

AGENDA PAPER

Item Number: 7
Date of Meeting: 19 May 2017
Subject: International and other activities

Action required For discussion For noting For information

Purpose:

To:

- a) provide a quarterly update to the Board on:
 - the IESBA Board Meetings and other developments;
 - International developments of interest; and
 - APESB submissions, presentations and other activities; and

- b) seek approval from the Board to release the submission to the IESBA on the Structure Phase 2 exposure draft.

IESBA

IESBA Board Meetings

The IESBA held a Board meeting on 13 - 15 March 2017 in New York, USA. The Board considered the following key agenda items:

- Professional Scepticism;
- Part C of the Code (Inducements);
- Fees;
- Long Association;
- Technology and Innovation;
- IFAC Anti-Corruption Initiative;
- Mid-cycle Strategy Review, and
- The IESBA Strategy Survey.

At the meeting the Board approved a project to develop and support application of Profession Scepticism. The Board discussed the Inducement sections in the Code and will consider a draft exposure draft on these sections at a teleconference to be held on 18 May 2017. The

Board also focused on reviewing their current strategic plan, and considering matters to include in their Strategy Survey

The IESBA March 2017 *IESBA Meeting Summary* is available at Agenda 7(a).

The IESBA also held a meeting by teleconference on 18 April to consider draft application guidance relating to Professional Scepticism.

The next IESBA meeting is scheduled for 19 – 21 June 2017 in New York, USA.

IESBA Technical Activities

IESBA issues final set of proposals on the restructured International Code

In January 2017, the IESBA announced the completion of the first phase of its strategic project to restructure its *Code of Ethics for Professional Accountants* (the Code). For the second, and final, phase of this project, the IESBA also released three new exposure drafts:

- *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2 (Structure 2 ED)* which contains proposals on restructuring select sections of the Code such as responding to non-compliance with laws and regulations (NOCLAR) and long association of audit firm personnel with an audit or assurance client;
- *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Conforming Amendments (Safeguards 2 ED)* which cover safeguards-related provisions relating to non-assurance services provided to audit and other assurance clients; and
- *Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice (Part C Applicability ED)*.

Further details in relation to the exposure drafts can be found on the [IESBA website](#).

APESB will be lodging submissions on all three exposure drafts. Refer to the [APESB submissions](#) section later in this report for the update.

Release of IESBA's Q&A publications on NOCLAR

In February 2017, IESBA released two [Q&A publications](#) to support the adoption and implementation of the IESBA's NOCLAR pronouncement. The publications, categorised by type of accountant, covers:

- For public practice - issues related to applicability, audits of financial statements, and professional services other than financial statement audits; and
- For business - issues related to scope, responsibilities (senior vs. other roles), organizational culture, and NOCLAR disclosure.

Refer to the [media release](#) for further information.

Other IESBA developments

Strategic review survey

On 19 April 2017, the IESBA released an online survey seeking input from stakeholders to help shape its future strategic direction. The input from this survey will help the IESBA to

develop its future strategy and work plan post completion of the restructure of the Code project.

Further details are available in the [media release](#). The survey can be accessed [here](#).

International Developments

International Federation of Accountants (IFAC)

IFAC releases results of global SMP survey

IN March 2017, IFAC released the results of their latest global SMP survey. The survey found that key challenges faced by SMPs include staffing challenges, attracting new clients, keeping up with new regulations/standards, and pressure to lower fees. Technology issues were also considered with the highest concerns being investing in and staying current with software and achieving a digital, paperless environment.

Other key findings from the survey on SMPs include:

- Recognition of the value of offering business advisory and consulting services;
- Continuing challenge of economic uncertainty and rising costs; and
- Overall performance in 2016 improved slightly over 2015.

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

Release of joint study on issue of trust relating to tax matters

A [study](#) on the public trust in tax prepared by the Association of Chartered Certified Accountants, Chartered Accountants Australia and New Zealand, and IFAC, was released in late March. The G-20 Public Trust in Tax study drew on the views of more than 7,600 people across G-20 countries on issues of trust and international taxation.

Some of the key findings from the study include:

- People want governments to put tax cooperation ahead of tax competition;
- 57% of people in G-20 countries trust or highly trust professional tax accountants as a source of information about the tax system; and
- In contrast, people in G-20 countries have become deeply distrustful of politicians when it comes to information about the tax system, with 67% either distrusting or highly distrusting politicians.

IFAC study released on the role of professional accountants in tackling corruption.

In February 2017, IFAC released a [study](#) that highlights the importance of the involvement of professional accountants and a strong governance structure in reducing corruption. The study shows professional ethics, education, and oversight—at the core of the global accountancy profession—are key to the profession's positive impact in tackling corruption.

International Auditing and Assurance Standards Board (IAASB)

Release of IAASB Work Plan

The IAASB have released their [work plan](#) for 2017-2019 (which supplements their current strategic plan). The work plan will have a focus on enhancing audit quality. APESB Technical Staff will monitor this plan to determine if it is likely to have an impact on APESB pronouncements, in particular APES 320 *Quality Control for Firms*.

Extension of term for Chair of the IAASB

It was [announced](#) in April 2017 that Professor Arnold Schilder will continue to Chair the IAASB through 2018. This extension is due to the current review of potential enhancement to international standard-setting arrangements being undertaken by key stakeholders.

International Forum for Independent Audit Regulators (IFIAR)

2016 Survey of inspection findings

In March 2017, 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 showed a general decline in inspection finding rates, however the high rate of findings is still a concern to IFIAR. They will continue to work with the six largest network firms to address this matter.

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

Financial Reporting Council – UK (FRC)

FRC to conduct review of the governance and culture at audit firms.

The FRC [announced](#) in February 2017 that it will review the governance and culture at audit firms as concerns emerge about the handling of conflicts of interest and delivery of improvements in audit quality.

In line with this announcement it has published an update on the report *Developments in Audit* which highlights that while progress has been made, audit firms need to focus on the pace of improvement in audit quality and consistency. One of the key findings in the FRC report is that there is still a concern that in dealing with perceived conflicts of interest, not all audit firms are demonstrably serving investors' interests.

FRC calling on audit firms to improve their quality control practices

The FRC released an [Audit Quality thematic review](#) in March 2017 which sets out examples of good practice identified in its latest thematic review. A key review finding showed that one-third of the audits sampled for the review required more than just limited improvements suggesting that the quality control procedures adopted by the firms had not been effective or are not sufficiently robust.

The FRC also identified procedures by some audit firms that should be a focus for audit quality improvements including:

- The appropriate involvement of specialists in the audit with sufficient reporting of their work where this was important to achieve audit quality.
- That firms should consider whether there are any insights arising from their root cause analysis where their quality control procedures could be enhanced to further improve audit quality.

APESB submissions, presentations and other activities

Submissions

APESB Technical Staff have prepared or are in the process of preparing submissions on the following exposure drafts released by the IESBA:

- *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2* (Structure 2 ED);
- *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Conforming Amendments* (Safeguards 2 ED); and
- *Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice* (Part C Applicability ED).

To assist with the preparation of the submission, APESB held two roundtable events in March 2017 in Sydney and Melbourne to consult with stakeholders on the EDs content. A copy of the APESB presentation made at the roundtables is available on the [APESB website](#).

Submissions in progress

Structure 2 ED

APESB's proposed submission on the Structure 2 ED (refer to Agenda item 7(b)) is supportive of the project. APESB has suggested key recommendations in its submission including proposed further enhancements, such as:

- enhancing the requirements in the Code to ensure they can be understood if read in isolation;
- renumbering sections and paragraphs to be consistent and follow a logical order; and
- relocating the glossary to the front of the Code.

Technical Staff seek the views of the Board in relation to the proposals in the proposed submission and whether there are other matters or issues relating to the International Code which need to be considered.

This submission is due to the IESBA on 25 May 2017.

Submissions completed

Safeguards 2 ED

APESB's submission on the Safeguards 2 ED was supportive of the project to improve the clarity, appropriateness and effectiveness of safeguards in the Code. However, APESB noted

that there is limited requirements and effective safeguards in relation to the provision of Non-Assurance Services to audit and assurance clients.

APESB specified a series of key recommendations in its submission including:

- amendments to incorporate specific references to firms and network firms;
- strengthening requirements by including the action to be undertaken by the professional accountant; and
- consulting more broadly to develop additional safeguards for the different types of non-assurance services.

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

Part C Applicability ED

APESB's submission on the Part C Applicability ED agreed that the proposed revisions would enhance the visibility of the applicability of Part C to professional accountants in Public Practice. However, the APESB also proposed that the IESBA consider making the proposed Part 2 (extant Part C) applicable to all professional accountants.

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

Recommendation:

That the Board:

- Subject to the Board's feedback, approve for release the APESB submission to the IESBA on Structure 2 ED; and
- note the update on international and other activities.

Materials Presented

Agenda Item 7 (a)	IESBA March 2017 Meeting Highlights
Agenda Item 7 (b)	Draft APESB Submission on IESBA's Structure 2 ED

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