EIOC Update

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IESBA Meeting
New York
December 3-5, 2018
Objectives

• To update the Board on EIOC activities since September 2018; and

• To discuss the following:
  (a) Matters that warrant Board action; and
  (b) Matters with broader strategic implications

• To be briefed on other matters flagged by EIOC for noting.
A. Matters that Warrant Board Action

• Long association
  – A number of questions from NSS and firms seeking clarification re application of revised Long Association provisions (refer to Agenda Item 4-B).
  – Not currently addressed in May 2017 Long Association Q&A publication.
  – APESB and NZAuASB also issued FAQs to address implementation of the revised provisions, particularly distinction between PIE vs. non-PIE requirements.

EIOC recommendation: Commission additional Staff FAQs
A. Matters that Warrant Board Action

• Group audits
  – Intra-firm reporting when the group auditor is from one network firm and the component auditor is from another network firm.
  – Application of independence requirements when a group is a PIE, but a component is not and that component is audited by a non-network firm.
  – Reporting requirements when there is a breach of the Code at a component level.

EIOC recommendation:

Address identified issues as part of coordination efforts with IAASB on ISA 600 project (which is expected to restart in 2019)
B. Matters with Broader Strategic Implications

• Implementation of new or revised provisions in the Code
  – Feedback from outreach indicating continuing questions regarding application of new or revised provisions, esp. NOCLAR.
  – Role of the Board post-issuance?
    ▪ Communication plan for standards issuance and implementation?
    ▪ Pro-active monitoring of implementation?
    ▪ Post implementation review?
  – Role of others, e.g., IFAC?

EIOC recommendation: Prioritize future strategic action re implementation of changes to the Code, among other matters to be considered for cross-SSB coordination with IFAC and potentially others
Other Matters – For Board Noting

- UK Competition and Markets Authority’s (CMA’s) Audit Market Review
- Closely examining three main areas of concern:
  - Resilience: in particular, role Big Four firms play in terms of market resilience; exploring notion of whether these firms are “too big to fail”.
  - Choice and switching: despite evidence competition has been strengthened between the Big Four, largest UK companies almost exclusively select these firms as auditors.
  - Incentives: companies choose their own auditors; examining if this results in a lack of incentives to produce performance reviews which challenge the organization.
Other Matters – For Board Noting

• CMA's ITC identifies potential measures to address concerns:
  – *Increase competition between the Big Four, e.g.,* possible restrictions on audit firms providing non-audit services?
  – *Increase competition from non-Big Four firms.* Considering measures to reduce barriers for non-Big Four firms to build capacity. (The CMA also refers to public calls for breaking up the Big Four into smaller firms.)
  – *Improve incentives.* This includes potential measures to break the link between company management and auditors to improve auditor independence – e.g., making auditors accountable to a body other than the company.
Other Matters – For Board Noting

- KPMG UK decision to phase out all services deemed non-essential for large listed audit clients [link]
- Deloitte calls for market cap and ban on non-audit services[link]
Other Matters – For Board Noting

- Recent developments in the South Africa
  - Refer to *Agenda Item 4-C*