

AGENDA PAPER

Item Number: 17
Date of Meeting: 31 May 2016
Subject: International and other activities

Action required For discussion For noting For information

Purpose:

To provide a quarterly update to the Board on:

- IESBA Board Meetings and APESB's international engagements;
- International developments of interest; and
- APESB submissions, presentations and other activities.

IESBA

IESBA Board Meetings

The IESBA held a Board meeting on 14 - 16 March 2016 in Madrid, Spain, and subsequently a conference call meeting on 25 April 2016.

The IESBA March Board meeting considered the following key agenda items:

- Non-Compliance with Laws and Regulations (NOCLAR);
- Structure of the Code;
- Long Associations;
- Fee-Related Matters;
- Safeguards in the Code;
- Part C of the Code; and
- Emerging Issues and Outreach.

At the meeting, the IESBA considered the NOCLAR provisions and agreed in principle subject to the International Auditing and Accounting Board (IAASB) deliberating the impacts on their standards. Post IAASB deliberations, the IESBA will reconsider the NOCLAR provisions via a conference call. The IESBA also approved a new working group to undertake fact finding in relation to fee-related matters and considered phase 2 of the Structure, Safeguards and Part C of the Code projects.

The IESBA also received a presentation from the Institute of Chartered Accountants of Scotland (ICAS) on the concept of the Power of One. ICAS are proposing a review of the fundamental principles in the Code of Ethics, to incorporate another fundamental principle - Moral Courage. Further details are available in the associated [discussion paper](#).

Responding to Non-Compliance with Laws and Regulations (NOCLAR)

At the April 2016 Conference Call meeting the IESBA approved the issuance of the provisions relating to the NOCLAR project. The final approved text for the NOCLAR provisions has not been released as yet. The provisions are expected to be substantially the same as the proposals in the [IESBA Board Papers](#), with minor changes to improve the clarity or enhance the content of the previously exposed provisions.

The provisions are expected to be effective as of July 15, 2017.

The IESBA has released the following meeting summaries:

- March 2016 *IESBA Meeting Summary* at Agenda 17 (a); and
- April 2016 *IESBA Meeting Summary* at Agenda 17 (b).

The next IESBA meeting is scheduled for 27 – 29 June 2016 in New York, USA.

Other IESBA matters

Chair of IESBA Consultative Advisory Group

Mr Kristian Koktvedgaard has been re-appointed Chair of the IESBA Consultative Advisory Group (IESBA CAG) for a three-year term commencing 1 July 2016. Mr. Koktvedgaard has served as IESBA CAG Chair since 2013.

International Developments

International Auditing and Assurance Standards Board (IAASB)

2014/15 IAASB Biennial Report

In April 2016, the IAASB released its 2014/2015 Biennial Report, *Championing Change in the Public Interest*. The report:

- highlights key outputs since the last report was issued, including the *Framework for Audit Quality* and the new and revised Auditor Reporting standards; and
- provides an update on the status of the board's key priorities.

Further information is available at the following [link](#) or on the IFAC website www.ifac.org.

International Forum for Independent Audit Regulators (IFIAR)

2015 Survey of inspection findings

In March 2016, IFIAR released its annual report on the survey of inspection findings of audit firms affiliated with six large, international audit firm networks. The report summarises key inspection results identified by its Members which revealed a high frequency and number of

findings in key aspects of the audit and in the inspected audit firms' systems of quality control. As a result IFIAR has agreed on a new initiative with the six largest network firms to improve audit quality. The initiative has set a target for a reduction of at least 25 per cent in at least one finding of audit inspections over the next four years.

Further information is available at the following [link](#) or www.ifiar.org.

Financial Reporting Council, United Kingdom (FRC)

Thematic review on Engagement Quality Control (EQC) Reviewers

The FRC released a report in February 2016 on a thematic review it conducted which focussed on the work performed by EQC reviewers. The review found that ECQ reviews often improves quality but some evidence was found where audit weaknesses were not identified by an EQC review. FRC believes that firms can do more to evaluate the effectiveness of the EQC review and implement additional procedures, where appropriate, to reduce the occurrence of audit weaknesses not being identified.

For further details refer to the [press release](#) or the [thematic review report](#).

Revised UK Auditing and Ethical Standards

In April 2016 the FRC released final drafts of revised Auditing and Ethical Standards. The revised standards are to incorporate changes to legislation which is expected to take effect on 17 June 2016 and developments in international standards. The changes strengthen auditor independence by applying prohibitions to a range of engagements that could result in an auditor facing a conflict of interest.

In conjunction with the release of the draft Auditing and Ethical Standards, the FRC also issued final draft updates to the UK Corporate Governance Code and the associated guidance on Audit Committees.

For further details refer to the [press release](#) or the [2016 Ethical Standard](#)

APESB submissions, presentations and other activities

Submissions

IESBA Exposure Draft Proposed Revisions Pertaining to Safeguards in the Code – Phase 1

In December 2015, the IESBA released for public comment the Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* (Safeguards ED).

APESB's submission on the Safeguards ED supported the proposed approaches to clarify the fundamental principles and application of the conceptual framework. To ensure the requirements of the Code are not diluted, APESB specified a series of key recommendations in its submission including:

- reviewing the use of the term 'might' in the Code;
- developing guidance on the timing and function of the overall assessment aspect of the conceptual framework; and
- clarifying the role of Partners or senior professional accountants in safeguard

examples.

Further details are available in the lodged [APESB Submission](#).

IESBA Exposure Draft Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1

The IESBA released for public comment in December 2015 the Exposure Draft *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1* (Structure ED).

APESB's submission on the IESBA's Structure ED agreed that the proposed restructure improves the readability and usability of the Code. APESB proposed further enhancements, such as:

- visually highlighting requirements of the Code by stating them in bold;
- relocating the glossary to improve the layout; and
- allocating a separate section to the Independence Standards.

Refer to this [link](#) to read the lodged APESB Submission.

IESBA Exposure Draft Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

In February 2016, the IESBA released for public comment the Exposure Draft *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client* (Long Associations ED).

The Long Associations ED contains the following new or revised proposals:

- rotation requirements differ if there are jurisdictional safeguards in place;
- the cooling off periods for EQC reviewers will increase but the length of time depends on whether the client is a listed or non-listed Public Interest Entity (PIE); and
- requirements set out for when an Engagement Partner or EQCR has worked on an engagement for only part of the time-on period.

APESB's submission agrees with the proposals in respect of the jurisdictional safeguards and the part time-on rotation requirements. However, APESB has expressed a concern in respect of IESBA Code introducing a distinction between a listed and un-listed PIE.

Refer to this [link](#) to read the lodged APESB Submission.

IAASB Invitation to Comment Enhancing Audit Quality in the Public Interest; A Focus on Professional Skepticism, Quality Control and Groups Audits

In December 2015 the IAASB issued an invitation to comment (ITC) on *Enhancing Audit Quality in the Public Interest; A Focus on Professional Skepticism, Quality Control and Groups Audits* (Audit Quality ITC).

APESB's recently lodged submission on the Audit Quality ITC focusses only on the topic of Quality Control. APESB recommended that the IAASB conduct research and gather empirical evidence on the causes of deficiencies in audit quality.

Further recommendations are set out in the lodged [APESB Submission](#).

Presentations

In March 2016 Mr Channa Wijesinghe delivered a presentation to Sotherton's National Assurance Committee in respect of key Auditor Independence projects/developments currently underway at the APESB and internationally. A copy of the presentation is available at this [link](#).

Material Presented

Agenda item 17 (a) IESBA March 2016 Meeting Highlights; and

Agenda item 17 (b) IESBA April 2016 Meeting Highlights.

Recommendation:

That the report on international and other activities be noted.

Author: Jacinta Hanrahan

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