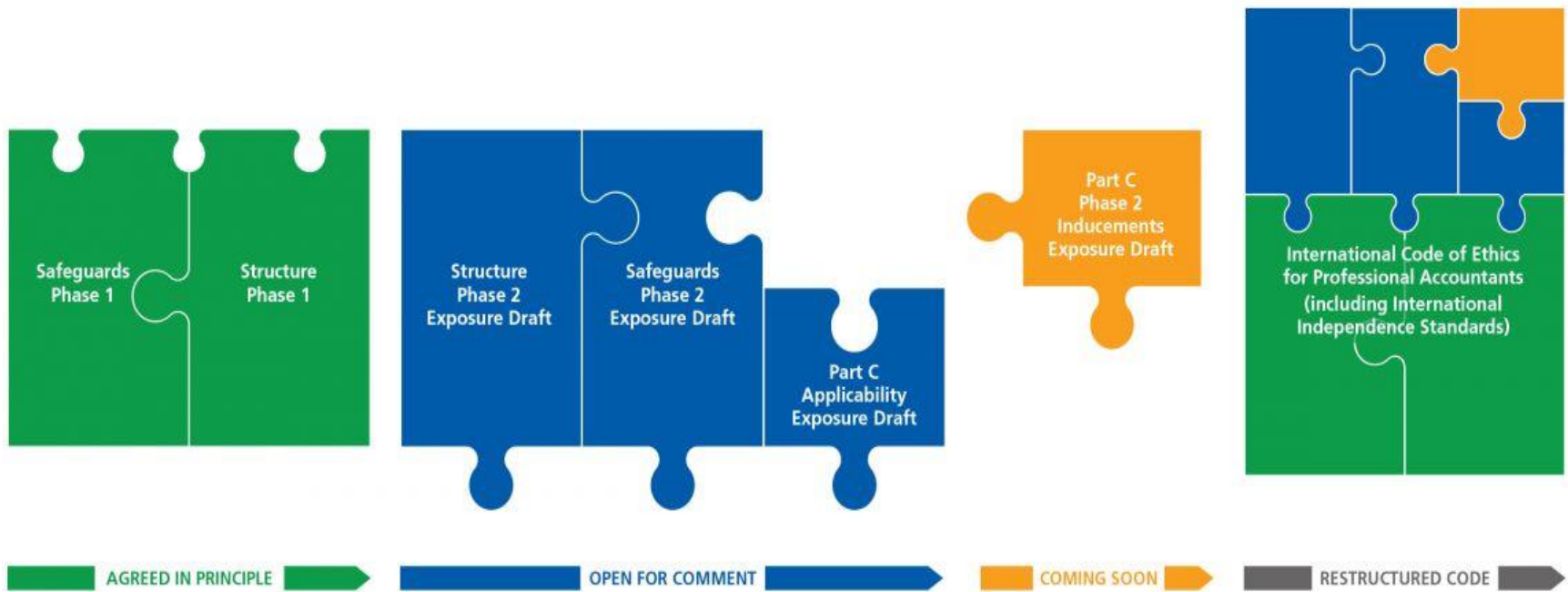
*The Hon. Nicola Roxon*

*Chairman*



# Background

## IESBA's Code Restructure Project



# How the new IESBA Code is structured

## GUIDE TO THE CODE

PART 1 (ALL PROFESSIONAL ACCOUNTANTS)  
**COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK**  
(SECTIONS 100 TO 199)

PART 2  
**PROFESSIONAL ACCOUNTANTS IN BUSINESS**  
(SECTIONS 200 TO 299)

PART 3  
**PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**  
(SECTIONS 300 – 399)

**INTERNATIONAL INDEPENDENCE STANDARDS**  
(PARTS 4A AND 4B)

PART 4A – **INDEPENDENCE FOR AUDITS AND REVIEWS**  
(SECTIONS 400 TO 899)

PART 4B – **INDEPENDENCE FOR OTHER ASSURANCE ENGAGEMENTS**  
(SECTIONS 900 TO 999)

**GLOSSARY (ALL PROFESSIONAL ACCOUNTANTS)**

# IESBA's Current Timeline

Date	Development at IESBA
Dec 2016	Completed Phase 1 - Structure and Safeguards
Jan 2017	<ul style="list-style-type: none"> <li>• Released closed-off Long Association document</li> <li>• Issued Exposure Drafts               <ul style="list-style-type: none"> <li>○ Safeguards Phase 2</li> <li>○ Structure Phase 2</li> <li>○ Applicability of Part C</li> </ul> </li> </ul>
April 2017	Part C – Phase 2
Dec 2017	Expected completion of the Code restructure project
March 2018	Issue of the restructured Code

# Highlights of Restructure Phase 1

- New structure of the Code
- *New Guide to the Code*
- Increased prominence of requirements
- New drafting conventions to improve clarity
- Enhanced conceptual framework

# Important Dates

Exposure Draft	Comment Deadline
Safeguards Phase 2	25 April 2017
Structure Phase 2	25 May 2017
Part C Applicability	25 April 2017

Submissions to APESB due by 7 April 2017



# APESB's Recent Code Exposure Drafts

- ED 02/16 *Proposed Amendments to the Code to incorporate NOCLAR and Non-Assurance Services*
  - 3 submissions received to date
  - Extension granted to 2 stakeholders
  - Key issue – effective date
- ED 01/17 *Proposed Amendments to the Code to incorporate Long Association of Personnel with an Audit or Assurance Client*
  - Comment deadline: 7 April 2017

# APESB's consultation process

- Stakeholder consultations
  - Sydney (27 March 2017)
  - Melbourne (29 March 2017)
- Local stakeholders' submissions to APESB.
- Development of APESB's submissions to the IESBA.

# Overview of IESBA's Safeguards and Structure Phase 2 EDs

*Channa Wijesinghe*  
*Chief Executive Officer*

# IESBA's Safeguards Phase 2 ED

# Topics

- Significant Matters
- Other Matters
- Technical Staff proposals for consideration
- Technical Staff views
- Matters for discussion

# Significant Matters

Exposure Draft focuses on:

- Provision of Non-assurance services (NAS) to:
  - Audit Clients  
*(Section 600/ extant paragraphs 290.154 – 290.216)*
  - Assurance Clients  
*(Section 950/ extant paragraphs 291.138 – 291.148)*
- Conforming amendments to other sections

# Significant Matters

- No changes to the NAS types addressed
- Now contains explicit statements as to when NAS is prohibited
- Prohibitions from extant Code retained
- Prohibition on recruiting services to be extended to all audit clients (not just PIEs)
- Extant prohibition on assuming management responsibilities made more prominent

# Significant Matters

- Clarification and enhancements to extant safeguards
  - Actions that might be safeguards
  - Seeking advice from another party not a safeguard
  - Consistent descriptions applied



# Significant Matters

- *Examples of safeguards* retained in the restructured Code are either:
  - examples of actions that might be safeguards to address a specific threat; or
  - other actions:
    - eliminate the circumstance creating the threat; or
    - decline/end the professional activity

# Other Matters

- New application material
  - materiality in relation to Financial Statements
  - combined effect of threats when providing multiple NAS to a client
  - examples of factors to identify threats for taxation, IT System and Litigation Support Services
- Use of “firms and network firms” for clarity
- New section ‘Administrative services’ but guidance already in extant Code

# Other Matters

## Conforming Amendments

- Clarity on use of term ‘breach’
- ‘Significance of threat’ replaced with ‘level of threat’
- ‘Factors relevant in evaluating the level of threats’ replaces ‘conditions, policies and procedures’ (proposal from Phase 1)
- Removed duplication of conceptual framework requirements and guidance within each section

# Technical Staff proposals for consideration

1. Perform comprehensive review to ensure consistent application of drafting conventions.
2. Perform critical review of safeguards to ensure that they are appropriate and relevant from a SMP perspective.
3. Clarification of requirement paragraphs on avoiding management responsibilities (*paragraphs R600.8, R600.9, R950.6*)

# Technical Staff views

- Compliance with conceptual framework is emphasised.
- Clarity in respect of *examples of safeguards*
  - Focus on reducing threats rather than checklist approach
  - Emphasises other actions that might be safeguards
- Increased clarity of language
  - use of simpler sentences
  - elimination of complex grammatical structures.

# Matters for discussion

1. What are your views regarding Technical Staff proposals?
2. The IESBA are seeking further examples of safeguards relevant to NAS, which can also be applied practically by SMPs.

Appendix A contains a list of safeguards for various types of NAS. Can you think of other safeguards that could apply and would meet the revised definition of a safeguard?

## Matters for discussion

3. The IESBA are proposing that seeking advice from another party will not meet the revised definition of a safeguard. For example extant paragraph 291.181 included a safeguard of obtaining advice from an external tax professional, which is not included in the proposed equivalent paragraph 604.7 A2.

However Technical Staff queries the consistent application of this change when consulting with a third party has been retained as a safeguard (refer to paragraph 410.4 A2/ extant 290.217).

- a) Do you agree that seeking advice should no longer be a safeguard?
- b) Should this exclusion be consistently applied or does the different phrasing make the exceptions suitable?

## Matters for Discussion

4. Do you agree with the proposal that the Firm or Network Firm should be required to ensure that client's management perform specific tasks and activities, such as:
- designation of an individual to be responsible for client's decisions and to oversee services;
  - oversight and evaluation of services provided; and
  - acceptance of responsibility for actions?

*(paragraphs R600.8 and R950.6)*



## Matters for Discussion

5. Is the type of entity a relevant factor in evaluating the level of threats to Independence when providing NAS to an Audit Client? If not, why?  
*(paragraph 600.4 A3)*
  
6. Do you agree with the extension of the prohibition of recruitment services involving candidate searches and undertaking reference checks for prospective candidates to all Audit Clients?  
*(paragraph R609.6)*

## Matters for Discussion

7. Do you agree with the revised guidance on tax preparation services which involves “assisting Clients with their tax reporting obligations by drafting and **compiling** information, including the amount of tax due”? Note extant guidance refers to **completing** information.  
*(paragraph 604.5 A2/ extant 290.180)*
  
8. What are your views regarding the change to the individuals with appropriate expertise who might review tax calculations as a safeguard – ‘ a professional’ vs ‘partner or senior staff member’?  
*(paragraphs 604.7 A2 / extant 290.181 )*

## Matters for Discussion

9. Do you agree the following items are not relevant factors in evaluating the level of any threat created by providing valuation services to an Audit Client?
- The availability of established methodologies and professional guidelines
  - The reliability and extent of the underlying data  
*(paragraph 603.4 A1 / extant 290.173)*

## Matters for Discussion

10. The following factors are listed as relevant in evaluating level of threats created by providing IT systems services to Audit Clients:
- The nature of the services.
  - The nature of IT systems.
  - The degree of reliance that will be placed on the particular IT systems as part of the audit.

Are these appropriate? Can you suggest other factors that might be relevant?

*(paragraph 606.4 A1)*

# Participant Notes

# IESBA's Structure Phase 2 ED

# Topics

- Content and aims of ED
- Significant Matters
- Other Matters
- Technical Staff proposals for consideration
- Technical Staff views
- Matters for discussion

# Content of ED

Topic	Extant	Restructured
Professional Accountants in Business	Part C	Part 2 (Sections 200-270)
NOCLAR	Sections 225 & 360	Sections 260 & 360
Long Association	Sections 290 & 291	Sections 540 & 940
Restricted Use Reports	Paras 290.500 – 290.514	Section 800
Independence - Other Assurance	Section 291	Part 4B (Section 900)



# Aims of Structure Phase 2 ED

Consistent with Phase 1, restructured text:

- aims to enhance readability without changing meaning
- emphasises the requirement to comply with the fundamental principles and apply the conceptual framework
- Distinguishes between requirements (R) and application material (A)
- Increases clarity of responsibility of Firms vs individual professional accountants

# Significant Matters

- ‘Eligible audit engagement’ – an engagement to issue a restricted use and distribution report  
*(section 800)*
- Revisions required for changes to IAASB Standards and framework – to be a separate project
- Audit of specific elements, accounts or items of a Financial Statement within scope of new Part 4B  
*(extant Section 291)*

# Other Matters

- Additional projects outside scope of restructure
- Electronic code & future tools developed post issue of restructured Code

# Technical Staff proposals for consideration

1. Perform a review to ensure:
  - drafting conventions consistently applied
  - the meaning of extant provisions are retained
  - requirements have not been changed to application material and vice versa
2. Appropriateness of requirement paragraphs referring to application material (e.g. R260.26)
3. Numbering system complex and not logical
4. Glossary better placed at the start of the Code

# Technical Staff views

- Requirements clearly distinguished from application material
- Consistent sequence in each section improves how users interpret information
- Improved layout of Independence sections (Part 4)

## Matters for Discussion

1. What are your views regarding the Technical Staff proposals?
2. Is *'increasing the client base in the Firm to reduce dependence on an assurance client'* an achievable action in practice (for example, SMPs) to address threats caused by an assurance client's fees being proportionally significant to a Firm's total fees?  
(*paragraph 905.4 A2*)

## Matters for Discussion

3. Section 220 requires a professional accountant to prepare or present information that will not mislead or influence contractual or regulatory outcomes inappropriately.  
*(paragraphs 220.7 A1 and R220.8)*

Technical Staff believes that the phrase ‘contractual or regulatory outcomes’ is limiting. For example, this requirement could also apply to operational outcomes such as profitability of a product line or evaluation of alternative projects.

- a) Do you agree with the Technical Staff view?
- b) What other outcomes or matters should be addressed in this requirement?

# Participant Notes



# Roundtable Discussions on Safeguards and Structure EDs

*Allocation of questions to Tables*

# Afternoon Tea

# Applicability of Part C to Professional Accountants in Public Practice

*Channa Wijesinghe*  
*Chief Executive Officer*

# Applicability of Part C ED

- **Rationale for Applicability to Public Practice**
  - Professional Accountants in Public Practice encounter ethical issues that do not involve clients
  - In these circumstances they are in an employment relationship similar to Professional Accountants in Business (PAIB)

# Applicability of Part C ED

- **Specific areas identified by IESBA**
  - Conflicts of interest
  - Pressure
  - Inducements

# Applicability of Part C ED

- **Options considered by IESBA**
  - Duplicate requirements in Part B
  - Amend or clarify the definition of a PAIB
  - Clarify that the requirements and application material can be applied in a holistic manner

# Applicability of Part C ED

## IESBA's Proposed approach

- Adopt holistic approach
- Place applicability prominently in Part 1  
(Paragraphs R120.4 & 120.4 A1)
- Place applicability prominently in Part 3  
(Paragraphs R300.5 & 300.5 A1)
- Part 2 defines Professional Accountant to include an Accountant in practice and performing employment related activities (Paragraph 200.4)

# Technical Staff views

- Agree with IESBA's views on applicability
- Support IESBA's approach adopted in the ED
- The application guidance could be enhanced with the use of different examples (rather than the use of the same example) and to demonstrate different contexts



# Matters for Discussion

1. Do you agree with the applicability of Part C to Professional Accountants in Public Practice?
2. What are your views on the approach adopted by IESBA to enact the applicability of Part C?
3. Do you believe that further examples will be useful to demonstrate the breadth of coverage to the user?

# Participant Notes

# **APESB's Long Association ED**

*Channa Wijesinghe*  
*Chief Executive Officer*

# Long Association ED

- **Effective date**
  - Audits of financial statements for years beginning on or after **15 December 2018**
  - For assurance clients, effective as of **15 December 2018**
- **Position where shorter cooling-off period established by legislation or regulation**
  - A cooling-off period of three years will be applicable for audits for periods beginning prior to 15 December 2023
  - To facilitate transition to the required 5 years cooling off period

# Long Association ED

Role	Existing Code with the Corps Act		Proposed Code		Proposed Code with the Corps Act	
	Time-on (years)	Cooling off (years)	Time-on (years)	Cooling off (years)	Time-on (years)	Cooling off (years)
Engagement Partner	5*	2	7	5	5*	3
EQCR Partner	5*	2	7	3	5*	3
Other Key Audit Partners	7	2	7	2	7	2

\* Assuming that Engagement Partner or EQCR Partner serves a 5-year time-on period

# Significant Matters

## Long Association – Sunset clause

- Sunset clause to limit shorter cooling-off period
  - IESBA will evaluate impact of the cooling-off period under jurisdictional requirements prior to its expiry
  - Potential impact for Australia post 2023:
    - 5 years time-on period / 5 years cooling-off period

# Technical Staff proposals for consideration

## Long Association – future directions

- Influence either:
  - IESBA to remove sunset clause in order to maintain the cooling-off period as three years;

OR

- Australian legislators to amend *Corporations Act 2001* to align with IESBA Code of 7 years time on and 5 years cooling-off

# Matters for Discussion

1. What are your views in respect of the transitional provision of three years cooling-off until 2023?
2. What are the potential impacts of the sunset clause for post 2023 audits?
3. What are your views regarding Technical Staff proposals?



# Participant Notes

# Roundtable Discussions on Part C and Long Association EDs

*Allocation of questions to Tables*

# Closing Remarks

*The Hon. Nicola Roxon*  
*Chairman*