

## Summary of Responses to Strategy and Work Plan 2014-2016 Survey and Preliminary Planning Committee Analysis and Recommendations

### Executive Summary

1. The Planning Committee recommends:
  - Extending the current strategy period to the end of 2014 given that the Board's agenda is expected to be full until the latter part of 2014 with the addition of the four new work streams on long association, non-assurance services (NAS), Part C and Code structure in mid-2012, and the anticipated continuation of the Suspected Illegal Acts project into 2014;
  - Deferring approval of the Strategy and Work Plan (SWP) exposure draft until December 2013 and final approval of the SWP until Q4 2014, given that capacity for new projects is not expected to become available until late 2014/early 2015. This deferral would also allow time for further analysis or research, and consultation with the International Organization of Securities Commissions (IOSCO), on a number of IOSCO's suggestions to the strategy survey; and
  - Accordingly re-mapping the next SWP to cover the 2015-2017 period as opposed to the 2014-2016 period.
2. From the list of items that were suggested in the survey and items suggested by respondents, and on the basis of its preliminary analysis, the Planning Committee's preliminary recommendations regarding items worth considering for the next SWP are as follows:

#	Item	Preliminary Analysis
1.	Ethical guidance for professional accountants (PAs) in public practice providing NAS	Paragraphs 36-41
2.	Project addressing guidance on preparing accounting records and financial statements for an audit client	Paragraphs 55-57
3.	Fee dependency	Paragraph 75(a)

3. The Planning Committee's preliminary recommendations regarding items *not* worth considering for the next SWP are as follows:

#	Item	Preliminary Analysis
1.	In coordination with the IAASB, develop a standard addressing the ethical dimensions of remediation of a deficient audit report	Paragraph 16(a)
2.	Enforceability of the Code, including reassessing the benefits and drawbacks of the "threats and safeguards" approach to independence in the Code	Paragraph 16(b)

3.	Consider the need for ethical requirements for joint auditors, including in connection with current European audit reform developments	Paragraph 16(c)
4.	Consider the need for ethical requirements vis-à-vis entities that are not audit clients themselves but are parents or subsidiaries of the audited entities	Paragraph 16(d)
5.	Independence requirements for PAs not in public practice who perform assurance engagements	Paragraphs 30-35
6.	Guidance on the meaning of public interest in the context of the Code	Paragraphs 42-46
7.	Guidance on the application of the reasonable and informed third-party test	Paragraphs 47-50
8.	Project on the application of the fundamental principle of objectivity when independence is not required	Paragraphs 51-54
9.	Initiative to consider the implications of disclosure of compliance with ethical requirements in auditors' reports	Paragraphs 58-61
10.	Initiative to consider the link between the ISAs and the Code	Paragraphs 62-65
11.	Use of internal auditors to provide direct assistance on an external audit	Paragraph 75(d)
4.	The Planning Committee's recommends further analysis or research to determine whether there would be merit in including the following items for potential consideration in the next SWP:	
#	Item	Preliminary Analysis
1.	Consideration of the need to review the safeguards in the Code to address threats to auditor independence, especially with respect to public interest entities (PIEs)	Paragraph 15(a)
2.	A review of the definition of a PIE in the Code	Paragraph 15(b)
3.	Collective investment vehicles	Paragraph 17(b)
4.	The need for further prohibitions on business, employment and financial relationships between auditors and their audit clients, especially with respect to PIEs	Paragraph 75(c)
5.	Documentation	Paragraph 75(g)

5. The Planning Committee also recommends that:
  - Specific suggestions from IOSCO for matters to consider in relation to the topics of long association, NAS and Code structure be considered as part of the current work streams dealing with these topics, rather than be subject to consideration of prioritization as part of the SWP consultation (see paragraphs 11 and 75(b) and (e));
  - The next SWP continue to include a focus on:
    - Understanding and addressing the implementation support needs of small and medium practices (SMPs) (see paragraphs 17(a), 66 and 71); and
    - Understanding the extent of adoption of, or the degree of convergence with, the current Code internationally and the reasons for any differences (see paragraphs 72-74); and
  - Consideration be given to undertaking an “annual improvements”-type project to address a few other matters that are unrelated and narrow in scope (see, for example, paragraph 75(f) in relation to materiality).
6. The Planning Committee highlights the need for the Board, in considering potential standard-setting projects for the next SWP, to take into account the concern expressed by some respondents for a period of stability to allow for time for implementation of the current Code, revised July 2009 and effective January 2011 (paragraph 68).

#### **Matters for Consideration**

1. Taking into account that the tentative forward project timetable (see Agenda Item 6-C) indicates that there would be capacity for at most four new projects in the next SWP, including an “annual improvements”-type project, IESBA members are asked for views on:
  - (a) The Planning Committee’s preliminary recommendations regarding areas worth considering for the next SWP and those not worth considering, as well as the areas noted for further analysis or research;
  - (b) With respect to those areas worth considering, the level of prioritization that should be attributed to them; and
  - (c) The Planning Committee’s other recommendations above.

#### **Overview of Responses**

1. The SWP survey was distributed electronically to over 700 stakeholder contacts in early January 2013. It was also posted on the IESBA website. The survey closed on March 15, 2013 and 115 responses were received. In addition, in early May 2013, IOSCO submitted a comment letter with detailed suggestions in response to the survey.

2. The table below summarizes the number of responses received by stakeholder group:

Stakeholder Group	# Responses	Percentage
Representative of an IFAC member body	32	28%
PAs in public practice	27	24%
Users of financial statements other than regulators and audit oversight bodies	12	10%
National standard setters (NSS)	12	10%
Regulators and audit oversight bodies	9	8%
Academia	4	3%
Professional accountants in business (PAIBs)	4	3%
PAs in government	2	2%
Other	14	12%
<b>TOTAL</b>	<b>116</b>	<b>100%</b>

3. Appendix A provides a detailed listing of respondents' countries.

#### OVERALL THEMES

##### *General Comments from Monitoring Group Member IOSCO*

4. In its comment letter to the SWP survey, IOSCO expressed the view that the Board should continue to focus on improving the Code. IOSCO stated in particular its view that there are opportunities for further improvements to the auditor independence requirements in the Code, especially with respect to audits of PIEs.
5. IOSCO also expressed a general concern that the Code may adopt a lowest common denominator approach that is not appropriate for PIE audits. It felt that the Code seems to reflect a number of compromises to address perceived practical issues in some, particularly smaller, jurisdictions. It suggested that the Code should have regard to potentially higher thresholds set by users of financial reports and users of accounting/audit services in the more developed capital markets.
6. IOSCO's comment letter is attached for reference as Agenda Item 6-B.

##### *Themes from Other Responses*

7. A number of general themes are apparent from comments made by other respondents to the survey. Some of these themes seem to be of a recurring nature or support Board priorities that have already been identified. These themes include:
  - Significant support for a reconsideration of the structure of the Code to facilitate enforcement and adoption and implementation.
  - A greater focus on providing support for implementation and learning, particularly to address the needs with respect to SMPs and small- and medium-sized entities (SMEs).
  - The need to maintain a stable platform for a period of time to allow the 2009 Code, which

became effective on January 1, 2011, to bed down.

- Support for expanded outreach efforts to raise awareness of the Code and the robustness of its provisions.
  - Support for a review of Part C of the Code to address ethical issues faced by PAIBs.
8. No respondents to the survey indicated any significant concerns regarding the prioritization of the projects or initiatives on the Board's current agenda.
9. By and large, however, there were no particular suggestions from the other respondents for specific projects or initiatives (other than those already identified in the survey) that garnered any significant degree of agreement.

### Summary of Detailed Input Received

#### SECTION 2.1: POSSIBLE FUTURE PROJECTS

10. Respondents were first asked for suggestions as to specific projects or initiatives, other than those listed in the survey, that they believe would be important for the Board to address in the next strategy cycle. Of those respondents who completed the survey, 86% ranked their suggestion as either important or very important.

#### *Specific Suggestions from IOSCO*

11. IOSCO had a number of suggestions for possible future projects. Two of these suggestions concern projects that are already under way, as follows:

- *Long association*

Noting that paragraphs 290.151 to 290.155 of the Code permit the key audit partner to play a significant role in the audit of a PIE for up to 7 years, IOSCO suggested that the Board review this period given the shorter regulatory requirement of 5 years in many jurisdictions.

In relation to paragraph 290.154 of the Code, which permits a key audit partner who has already served for six or more years when the audit client first becomes a PIE to continue to serve in that capacity for an additional two years, IOSCO suggested that the maximum period should not be extended when an entity first becomes a PIE. IOSCO expressed the view that the focus should be on the current status of the entity and the total length of the relationship.

IOSCO also suggested that there should be maximum terms for other senior members of the audit team and for entities controlled by PIEs.

In relation to the topic of audit firm rotation, IOSCO suggested that the Board monitor developments in the EU and the U.S.

- *Non-assurance services*

IOSCO suggested that the Board review the types of NAS that an auditor may provide to PIEs to reconsider whether the auditor's performance of such NAS has an inappropriate influence on the auditor's objectivity and independence in conducting the audit of the entity.

12. The Planning Committee recommends that except for the matter of audit firm rotation, these specific comments be considered by the Task Forces for these two projects. The Planning Committee noted that Board has already been actively monitoring developments regarding firm

rotation in the EU and the U.S, and that the Board plans to continue to do so through its Emerging Issues and Outreach initiative going forward.

13. A third suggestion concerns the topic of breaches of the provisions of the Code. Specifically, IOSCO suggested that the Board consider further opportunities to improve the Code with respect to breaches, including:
  - Clearly defining what the term “significant” means in relation to a breach, including what benchmark is to be used to measure the significance of a breach.
  - When it is appropriate for an auditor to take action to address the consequences of a breach of the independence requirements rather than resign.
  - Working with the International Auditing and Assurance Standards Board (IAASB) on public reporting of an auditor’s compliance with the Code through the audit report, including reporting of breaches.
14. In relation to this third suggestion, the Planning Committee noted that the Board fully considered the first two specific matters when it completed its Breaches project at the end of 2012. The Planning Committee recommends that no further work be undertaken until the Board is able to assess the implementation of the new standard in the next few years. In relation to the third matter above, the Planning Committee noted that staff is liaising with the IAASB staff on an ongoing basis in the context of the IAASB’s Auditor Reporting project. However, the Planning Committee noted that the content of the auditor’s report is a matter for the IAASB to determine.
15. IOSCO’s two other suggestions for specific projects or initiatives, and the Planning Committee’s views and recommendations thereon, are set out below:

IOSCO Suggestion	Planning Committee Views and Recommendations
<p>(a) <u>Safeguards</u></p> <p>IOSCO believes many safeguards in the Code addressing independence are inappropriate or ineffective. It commented that some safeguards merely duplicate existing requirements imposed by the quality control and auditing standards or the existing best practice for situations that do not involve a threat to independence. IOSCO suggested that in these cases, the Code should specify additional safeguards or remove inappropriate safeguards and specify that the situation is not acceptable.</p> <p>IOSCO quoted paragraph 290.107 in the Code, which permits an audit firm retirement plan to hold a direct or indirect financial interest in an audit client provided safeguards are in place to reduce any threats identified to an acceptable level. IOSCO noted that it did not believe that there can be any safeguards to mitigate the threat to independence in this situation.</p>	<p>The Planning Committee noted that the question raised concerns more the nature of safeguards than the threats and safeguards approach to independence in the Code. The Planning Committee also noted that the specific matter of safeguards may already be covered as part of the considerations in the long association and NAS projects.</p> <p>Nevertheless, the Planning Committee recommends further analysis and discussion with IOSCO to better understand the specific issues and to determine whether there would be merit in including this item for potential consideration in the next SWP.</p>

IOSCO Suggestion	Planning Committee Views and Recommendations
<p>(b) <u>Definition of a PIE</u><sup>1</sup></p> <p>IOSCO noted that some countries have accepted the minimum definition in the Code without amendment. It also noted that the Code presumes that regulators can set a definition but that many regulators do not have the power to set requirements.</p> <p>IOSCO therefore suggested that the Board consider aligning the term “public interest entity” with the term “public accountability” in the International Financial Reporting Standards (IFRS). IOSCO commented that public accountability concerns entities filing financial reports with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market, or holding assets in a fiduciary capacity for a broad group of outsiders.</p> <p>IOSCO added that consistency in the approaches between the proposed Code and the accounting standards will be simpler and may reduce any possible confusion amongst auditors and audit clients in jurisdictions that use IFRS.</p>	<p>The Planning Committee noted that the Board had considered the option of aligning the definition of a PIE with the concept of public accountability in IFRS when the Board was developing the revised definition as part of the Independence I project. The Board had settled on the current scope for the revised definition, recognizing the diversity of circumstances internationally, and hence the need for jurisdictions to have the flexibility to define PIEs as they see relevant and appropriate in their national contexts.</p> <p>The Planning Committee also noted that the current definition accommodates the differences in circumstances internationally, and there is a risk that a more precise definition will not be appropriate for all jurisdictions given differences in nature and size of entities and in the organization of the national markets.</p> <p>Nevertheless, the Planning Committee acknowledges that the actual outcomes from applying the current definition may have given rise to an expectations gap between the Board's intent (and consequential trade-offs) behind the current definition and stakeholders' expectations.</p> <p>Therefore, subject to the Board's views, the Planning Committee recommends</p>

<sup>1</sup> The Code defines a PIE as:

- (a) A listed entity; and
- (b) An entity:
  - (i) Defined by regulation or legislation as a public interest entity; or
  - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

IOSCO Suggestion	Planning Committee Views and Recommendations
	further discussion with IOSCO to better understand the specific issues and to determine whether there would be merit in including this item for potential consideration in the next SWP.

*Specific Suggestions from Audit Oversight Bodies*

16. A few audit oversight bodies made some suggestions for specific projects or initiatives. These are set out below together with the Planning Committee's views and recommendations:

Suggestions from Audit Oversight Bodies	Planning Committee Views and Recommendations
(a) In coordination with the IAASB, develop a standard addressing the ethical dimensions of remediation of a deficient audit report.	The Planning Committee noted that this is a matter that the IAASB should first consider as the matter is first and foremost an auditing matter. Accordingly, the Planning Committee believes that it would not be worth considering this matter for the next SWP until the IAASB has determined to include it in its SWP.
(b) Initiate a work stream to address the enforceability of the Code, which could include a reassessment of the benefits and drawbacks of the "threats and safeguards" approach to independence in the Code.  (Note: In relation to the matter of enforceability, IOSCO noted its concern regarding securities regulators' inability to enforce the Code due to, among other matters, the lack of precision of various requirements throughout the Code and the flexibility for auditors to exercise significant judgment in complying with the requirements. IOSCO suggested that the Board should review the requirements within the Code to enhance the Code's enforceability by securities regulators.)	The Planning Committee noted that the Structure of the Code Working Group is currently exploring ways to enhance the visibility of the requirements and prohibitions in the Code, and whether further clarity may be warranted with respect to who within a firm should have responsibility for complying with the requirements. The Planning Committee agreed that any improvements to the Code in those respects may facilitate compliance and, therefore, enforcement.  The Planning Committee did not believe that there is a sufficient basis at this time to reconsider the threats and safeguards approach to independence in the Code, especially given that the 2009 Code only came into effect on January 1, 2011. There has been little evidence that this approach is not working effectively in practice. In addition, effective application of the principles in the Code depends on the exercise of <i>appropriate</i> professional judgment. The greater the emphasis on rules in the Code, the more complex and lengthier it becomes and the greater the risk that it fails to address every possible circumstance.  Given the limited capacity available for new projects,



Suggestions from Audit Oversight Bodies	Planning Committee Views and Recommendations
	<p>the Planning Committee believes that this specific suggestion would not be worth considering for the next SWP. Nevertheless, the Planning Committee noted that the IESBA Chair has extended an invitation to IOSCO and the International Forum of Independent Audit Regulators for ongoing dialogue to understand their concerns with respect to enforcement.</p>
<p>(c) Consider the need for ethical requirements for joint auditors, including in connection with European audit reform.</p>	<p>The Planning Committee noted that it is not aware of evidence of difficulty in applying the principles in the Code in the context of joint audits. These audits are mandated in only a limited number of jurisdictions around the world and until such time as they become commonplace, the Planning Committee believes that any specific ethical issues that may arise with respect to those audits should best be addressed at the national level. The Planning Committee also noted that no other respondents have highlighted this area as a priority for the Board.</p> <p>The Planning Committee therefore believes that this suggestion would not be worth considering for the next SWP. The Planning Committee nevertheless recommends that the Board maintain a watching brief on international developments in this area.</p>
<p>(d) Consider the need for ethical requirements vis-à-vis entities that are not audit clients themselves but are parents or subsidiaries of the audited entities.</p>	<p>The Planning Committee noted that further research would be needed to understand the particular ethical issues that arise in this area. The Planning Committee observed that the Code already defines the concept of a “related entity” and contains guidance, including in paragraph 290.27, addressing related entities.</p> <p>The Planning Committee also noted that no other respondents have highlighted this as a priority item for the Board’s SWP. The Planning Committee therefore believes that this suggestion would not be worth considering for the next SWP.</p>

*Specific Suggestions from Other Respondents*

17. Other suggestions that were shared by a few other respondents, and the Planning Committee’s views and recommendations thereon, are as follows:

Suggestions from Other Respondents	Planning Committee Views and Recommendations
<p>(a) <u>Addressing the needs of SMPs</u></p> <ul style="list-style-type: none"> <li>Explore the top 3-5 requirements with which SMPs find compliance most difficult and considering the appropriateness of these requirements for that constituency.<sup>2</sup></li> <li>Consider additional guidance for SMPs, including sole practitioners, to assist them in complying with the requirements in the Code.<sup>3</sup></li> <li>Consider the relevance and proportionality of the Code for SMPs and SMEs.<sup>4</sup></li> </ul>	<p>The Planning Committee noted that the Structure of the Code Working Group is currently exploring ways to enhance the usability, accessibility and understandability of the Code. This initiative has to a significant extent been influenced by the concerns expressed by the SMP/SME constituency. The Planning Committee believes that any improvements to the Code in that regard will likely be of benefit to that constituency.</p> <p>The Planning Committee also noted that the Board's SME/SMP Working Group has identified a number of action items arising from the Working Group's October 2011 report. These action items are aimed at addressing issues SMEs and SMPs face in implementing the Code. These items are being addressed as staff resources permit.</p>
<p>(b) <u>Collective investment vehicles</u></p> <p>Consider a project to address the application of the related entity definition in the case of investment vehicles<sup>5</sup> (such as mutual funds) when a firm audits the vehicles, the sponsor/advisor of the vehicles, or both. It was noted that this issue had been raised with the Board in the previous strategy consultation. The respondents expressed the view that the issue is important and in the public interest because of the significant amount of money invested in these vehicles.<sup>6</sup></p>	<p>The Planning Committee noted that this topic was included in the proposed SWP for 2010-2012 that was issued for exposure. The Board subsequently determined not to include it in the final strategy for 2011-2012 based on the responses to the exposure draft. Several respondents had expressed concern about prioritizing such a project given that the way such vehicles are structured differs significantly among jurisdictions and, therefore, a global standard would be difficult to develop and complex to apply. Some respondents also had felt that the topic is too specialized for a global code. The Board at the time had therefore felt that any guidance on this topic would likely need to be high level in nature.</p> <p>The Planning Committee therefore noted the lack of support for this project during the previous strategy consultation as well as during the current SWP survey.</p>

<sup>2</sup> Professional accountant in public practice

<sup>3</sup> IFAC member body

<sup>4</sup> Professional accountant in public practice

<sup>5</sup> The definition of a related entity in the Code is based on control and significant influence. This construct does not work well with collective investment vehicles such as mutual funds. For example, while the fund manager may determine the types of instrument in which the collective vehicle invests, the manager does not "control" the vehicle in the same way that a majority owner of a corporation controls that corporation.

<sup>6</sup> Professional accountant in public practice, IFAC member body

Suggestions from Other Respondents	Planning Committee Views and Recommendations
	<p>It also recognizes that a project on this topic may be complex.</p> <p>However, given the proliferation of these vehicles around the world, the Planning Committee believes this topic should be further researched to determine whether it should be considered for the next SWP.</p>

18. Appendix B lists suggestions from other respondents for other projects or initiatives. None of these suggestions was shared by the respondents to any significant degree.

#### Matters for Consideration

2. IESBA members are asked for views on, and reactions to, the respondents' various suggestions above. In particular:
- (a) Do members agree with the Planning Committee's views and recommendations above?
  - (b) Are there any other matters that should be considered in determining which items to prioritize?

#### RELATIVE PRIORITIES OF ITEMS IDENTIFIED IN THE SURVEY

19. The following table summarizes respondents' relative prioritization of the various possible projects or initiatives identified in the survey:

#	Project or Initiative	Respondents Ranking as Important or Very Important	Excluding PAs in Public Practice
1.	Structure of the Code	76%	75%
2.	Ethical guidance for PAs in public practice providing NAS	74%	81%
3.	Guidance on the meaning of public interest	74%	75%
4.	Considering linkage between ISAs and the code	73%	71%
5.	Guidance on preparing accounting records and financial statements for an audit client	63%	59%
6.	Implications of disclosure of compliance with ethical requirements in auditors' reports	59%	59%
7.	Guidance on reasonable and informed third-party test	58%	62%
8.	Guidance on objectivity when independence is not required	54%	52%

#	Project or Initiative	Respondents Ranking as Important or Very Important	Excluding PAs in Public Practice
9.	Independence requirements for PAs not in public practice who perform assurance engagements	51%	52%

20. The sections below provide further analysis of the responses for each item.

*Section 2.2: Structure of the Code*

21. The relative weight of support for this item is as follows:

Response	# Responses	Percentage	Excluding PAs in Public Practice
<b>Very important</b>	<b>42</b>	<b>39%</b>	<b>38%</b>
<b>Important</b>	<b>40</b>	<b>37%</b>	<b>37%</b>
Neither important nor unimportant	23	21%	23%
Unimportant	3	3%	2%
Very unimportant	—	—	—
<b>TOTAL</b>	<b>108</b>	<b>100%</b>	<b>100%</b>

22. Overall, 76% of all respondents (75% excluding PAs in public practice) ranked the Structure of the Code initiative as either important or very important, with particularly strong support among audit oversight bodies, PAs in public practice, NSS, users and organizations classifying themselves as “other”.

Comments from IOSCO

23. IOSCO suggested that the Board should adopt a “clarity” format for the Code to provide clear mandatory objectives and a clear distinction between requirements and application guidance. IOSCO additionally suggested that such a “clarity” format would also consistently use unequivocal language such as “shall” rather than “should” to ensure that the obligations of an auditor or an accountant are clearly communicated.<sup>7</sup>

Comments from Other Respondents

24. Other respondents made a number of comments with respect to this initiative, including the following:

- If greater acceptance of the Code could be achieved by restructuring the Code, this is something the Board should consider.<sup>8</sup>

<sup>7</sup> The Planning Committee notes that as a result of the Drafting Conventions project that was completed in 2009, the Code uses the “shall” construct for requirements or prohibitions and no longer the “should” construct.

<sup>8</sup> Professional accountant in public practice

- A project to restructure the Code, including the highlighting of clear prohibitions, would enhance understanding and facilitate application and enforcement of the Code.<sup>9</sup>
  - The matter of the visibility of the various requirements and prohibitions is important in the context of ongoing convergence activity.<sup>10</sup>
  - There is a great need to address the structure of the Code to improve readability and searchability.<sup>11</sup>
25. With respect to considering, as part of this initiative, whether the Code should indicate who in a firm should be responsible for compliance with specific provisions in the Code, particularly the independence requirements, a few respondents<sup>12</sup> did not believe that it is important to specify individuals who should bear such responsibility. These respondents noted that firms will allocate responsibilities depending on their structures and internal processes. They also noted that this matter was discussed at length and rejected during the Independence I project.
26. A respondent from the investor community, however, urged the Board to bring greater clarity as to who within a firm should be directly responsible for ensuring that ethical standards are adhered to in a particular audit engagement. The respondent felt that the Code's suggestion that this would simply vary according to the circumstances and nature of the firm appears markedly weak.
27. Respondents made various suggestions for matters to consider in this initiative, including:
- Simplification of the wording of the independence requirements in the Code.<sup>13</sup>
  - Development of flow charts to facilitate understanding of the provisions in the Code.<sup>14</sup>
  - Separating out Sections 290 and 291 as independence standards, which would facilitate convergence.<sup>15</sup>

#### Planning Committee Views and Recommendations

28. The Planning Committee believes that the strong support from respondents for this item effectively endorses the Board's decision to add this work stream to its current SWP.
29. The Planning Committee recommends that respondents' various comments with respect to, or of relevance to, this initiative, as well as IOSCO's comments above, be further considered by the Structure of the Code Working Group.

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<sup>9</sup> Professional accountants in public practice

<sup>10</sup> IFAC member body

<sup>11</sup> Individual

<sup>12</sup> Professional accountants in public practice

<sup>13</sup> IFAC member body

<sup>14</sup> NSS

<sup>15</sup> Professional accountant in public practice and IFAC member body

*Section 2.3: Independence Requirements for PAs not in Public Practice Who Perform Assurance Engagements*

30. The relative weight of support for this item is as follows:

Response	# Responses	Percentage	Excluding PAs in Public Practice
<b>Very important</b>	<b>27</b>	<b>25%</b>	<b>23%</b>
<b>Important</b>	<b>28</b>	<b>26%</b>	<b>29%</b>
Neither important nor unimportant	29	27%	27%
Unimportant	17	16%	17%
Very unimportant	6	6%	4%
<b>TOTAL</b>	<b>107</b>	<b>100%</b>	<b>100%</b>

31. Overall, 51% of all respondents (52% excluding PAs in public practice) ranked a project on independence requirements for PAs not in public practice who perform assurance engagements as either important or very important, with particularly strong support among audit oversight bodies, PAs in business and practice, representatives of IFAC member bodies and those classifying themselves as “other.” However, 22% of all respondents viewed this project as either unimportant, or very unimportant.
32. A few respondents<sup>16</sup> commented that they were not aware of the types of assurance engagement PAs in government and internal auditors perform. They felt that more information was needed about the particular issues the project would attempt to address. They also felt that the conceptual framework in the Code should provide sufficient guidance in these circumstances.
33. In addition, it was noted that this project would have the potential to cut across the responsibilities of other bodies that set appropriate ethical requirements, such as government bodies and the International Institute of Internal Auditors (IIA).

Planning Committee Views and Recommendations

34. The Planning Committee noted that this project was also considered for inclusion in the Board’s SWP for 2010-2012. The IESBA Consultative Advisory Group (CAG) had advised at the time that the project should be of lower priority as there may not be many members of IFAC member bodies who operate in such a role.
35. Given that there are other projects or initiatives that have been prioritized more highly by respondents to the current survey, the Planning Committee believes that this item would not be worth considering for the next SWP.

<sup>16</sup> Professional accountants in public practice

*Section 2.4: Importance of Ethical Guidance for PAs in Public Practice Providing NAS*

36. The relative weight of support for this item is as follows:

Response	#Responses	Percentage	Excluding PAs in Public Practice
<b>Very important</b>	<b>39</b>	<b>36%</b>	<b>37%</b>
<b>Important</b>	<b>42</b>	<b>38%</b>	<b>42%</b>
Neither important nor unimportant	13	12%	10%
Unimportant	11	10%	8%
Very unimportant	4	4%	3%
<b>TOTAL</b>	<b>109</b>	<b>100%</b>	<b>100%</b>

37. Overall, 74% of all respondents (81% excluding PAs in public practice) viewed a project on developing ethical guidance for PAs in public practice providing NAS (for example, financial advisory services, taxation services and actuarial advisory services) as either important or very important. There was particularly strong support among academics, regulators and audit oversight bodies, public accountants in business and public practice, IFAC member bodies, NSS, users and those who classify themselves as “other.” By contrast, 14% of all respondents viewed this project as either unimportant or very unimportant.
38. Some respondents noted that they assumed that this project would address the provision of NAS to non-audit clients.
39. A few respondents<sup>17</sup> commented that they were not aware of the issues this project would be attempting to address.

Planning Committee Views and Recommendations

40. The Planning Committee noted that this project was also considered for inclusion in the Board’s SWP for 2010-2012. In discussions with the CAG then, it was noted that such a project is inherently difficult because the boundary of services provided by professional accountants is very broad. The CAG had also advised that if this was an area that the Board wished to explore, it would be useful to develop more detailed questions to determine whether additional guidance was needed and, if so, the areas that should be targeted.
41. Given that this project is among the higher priority ones as judged by respondents to the survey, the Planning Committee believes that the project would be worth considering for the next SWP, subject to appropriate research being undertaken to circumscribe its scope and identify the nature and extent of further guidance that might be needed.

<sup>17</sup> Professional accountants in public practice

*Section 2.5: Importance of Guidance on the Meaning of Public Interest in the Context of the Code*

42. The relative weight of support for this item is as follows:

Response	# Responses	Percentage	Excluding PAs in Public Practice
<b>Very important</b>	<b>46</b>	<b>42%</b>	<b>44%</b>
<b>Important</b>	<b>35</b>	<b>32%</b>	<b>31%</b>
Neither important nor unimportant	17	16%	14%
Unimportant	8	7%	8%
Very unimportant	3	3%	3%
<b>TOTAL</b>	<b>109</b>	<b>100%</b>	<b>100%</b>

43. Overall, 74% percent of all respondents (75% excluding PAs in public practice) viewed a project on providing guidance on the meaning of “public interest” as either important or very important, with particularly strong support among academics, regulators and audit oversight bodies, PAs in business and public practice, representatives of IFAC member bodies, NSS, users and those who classified themselves as “other.” By contrast, 10% of all respondents viewed this project as either unimportant or very unimportant.
44. A few respondents<sup>18</sup> felt that such a project would be fraught with difficulty as stakeholders will have different views on what is “in the public interest.” They noted that what is in the public interest will often depend on the facts and circumstances. It was also felt that the “public interest” cannot be defined as such and that it would be inappropriate to set compliance with an ill-defined standard as a fundamental principle.

Planning Committee Views and Recommendations

45. The Planning Committee generally shared those views, noting from IFAC’s experience in developing its policy position on a definition of the public interest the potential for extensive philosophical debate on the topic. The Planning Committee felt that such a project would likely lead to guidance needing to be at a high level and therefore not very useful, or consume significant Board time and resources for potentially little benefit. The Planning Committee also noted that IOSCO did not identify this as a priority project in its comment letter to the SWP survey.
46. The Planning Committee therefore believes that this item would not be worth considering for the next SWP. The Planning Committee nevertheless thought that, resources permitting, an alternative to a standard-setting project on the topic might be to consider developing appropriate staff publications such as articles.

<sup>18</sup> Professional accountants in public practice



*Section 2.6: Importance of Guidance on the Application of the Reasonable & Informed Third-Party Test*

47. The relative weight of support for this item is as follows:

<b>Response</b>	<b># Responses</b>	<b>Percentage</b>	<b>Excluding PAs in Public Practice</b>
<b>Very important</b>	<b>24</b>	<b>22%</b>	<b>20%</b>
<b>Important</b>	<b>38</b>	<b>36%</b>	<b>40%</b>
Neither important nor unimportant	25	23%	23%
Unimportant	12	11%	10%
Very unimportant	8	8%	7%
<b>TOTAL</b>	<b>107</b>	<b>100%</b>	<b>100%</b>

48. Overall, 58% of all respondents (62% excluding PAs in public practice) viewed a project on developing guidance on the reasonable and informed third-party test as important or very important, with particularly strong support among public accountants in business and practice, regulators and those who classify themselves as “other.” However, 19% of all respondents viewed this possible project as either unimportant or very unimportant.

49. A few respondents<sup>19</sup> commented that they were unaware of any evidence that a lack of guidance on the concept of a reasonable and informed third party has given rise to any implementation issues. It was also flagged that this is a generally well understood legal concept.

**Planning Committee Views and Recommendations**

50. Given the relatively lower prioritization given to this project by respondents as well as the comments from some of them highlighted above, the Planning Committee believes that this project would not be worth considering for the next SWP.

*Section 2.7: Importance of Project on the Application of the fundamental principle of objectivity when independence is not required*

51. The relative weight of support for this item is as follows:

<b>Response</b>	<b># Responses</b>	<b>Percentage</b>	<b>Excluding PAs in Public Practice</b>
<b>Very important</b>	<b>19</b>	<b>17%</b>	<b>16%</b>
<b>Important</b>	<b>40</b>	<b>37%</b>	<b>36%</b>
Neither important nor unimportant	30	27%	28%
Unimportant	16	15%	16%
Very unimportant	4	4%	4%

<sup>19</sup> Professional accountants in public practice

Response	# Responses	Percentage	Excluding PAs in Public Practice
<b>TOTAL</b>	<b>109</b>	<b>100%</b>	<b>100%</b>

52. Overall, 54% of all respondents (52% excluding PAs in public practice) viewed a project on developing guidance on the application of objectivity when independence is not required as either important or very important, with particularly strong support among PAs in public practice, regulators and users. However, 19% of all respondents viewed such a project as unimportant or very unimportant.
53. A few respondents<sup>20</sup> felt that this topic was more within the IAASB's purview to address. They also noted that they were not aware of implementation issues in relation to PAs providing services where independence is not required.

#### Planning Committee Views and Recommendations

54. Given the relatively lower prioritization given to this project by respondents as well as the comments from some of them highlighted above, the Planning Committee believes that this project would not be worth considering for the next SWP.

#### *Section 2.8: Importance of Project on Preparing Accounting Records and Financial Statements for an Audit Client*

55. The relative weight of support for this item is as follows:

Response	# Responses	Percentage	Excluding PAs in Public Practice
<b>Very important</b>	<b>39</b>	<b>36%</b>	<b>31%</b>
<b>Important</b>	<b>29</b>	<b>27%</b>	<b>28%</b>
Neither important nor unimportant	20	18%	20%
Unimportant	17	16%	16%
Very unimportant	4	4%	5%
<b>TOTAL</b>	<b>109</b>	<b>100%</b>	<b>100%</b>

56. Overall, 63% of all respondents (59% excluding PAs in public practice) ranked a possible project on providing guidance on preparing accounting records and financial statements for an audit client as either very important or important, with particularly strong support among audit oversight bodies, PAs in business and in practice, representatives of IFAC member bodies, users and those classifying themselves as "other." By contrast, 19% of all respondents viewed this project as either unimportant or very unimportant.

#### Planning Committee Views and Recommendations

57. The Planning Committee noted that the NAS Task Force has recently considered this area in

<sup>20</sup> Professional accountants in public practice

exploring the scope of the NAS project. The Planning Committee understands that the NAS Task Force has reached a preliminary view that there would be merit in the Board re-examining the guidance in the Code with a view to bringing greater clarity regarding the concept of “routine and mechanical” accounting and bookkeeping services, and considering the need for further safeguards. Subject to the Board discussion on the NAS project at the June 2013 IESBA meeting, the Planning Committee believes that this item would be worth considering for the next SWP.

*Section 4.1: Importance of Initiative to Consider the Implications of Disclosure of Compliance with Ethical Requirements in Auditors' Reports*

58. The relative weight of support for this item is as follows:

Response	# Responses	Percentage	Excluding PAs in Public Practice
<b>Very important</b>	<b>34</b>	<b>31%</b>	<b>32%</b>
<b>Important</b>	<b>30</b>	<b>28%</b>	<b>27%</b>
Neither important nor unimportant	29	27%	26%
Unimportant	11	10%	11%
Very unimportant	4	4%	4%
<b>TOTAL</b>	<b>108</b>	<b>100%</b>	<b>100%</b>

59. Overall, 59% of all respondents (59% excluding PAs in public practice) ranked an initiative to consider the implications of disclosure of compliance with ethical requirements in auditors' reports as either very important or important, with strong support across most perspectives represented by respondents. However, 14% of all respondents viewed such an initiative as either unimportant or very unimportant.

60. A few respondents<sup>21</sup> were of the view that it would not be appropriate for the Board to undertake this initiative as it falls more within the purview of the IAASB.

Planning Committee Views and Recommendations

61. Given the relatively low priority given to this item by respondents, the Planning Committee believes that the item would not be worth considering for the next SWP. Nevertheless, the Planning Committee noted that staff is liaising with the IAASB staff on an ongoing basis on this topic in the context of the IAASB's Auditor Reporting project. The Planning Committee recommends that the Board continue to monitor developments with respect to that project.

<sup>21</sup> Professional accountants in public practice

*Section 4.2: Importance of Initiative to Consider the Link between the ISAs and the Code*

62. The relative weight of support for this item is as follows:

Response	# Responses	Percentage	Excluding PAs in Public Practice
<b>Very important</b>	<b>35</b>	<b>32%</b>	<b>31%</b>
<b>Important</b>	<b>45</b>	<b>41%</b>	<b>40%</b>
Neither important nor unimportant	22	20%	23%
Unimportant	4	4%	5%
Very unimportant	3	3%	1%
<b>TOTAL</b>	<b>109</b>	<b>100%</b>	<b>100%</b>

63. Overall, 73% percent of all respondents (71% excluding PAs in public practice) ranked a project considering linkage between ISAs and the Code as either very important or important, with strong support across most perspectives represented by respondents. Only 7% of all respondents viewed this project as either unimportant or very unimportant.
64. A few respondents<sup>22</sup> were of the view that it would not be appropriate for the Board to undertake this project as it falls more within the purview of the IAASB. It was also noted that some ambiguity in the language in paragraph A14 of ISA 200<sup>23</sup> is necessary given the fact that national independence standards may differ in some respects from the standards in the Code.

Planning Committee Views and Recommendations

65. The Planning Committee acknowledged that it is unlikely that the Board would be able to start a project on this topic without the IAASB's reconsideration of the guidance in ISA 200. Given the IAASB's other strategic priorities in the short to medium term, and the above comments from respondents, the Planning Committee believes that the item would not be worth considering for the next SWP.

**Matters for Consideration**

3. IESBA members are asked:
- (a) Whether they agree with the Planning Committee's views and recommendations above; and
  - (b) Whether there are any other matters that should be considered in determining the priority of these items.

<sup>22</sup> Professional accountants in public practice

<sup>23</sup> Paragraph A14 of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, states the following: "Relevant ethical requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive."

### SECTION 3: ADOPTION AND IMPLEMENTATION

66. Many respondents,<sup>24</sup> suggested that the Board should develop implementation support resources such as case studies, summaries of provisions in the Code, and guidance materials. Some also felt that there should be an increased focus on the needs of SMPs. There was a minority view,<sup>25</sup> however, that implementation guidance is heavily influenced by national laws and regulations, and therefore this should be left to NSS. A few audit oversight bodies also felt that adoption and implementation should not be IESBA priorities. They believe, instead, that the Board should focus on enhancing the robustness and content of the Code, from which they felt convergence would follow.
67. Some respondents<sup>26</sup> expressed support for efforts by the Board to seek to understand barriers to adoption, including through outreach to stakeholders such as regulators and audit oversight bodies, NSS, IFAC member bodies, and firms.
68. Some other respondents<sup>27</sup> suggested a pause in the development of independence and other ethics standards to allow sufficient time for implementation of the current Code.
69. A few respondents<sup>28</sup> were of the view that differences in independence standards are not in the public interest. Accordingly, they suggested that high priority efforts should be undertaken to encourage NSS and IFAC member bodies to adopt a provision in their ethics standards or codes that would recognize the acceptability of compliance with the IESBA Code for audits of components in transnational audits.
70. A few other suggestions were made that did not garner any significant consensus.

#### Planning Committee Views and Recommendations

71. The Planning Committee noted that many of the comments above reflect general support from respondents for the ongoing adoption and implementation activities that are already on the Board's current SWP. The Planning Committee also noted that the Board is actively liaising with the IFAC SMP Committee, particularly through the SME/SMP Working Group, in understanding and addressing the needs of SMEs and SMPs. The Planning Committee recommends that these activities be maintained in the next SWP.

#### **Matter for Consideration**

4. IESBA members are asked whether they agree with the Planning Committee's views and recommendations above.

### SECTION 4.3: CONVERGENCE

72. Respondents' suggestions for initiatives the Board should undertake in the area of convergence were varied, with no particular suggestion achieving any significant degree of consensus. However,

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<sup>24</sup> Professional accountants in public practice, IFAC member bodies, NSS, transnational organization, others

<sup>25</sup> Standard setter

<sup>26</sup> IFAC member body, NSS, user, transnational organization, Professional accountant in public practice

<sup>27</sup> IFAC member bodies, transnational organization

<sup>28</sup> Professional accountants in public practice

the following were noted:

- A few respondents<sup>29</sup> suggested that the Board should focus on understanding the extent of adoption of the 2009 Code internationally and the reasons for any variances, particularly with respect to independence.
- A few other respondents<sup>30</sup> suggested the need for enhanced coordination with the IAASB in relation to current and future projects.

#### Planning Committee Views and Recommendations

73. With respect to the first matter above, the Planning Committee noted that the Board's ongoing activities in the area of adoption and implementation includes liaison with the IFAC Compliance Advisory Panel to gain understanding of the extent of IFAC member bodies' compliance with the IFAC Statement of Membership Obligation relating to the Code. The Planning Committee recommends that the Board leverages this liaison relationship, as well as the IESBA-NSS liaison group, to continue to enhance the Board's understanding of the extent of adoption of, or convergence with, the 2009 Code internationally and the reasons for any national differences.
74. In relation to the second matter, the Planning Committee noted that the Board has already been enhancing its interaction and coordination with the IAASB at both Board and staff levels. The Planning Committee noted the Board's commitment to continuing this effort.

#### Matter for Consideration

5. IESBA members are asked whether they agree with the Planning Committee's views and recommendations above.

#### SECTION 5: OTHER MATTERS

##### *Comments from IOSCO*

75. IOSCO provided a number of detailed suggestions for other matters the Board should consider. These matters, together with the Planning Committee's views and recommendations thereon, are set out below.

IOSCO Suggestion	Planning Committee Views and Recommendations
<p>(a) <u>Fee dependence</u></p> <p>IOSCO expressed the view that the safeguards for fee dependency do not appear to be commensurate with the potential threats to independence that the Code seeks to prevent. IOSCO suggested that the Code should:</p> <ul style="list-style-type: none"><li>• Outline circumstances where the auditor is required to decline an engagement as a safeguard to eliminate any</li></ul>	<p>The Planning Committee noted that in recent years there has been a general down trend in the level of NAS fees relative to audit fees, mainly because of the increasing involvement of audit committees in the consideration and approval of NAS.</p>

<sup>29</sup> Professional accountant in public practice, user

<sup>30</sup> Professional accountants in public practice

IOSCO Suggestion	Planning Committee Views and Recommendations
<p>self-interest or intimidation threat that may arise from significant fee dependency.</p> <ul style="list-style-type: none"> <li>Require an external review from the outset, not just in the second or subsequent year audits. IOSCO noted that the requirement for an engagement quality control review to be performed on a listed engagement prior to the issuance of the auditor's report is an existing requirement of the auditing standards and does not provide any additional safeguard against fee dependency with respect to PIEs.</li> <li>Require pre-issuance reviews in all instances as post-issuance reviews are a detective measure rather than a preventative measure.</li> <li>Include quantitative guidance as to the level of acceptable fees for non-PIEs.</li> </ul> <p>IOSCO also noted that the level of NAS provided to audit clients may threaten independence but that this is not considered in the Code. Accordingly, it suggested that the Code should include guidance in relation to when the quantum of NAS may threaten independence.</p>	<p>Nevertheless, the Planning Committee acknowledged that fees can have a significant impact on auditor behavior. In addition, the Planning Committee noted that the issue of undue fee pressure has been raised by a number of stakeholders, including regulators and audit oversight bodies, given the potential effect of such pressure on auditor behavior and audit quality.</p> <p>The Planning Committee therefore believes that, subject to further discussion with IOSCO, the broader topic of fee dependency would be worth considering for the next SWP.</p>
<p>(b) <u>Emergency situations and other exemptions</u></p> <p>IOSCO suggested that the Board consider removing the exemption for providing accounting and bookkeeping services and preparation of tax calculations in emergency or other unusual situations when it is impractical for the audit client to make other arrangements. This exemption is included in paragraphs 172, 174, and 185-186 of Section 290 of the Code.</p> <p>Noting its significant concerns regarding this exemption, IOSCO expressed the view that the exemption creates a self-review threat and undermines the purpose of an independent audit. It felt that the exemption is unnecessary because there are relatively large numbers of qualified accountants in most jurisdictions who could be engaged to provide those services other than the auditor.</p> <p>IOSCO also suggested that the Code should be reviewed in detail for other inappropriate and unnecessary exemptions.</p>	<p>The Planning Committee recommends that this suggestion be considered as part of the current NAS project.</p>
<p>(c) <u>Business, employment and financial relationships</u></p>	<p>The Planning Committee noted that the Code cannot prohibit a former partner of</p>

IOSCO Suggestion	Planning Committee Views and Recommendations
<p>IOSCO suggested that the Board consider:</p> <ul style="list-style-type: none"> <li>• The need for prohibitions on business, employment and financial relationships between auditors and their audit clients.</li> <li>• Whether there should be an extension to the 12-month cooling off period for retiring audit partners who join an audit client that is a PIE to 2 years (paragraphs 290.139 and 290.140 of the Code).</li> <li>• Requiring a 5-year cooling off period before a former partner of the firm can become an officer or director of an audit client, when another former partner of the firm at the time when the firm audited the client is an officer or director of the client.</li> </ul>	<p>a firm from joining an audit client but only require the firm to withdraw from the audit engagement in the relevant circumstances.</p> <p>The Planning Committee noted that this is a topic that would lend itself well to benchmarking relative to what the specific jurisdictional requirements are around the world. The Planning Committee therefore agreed that further research would be needed before determining whether this suggestion should be prioritized.</p>
<p>(d) <u>Internal audit services – direct assistance</u></p> <p>In relation to the matter of using internal auditors to provide direct assistance on an external audit, IOSCO suggested that the Board further consider how auditors use internal auditors as part of the external audit work. IOSCO commented that, notwithstanding an external auditor's review of internal auditors' work and other safeguards, some of its members believe that internal auditors should not be part of the external audit process as they are employees of the entity.</p>	<p>The Planning Committee noted that the Board fully debated in 2012 the change in the definition to provide for internal auditors not to be considered part of the audit team for those jurisdictions that do not prohibit direct assistance. With respect to the suggestion that the Board consider how external auditors use internal auditors as part of the external audit work, the Planning Committee does not consider that this would be within the IESBA's remit. The Planning Committee therefore believes that this suggestion would not be worth considering for the next SWP.</p>
<p>(e) <u>Internal audit services – other matters</u></p> <p>IOSCO also suggested that the Board:</p> <ul style="list-style-type: none"> <li>• Amend the Code to prohibit the auditor from providing internal audit services where there is any self-review threat, not only where management functions are assumed.</li> <li>• Consider prohibiting internal audit services despite the provisions in paragraph 290.198, given the remaining self-review threat and the perception of a lack of independence.</li> </ul>	<p>The Planning Committee recommends that this suggestion be considered as part of the current NAS project.</p>



IOSCO Suggestion	Planning Committee Views and Recommendations
<ul style="list-style-type: none"> <li>More clearly define what constitutes “internal audit” and clarify the distinction from similar other services (paragraph 290.195 of the Code). IOSCO suggested that equivalent services not labeled as internal audit services should be treated in an equivalent manner in the Code.</li> </ul>	
<p>(f) <u>Materiality</u></p> <p>IOSCO suggested that the Code provide guidance on how to evaluate materiality with respect to material contraventions. It also suggested that the Code prohibit the following arrangements irrespective of materiality and significance:</p> <ul style="list-style-type: none"> <li>A firm, a member of the audit team or a member of that individual's immediate family may make or guarantee a loan to an audit client, provided the loan or guarantee is immaterial to the firm or individual and the client (paragraph 290.122).</li> <li>A firm, or a member of the audit team, or a member of that individual's immediate family may enter into certain business relationships with the audit client or its management and hold a financial interest arising from such relationships provided the financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management (paragraphs 290.124 and 290.125).</li> </ul>	<p>The Planning Committee noted the Board has chosen not to define materiality in the Code to allow for the exercise of appropriate professional judgment. The Planning Committee also noted that the ISAs themselves have not defined materiality but provided some guidance that describes the concept in general terms. The Planning Committee came to the general view that attempting to define or develop detailed guidance on materiality could be a potentially large and complex endeavor. Nevertheless, the Planning Committee recommends an initial staff review of how and to what extent materiality is used in the Code before any decision is taken.</p> <p>With respect to the two other specific matters highlighted by IOSCO, the Planning Committee is of the general view that they may not warrant a project on their own as they appear to be of limited scope. Subject to the Board's views and further discussion with IOSCO, the Planning Committee recommends that consideration be given to whether these matters may warrant inclusion in an “annual improvements”-type project.<sup>31</sup></p>

<sup>31</sup> The Planning Committee recognizes that the Board's due process and working procedures do not currently provide for the Board to undertake annual improvements to the Code along the lines of the International Accounting Standards Board's process for annual improvements to the IFRS. Should the Board support the concept of annual improvements, it would be necessary to amend due process and specify criteria for changes to the Code that would be considered annual improvements.

IOSCO Suggestion	Planning Committee Views and Recommendations
<p>(g) <u>Documentation</u></p> <p>IOSCO suggested that the Board consider making the documentation requirements in paragraph 290.29 of the Code applicable to any threats to independence requiring analysis, not only those requiring significant analysis.</p> <p>It also suggested that there should be consistency between the general documentation requirement in paragraph 290.29 and the specific documentation requirements in other paragraphs of the Code. As an example, IOSCO highlighted paragraph 290.38 as only requiring documentation of certain interests and/or relationships which have not been successfully terminated by the effective date of the merger or acquisition for situations described in paragraphs 290.34 to 290.36.</p>	<p>The Planning Committee acknowledged the regulatory concern from an enforcement perspective. However, the Planning Committee also noted that documentation entails an element of cost that ultimately will be borne by the entity's shareholders. Accordingly, it is important that an appropriate cost-benefit balance be achieved.</p> <p>Without prejudging that changes to the Code would be needed, the Planning Committee recommends an initial staff review of the matter and further discussion with IOSCO before any decision is made.</p>

*Comments from Other Respondents*

76. A view was expressed<sup>32</sup> that the Board should place greater emphasis on outreach activities, as awareness of the Code is not high outside of the profession. It was also felt that effort should be devoted to increasing understanding by stakeholders, including regulators, of the robustness of the standards in the Code, particularly the independence provisions.
77. The Planning Committee noted that outreach is currently a strategic priority for the Board. The Planning Committee recommends that this focus on outreach be maintained in the next strategy cycle.
78. Respondents provided a number of other suggestions, none of which achieved any significant consensus. For information, Appendix C provides an indication of the nature of these suggestions.

**Matters for Consideration**

6. IESBA members are asked for views on, and reactions to, respondents' various suggestions above. In particular:
  - (a) Do members agree with the Planning Committee's views and recommendations above?
  - (b) Are there any other matters that should be considered in determining which items to prioritize?

<sup>32</sup> Professional accountant in public practice

## Appendix A

### Geographical Spread of Respondents

#	Country	Number of Responses	Percentage of Responses
1.	Transnational	10	9%
2.	Åland Islands	1	1%
3.	Albania	1	1%
4.	Australia	5	4%
5.	Belgium	2	2%
6.	Brazil	1	1%
7.	Bulgaria	1	1%
8.	Canada	4	3%
9.	China	3	3%
10.	Colombia	1	1%
11.	Czech Republic	3	3%
12.	Denmark	2	2%
13.	France	2	2%
14.	Gambia	1	1%
15.	Germany	7	6%
16.	Hong Kong	5	4%
17.	Hungary	1	1%
18.	India	1	1%
19.	Iraq	1	1%
20.	Ireland	1	1%
21.	Israel	1	1%
22.	Italy	3	3%
23.	Japan	4	3%
24.	Kenya	7	6%
25.	Korea, Republic of (South)	2	2%
26.	Malaysia	1	1%
27.	Montenegro	1	1%

Summary of Strategy Survey Input and Planning Committee Recommendations  
*IESBA Meeting (June 2013)*

#	Country	Number of Responses	Percentage of Responses
28.	Netherlands	2	2%
29.	New Zealand	1	1%
30.	Norway	1	1%
31.	Pakistan	2	2%
32.	Romania	1	1%
33.	Russian Federation	1	1%
34.	Saudi Arabia	1	1%
35.	Serbia	1	1%
36.	Slovakia	1	1%
37.	South Africa	5	4%
38.	Sri Lanka	1	1%
39.	Sweden	4	3%
40.	Switzerland	2	2%
41.	Turkey	1	1%
42.	Uganda	2	2%
43.	United Arab Emirates	1	1%
44.	United Kingdom	12	10%
45.	United States	5	4%

## Appendix B

### Respondents' Suggestions for Specific Projects or Initiatives

Suggestions from respondents for other projects or initiatives the IESBA should consider include:

- The ability of PAs to share confidential client information with other PAs for purposes of consultation.<sup>33</sup>
- Greater guidance on unethical behavior.<sup>34</sup>
- Further guidance to address situations when the Code conflicts with other local professional standards, regulations or laws.<sup>35</sup>
- Learning material for ethical behavior and/or identification of best practice.<sup>36</sup>
- Clarifying the network firm and related entity provisions, as the current structure of the Code makes it difficult to understand the full impact of these provisions.<sup>37</sup>
- How to effectively improve compliance with the code through CPE, effective mentoring, etc.<sup>38</sup>
- Clarifying the application of the Code when fiduciary services are undertaken by an accounting firm, an entity associated with an accounting firm or under common control, or by an accountant who is employed by a fiduciary services provider.
- How the interests of the public of the future might be considered (e.g., incorporating long-term economic stability and growth).<sup>39</sup>
- Guidance drawing attention to the importance of a level of fees commensurate with the quality of audits.<sup>40</sup>
- Guidance on ethical requirements (a) for component auditors in group audits, and (b) with respect to the provision of NAS.<sup>41</sup>
- Whether the scope of application of the Code should be expanded to include students of member bodies.<sup>42</sup>
- Guidance on how to determine whether an entity is a public interest entity or not.<sup>43</sup>
- Further guidance for PAIBs, particularly with respect to any ethical conflicts that might arise:
  - When PAIBs are involved in the determination of fair values for assets and liabilities.

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<sup>33</sup> Academia

<sup>34</sup> Professional accountant in public practice

<sup>35</sup> Professional accountant in public practice

<sup>36</sup> Professional accountant in public practice

<sup>37</sup> Professional accountant in public practice

<sup>38</sup> Regulator

<sup>39</sup> IFAC member body

<sup>40</sup> IFAC member body

<sup>41</sup> IFAC member body

<sup>42</sup> IFAC member bodies

<sup>43</sup> IFAC member body

- From remuneration incentives.<sup>44</sup>
- Guidance for PAs in public practice to manage risks associated with providing or using outsourcing services in delivering professional services.<sup>45</sup>
- Guidance for PAIBs performing senior finance roles, including audit committee roles.<sup>46</sup>
- Guidance for PAIBs in understanding the contents, implications and responsibilities associated with being signatories on management representation letters in group audits.<sup>47</sup>
- Research on how the Code could be applied to PAIBs in SMEs and what guidance could be given to them.<sup>48</sup>
- A reconsideration of the robustness of the threats and safeguards approach such that those matters noted as possible safeguards do in fact operate strongly as mitigants to the identified threats.<sup>49</sup>

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<sup>44</sup> NSS

<sup>45</sup> NSS

<sup>46</sup> NSS

<sup>47</sup> NSS

<sup>48</sup> IFAC member body

<sup>49</sup> Investor

## Appendix C

### Respondents' Suggestions for Other Matters to Consider

Suggestions from respondents for other matters the IESBA should consider include:

- Ensuring that provisions adopted are appropriate for application in all jurisdictions.<sup>50</sup>
- Considering the impact of projects before undertaking them.<sup>51</sup>
- Lessons from the global financial crisis, sovereign debt crisis and recent scandals.<sup>52</sup>
- Prioritizing adoption, implementation and convergence activities.<sup>53</sup>
- Organizing ethics forums and conferences.<sup>54</sup>
- Improving the IESBA's processes, increasing staff resources and finding other means to run more efficiently.<sup>55</sup>
- Reducing the length of the Code and ensuring that if the Code is lengthened, the benefits of doing so are significant.<sup>56</sup>
- Considering whether the concept of "willful blindness" could be addressed within the Code.<sup>57</sup>
- Developing more comprehensive and accessible support and guidance.<sup>58</sup>
- Carving out Sections 290 and 291 from the Code as separate independence standards.<sup>59</sup>
- Developing tools for the assessment of governance impact on financial statements.<sup>60</sup>

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<sup>50</sup> Professional accountant in public practice

<sup>51</sup> Professional accountant in public practice

<sup>52</sup> Professional accountant in public practice

<sup>53</sup> Professional accountant in public practice

<sup>54</sup> Professional accountant in public practice

<sup>55</sup> IFAC member body

<sup>56</sup> IFAC member body

<sup>57</sup> IFAC member body

<sup>58</sup> IFAC member body

<sup>59</sup> Professional accountant in public practice

<sup>60</sup> Other