

AGENDA PAPER

Item Number: 10

Date of Meeting: 16 August 2019

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

The IESBA held a Board Meeting on June 17 – 19, 2019 in Nashville, Tennessee, USA, which included the following key agenda items:

- Promoting the Role and Mindset Expected of Professional Accountants project;
- Potential changes to Section 410 *Fees* of the International Code;
- The rollout of the restructured Code of Ethics;
- Technology and the potential impact on the relevance of the Code;
- Potential changes to Section 600 *Provision of Non-Assurance Services to an Audit Client* of the International Code;
- The eCode project;
- An update from the IESBA Emerging Issues and Outreach Committee; and
- An update on joint IAASB-IESBA projects, including the NSS meeting in Paris, France in May 2019.

At this meeting, the IESBA approved the issue of an exposure draft on the proposed changes to the Code to promote the role, mindset and behavioural characteristics expected of professional accountants (refer below).

The IESBA Board discussed a draft of proposed changes to Section 410 *Fees* of the International Code of Ethics, which included discussion of whether the Code should:

- Emphasise the impact of the level or ratio of fees for NASs on Independence;
- Address threats to Independence created by fees charged for NASs;
- Require firms to communicate audit and non-audit fees to both TCWG and the general public; and
- Include strengthened fee dependency provisions.

The IESBA currently aim to release amended provisions for exposure by December 2019.

The IESBA also discussed Section 600 *Provision of Non-Assurance Services to an Audit Client*, aiming to approve an exposure draft at the September 2019 Board Meeting.

The next Board Meeting will be held in New York, USA on September 16 – 19, 2019. The highlights document may be found at agenda item 10 (a), and the highlights podcast may be found [here](#).

Reappointment of Dr Stavros Thomadakis

The IESBA have announced the reappointment of Dr Stavros Thomadakis as Chair for a further one-year period commencing January 1, 2020. The one-year appointment term is to allow flexibility if the role of the IESBA changes as a result of the current project by the Monitoring Group to review the structure of international standard setting relating to audit.

More information on his reappointment may be found on the IESBA website [here](#).

IESBA eCode

The IESBA released their eCode on 26 June 2019. The media release for the eCode announcement may be found [here](#). APESB has expressed an interest in utilising the eCode for the Australian environment and are currently awaiting on further guidance on this matter from IFAC and IESBA.

The new IESBA eCode website may be accessed [here](#).

Exposure Draft on the role and mindset of Professional Accountants

The IESBA have released an exposure draft which proposes changes to the International Code of Ethics for Professional Accountants (including Independence Standards) (the International Code) to promote the role and mindset expected of all Professional Accountants.

The proposed revisions:

- Highlight professional accountants' wide-ranging role in society and the relationship between compliance with the Code and a professional accountant's responsibility to act in the public interest;
- Include enhancements to the robustness of the fundamental principles of integrity, objectivity and professional behaviour;
- Further strengthen the Code through requiring professional accountants to have an inquiring mind when applying the conceptual framework; and
- Highlight the importance of being aware of bias and having the right organizational culture.

The comment period for the exposure draft closes 31 October 2019. Further information on the proposals are available on the IESBA [website](#). APESB will consult with stakeholders and prepare a submission for IESBA's consideration.

International and Other Developments

International Accounting Education Standards Board (IAESB)

The IAESB held their final Board Meeting on June 24 – 26, 2019, in Toronto, Canada. IFAC will now transition to a new model for Accounting Education Standards, which does not require PIOB approval for the issue of new standards. More information on the new model may be found [here](#) and [here](#).

Financial Reporting Council – UK (FRC)

Ethical and Auditing Standards Enhancements

The FRC have issued a proposal to implement changes to the UK's ethical and auditing standards, setting more stringent rules for auditors and enhancing the quality of auditor's reports to improve transparency. The changes include:

- A clearer and stronger 'objective, reasonable and informed third party test' which requires audit firms to consider whether a proposed action would affect their independence from the perspective of public interest stakeholders rather than another auditor. This is supported by additional material to encourage a wide-ranging assessment, which considers both the spirit and the letter of the standard;
- Enhancing the authority of the Ethics Partner function within audit firms, in order to ensure firm wide focus on ethical matters and the public interest, and to require reporting to those charged with governance where an audit firm does not follow the Ethics Partner's advice;
- The list of prohibited non-audit services that auditors of Public Interest Entities (PIEs) can provide to audited bodies has been replaced with a much shorter list of permitted services, all of which are 'closely related' to an audit or required by law and/or regulation. No other services can be provided; and
- The requirement for the auditors of all UK listed entities to include in their published auditor's reports the performance materiality threshold used in the audit.

More information about the consultation may be found [here](#).

Audit Inspections Report

The FRC's Audit Inspections report for the 2017 calendar year have been released, showing a slight improvement year-on-year (75% compared to 73% of reviewed audits classified as good or requiring limited improvement), but overall audit quality fell below the FRC's target of 90%.

The FRC found cases in each of the seven largest auditors where auditors had failed to adequately challenge management on issues with judgement.

A summary of the FRC's audit inspection findings may be found [here](#).

Annual Enforcement Review

In July 2018, the FRC released its first Annual Enforcement Review which reveals a significant increase in sanctions and settlements to tackle poor audit quality.

Key findings from the review include:

- A near trebling in annual fines, from £15.5m in 2017/18 to £42.9m in 2018/19.
- Far greater use and range of non-financial sanctions, rising from 11 in 2017/18 to 38 in 2018/19.
- Significant reduction in “legacy” cases.
- Increased use of horizon scanning techniques to identify issues requiring investigation.
- 25% in year growth in the Enforcement Division.

Further details on the FRC’s Annual Enforcement Review can be found on the [FRC website](#).

Monitoring Group

The Monitoring Group have announced the appointment of Ms Ana Martinez-Pina and Mr Sagar Teotia as co-chairs, replacing Mr Wes Bricker. Ms Martinez-Pina is the vice-chair of the Spanish Comisión Nacional del Mercado de Valores (the Spanish securities regulator), and Mr Teotia is the new Chief Accountant of the US SEC.

More information on the appointments may be found [here](#).

American Institute of Certified Public Accountants (AICPA)

Statement on Standards for Forensic Services 1

The AICPA has issued a standard for Forensic Accounting, SSFS 1, which codifies best practice for American CPAs involved in investigative or litigation work for the first time. The Standard clarifies the definitions of litigation and investigation, lays out key considerations for client-accountant relationships, and establishes boundaries on what services AICPA members can provide.

The full press release for the issuance of SSFS 1 may be found [here](#).

Association of Chartered Certified Accountants (ACCA) Global

Audit and Artificial Intelligence

ACCA Global and CA ANZ have collaborated to produce a report on the current and future use of Artificial Intelligence (AI) in the audit profession. The report warns that full implementation of AI would pose a risk to independence, but that implementation of elements of AI could shift the audit profession from a retrospective to a prospective view, and could assist in lifting audit quality and closing the expectation gap.

The full report may be accessed through the ACCA Global website [here](#).

Financial Adviser Standards and Ethics Authority (FASEA)

FASEA have issued education requirements for financial advisers which recognise CA ANZ and CPA Australia qualifications as part of their education standards for financial advisers. Advisers who have completed coursework to attain the CPA designation in or after 1989, offered by CPA Australia, have been awarded one credit recognition for prior learning, whilst advisers who have completed coursework to attain the Chartered Accountant designation in or after 1972, offered by CA ANZ (previously the Institute of Chartered Accountants in Australia), have been awarded one credit for RPL

More information on this announcement may be found on the FASEA website [here](#).

Australian Accounting Standards Board (AASB)

Conceptual Framework

The AASB have issued a new Conceptual Framework for for-profit entities required to comply with Australian Accounting Standards. The new Conceptual Framework incorporates a new definition for Reporting Entity, to align with the IASB's meaning, which differs significantly from the existing Australian definition.

More information on the new Conceptual Framework may be found [here](#).

Exposure Drafts

The AASB have issued the following Exposure drafts:

- ED 291 *Not-for-Profit Definition And Guidance*, which proposes to add a new substantive definition of a not-for-profit entity (available [here](#)). The AASB have also announced a webinar on ED 291 on August 27 at 12pm AEST (registration accessible [here](#)); and
- ED 293 *Disclosure in Special Purpose Financial Statements*, which proposes the following additional disclosures:
 - The basis on which the decision to prepare SPFS was made;
 - Where the entity has subsidiaries, investments in associates or investments in joint ventures, to disclose whether they have been consolidated or equity accounted in accordance with AAS and if not disclose the reasons why;
 - If the entity is a not-for-profit which has not determined whether or not its interests in other entities gives rise to interests in subsidiaries, associates or joint ventures, to disclose that fact; and
 - An explicit statement as to whether the entity has complied with all recognition and measurement requirements of AAS and if not where they do not comply (there is no requirement to quantify or reconcile the extent of non-compliance).

Refer to Agenda Paper 7 for more information on ED 293 and potential impacts on APESB pronouncements.

Parliamentary inquiry into regulation of auditing in Australia

On 1 August 2019, the Senate of the Australian Parliament voted to establish an inquiry into the regulation of auditing in Australia, which would consider, amongst other things, competition and conflicts of interest in the big four accounting firms – Deloitte, EY, KPMG & PwC and the performance of regulators. The call for the inquiry appears to be driven by the current global focus on audit quality, as well as recent media reports on leaked internal documents of NAB that alleges conflicts of interest between the bank and its consultants (refer to Agenda Items 10(d) and 10(e) for recent articles).

The inquiry will be conducted by Parliament's Joint Committee on Corporations and Financial Services, with submissions on the Terms of Reference of the inquiry (available on the [Joint Committee website](#)) due by 30 September 2019. The Joint Committee is expected to report on this matter in March 2020.

APESB submissions, presentations and other activities

APESB presentation at CPA Australia

In June 2019, APESB CEO Channa Wijesinghe and Technical Manager Jon Reid presented on the proposed International Standards on Quality Management, ISQM 1 and 2, to CPA Australia Quality Reviewers. The presentation included an overview of the objectives and processes of the proposed standards, as well as a comparison to the existing APES 320 *Quality Control for Firms*.

APESB submission on the IAASB's proposed ISQM 1 and 2

In July, APESB made a submission to the IAASB on the exposure drafts for the proposed International Systems of Quality Management 1 and 2. The submission raised significant concerns about the current form of the proposed standards including stakeholder concerns raised about the proposals being written from the perspective of a large multi-disciplinary firm with a focus on large complex Public Interest Entity audits. APESB is of the view that there should be a fundamental shift and a renewed focus for these proposed standards towards sole practitioners and SMPs to obtain their buy-in, as they represent the vast majority of firms globally.

APESB raised the following key concerns in respect of ED ISQM 1 and ED ISQM 2:

- Scalability of the proposals and the use of professional judgement;
- Evidence of nexus between identified deficiencies and the proposals;
- Cost-benefit analysis from the practitioner's perspective;
- The ability to use elements of the existing quality framework;
- Excessive volume of application material;
- Subjectivity and the regulator's or monitoring body's perspective; and
- Consistency with the requirements and terminology of the IESBA's International Code.

APESB's submission to the IAASB is at Agenda Item 10 (b).

APESB submission on IESBA proposed amendments to Part 4B

In July, APESB made a submission to the IESBA on proposed changes to Part 4B of the International Code. APESB was generally supportive of the proposals, however, were of the view that some of the proposed provisions would add unnecessary complexity to Part 4B. Other key recommendations in the submission included:

- the overarching requirement to be independent in Part 4B, in principle, should remain consistent with Part 4A of the IESBA Code;
- to ensure that the intent of the proposed provisions has been applied appropriately in relation to the differential treatment of the underlying subject matter and subject matter information;
- simplify and make the definitions clearer, including assurance client, assurance engagement, attestation engagement, and responsible party;
- enhance the definition of financial statements to clarify that the form and content of financial statements are determined by the applicable reporting framework; and
- Limit the terminology to be included in Part 4B to only those necessary to demonstrate that multiple potential parties may be relevant to assess threats to independence.

APESB's submission to the IESBA is set out at Agenda Item 10 (c).

CPA Australia webinar on International emerging issues

In July 2019, APESB CEO Channa Wijesinghe and CPA Australia's Ethics and Professional Standards Policy Adviser Jo Haste presented an emerging international issues webinar for CPA Australia members which included:

- the IAASB's proposed International Quality Management Standards 1 and 2, and
- the IESBA's projects on fees, Non-Assurance Services and the Role and Mindset of a Professional Accountant.

Recommendation

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

Materials Presented

Agenda Item 10 (a)	IESBA's June 2019 Meeting Highlights
Agenda Item 10 (b)	APESB Submission to IAASB on Quality Management proposals
Agenda Item 10 (c)	APESB Submission to IESBA on proposed amendments to Part 4B
Agenda Item 10 (d)	Article: Henry admits NAB was selling rip-offs (The Age, 1/8/19)
Agenda Item 10 (e)	Article: Calls for rules shake up (SMH, 3/8/19)

Authors: Jacinta Hanrahan
Benjamin Collins

Date: 5 August 2019