

Matters for Future Board Attention

This paper is a compilation of the matters identified during the projects to restructure the Code and to review the safeguards in the Code but which the relevant Task Forces had determined to be outside the scope of those projects. The comments from respondents are categorized as relevant to:¹

- Current Projects;
- Pre-existing Commitments;
- Recently Completed Projects; and
- Other Matters.

A. Current Projects

Revision of Part C of the Code – Inducements

1. A respondent² to December 2015 Exposure Draft (ED) [Improving the Structure of the Code for Professional Accountants – Phase 1](#) (Structure ED-1) noted that a number of paragraphs of the proposed Code use the "trivial or inconsequential" criterion which applies the concept to the "existence" and "significance" of a threat relating to gifts and hospitality. The respondent believes that the concept is highly subjective and suggested that the Board should consider providing a definition or guidance on its application.

B. Pre-Existing Commitments

NAS Permissibility

2. Some respondents to ED [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#) (Safeguards ED-2),³ in particular regulators, expressed views about matters relating to the permissibility of certain NAS to audit clients. It was suggested that the IESBA should consider further revisions relating to non-audit services.⁴ For example, it was suggested that the Code would be improved with more requirements to prohibit the provision of certain NAS services.⁵ Suggestions were provided in relation to the following areas where those respondents believed that the should be more closely aligned with provisions that exist in laws, regulations or national Codes of some local jurisdictions:
 - Bookkeeping and preparing accounting records and financial statements, including those of a routine or mechanic nature for divisions or related entities;⁶

¹ References to Parts and paragraphs are to the draft restructured text as presented in [Agenda Item 2-C](#) to the September 2017 IESBA meeting materials. Adjacent paragraph references shown in parenthesis refer to the extant Code.

² **Regulator:** IOSCO

³ **Regulators:** AOB, IFIAR, IOSCO, IRBA, UKFRC

⁴ **Regulators:** AOB, IFIAR, IOSCO, IRBA, UKFRC

⁵ **Regulators:** AOB, NASBA, IFIAR, IOSCO, IRBA, UKFRC; **NSS:** APESB, NZAuASB; **Firms:** CHI

⁶ **Regulators:** AOB, IFIAR, IOSCO, IRBA, UKFRC

- Designing and implementing internal control or risk management procedures;⁷
- Services related to the audited entity's internal audit function;⁸ and
- Services linked to the financing, capital structure and allocation, and investment strategy.⁹
- Litigation support services for PIEs when it is used for the purpose of advancing the entity's interest in a legal proceeding or investigation with respect to amounts that are material to the financial statements subject to audit or review.¹⁰

Likelihood of Threats Created

3. A few respondents¹¹ questioned the appropriateness of having the word “might” in Section 600 of Safeguards ED-2 to describe the likelihood of threats being created by providing a specific NAS to an audit client. Those respondents commented that:
- The statement in paragraph 603.1, “Providing valuation services to an audit client *might* create self-review threat” appears to suggest that a self-review threat would be remote when in reality it is likely in most situations.¹²
 - The word “might” suggests that something that is more remote than the word “may” and that in the context of Section 600,¹³ the use of the phrase “...might create threats...” understates the likelihood of the specific threat occurring.¹⁴

NAS for Non-assurance Engagements

4. In regards to proposed Section 950¹⁵, a substantive number of respondents expressed support and suggested further refinements aimed at achieving further alignment to the proposals in Section 600. However, there were some respondents, in particular regulators were of the view that:
- The independence requirements for all other assurance engagements¹⁶ or for other assurance engagements of public interest entities¹⁷ should be the same as it is for audits.
 - The requirements and application material in proposed Section 950 that apply to the firm should

⁷ **Regulators:** UKFRC

⁸ **Regulators:** UKFRC

⁹ **Regulators:** UKFRC

¹⁰ **Firms:** MNP

¹¹ **Firm:** EYG; **NSS:** NZAuASB

¹² **Firm:** EYG

¹³ Part 4A – Independence for Audits and Reviews, Section 600, *Provision of Non-assurance Services to an Audit Client*

¹⁴ **NSS:** NZAuASB

¹⁵ Part 4B – Independence for Other Assurance Engagements, Section 950, *Provision of Non-assurance Services to an Assurance Client*

¹⁶ **Regulators:** IRBA, UKFRC; **NSS:** NZAuASB.

¹⁷ **Regulators:** UKFRC

also apply to network firms.¹⁸

Fees

5. A respondent to Safeguards ED-2 believed that the Code should include requirements in relation to fees charged for NAS services provided to audit and assurance clients, e.g., "...consider the total of the NAS fee in relation to the audit fee charged to audit client" or "When the total NAS fee from an audit client represents a large proportion of the total fee from the firm expressing an audit opinion, the dependence on that client's NAS and concerns about losing the NAS client may create self-interest, self-review and intimidation threats."¹⁹

Professional Skepticism (PS) Longer Term Initiative

6. Certain respondents to the May 2017 Exposure Draft, [*Proposed Application Material Relating to Professional Skepticism and Professional Judgment*](#) (PS and PJ ED) took the opportunity to provide input on the IESBA's longer term PS initiative.
7. Some respondents suggested that PS should apply to all professional accountants (PAs).²⁰ There were a few respondents²¹ who expressed a contrary view and believed that PS should only apply when PAs perform audit and assurance engagements. Of those who commented on extending the concept of PS to all PAs:
 - A few respondents²² suggested that different terms should be used to distinguish the skeptical behavior that is expected of auditors and assurance practitioners from that which is expected of all PAs more broadly.
 - A few respondents cautioned against changes to the definition of PS, noting the potential risks of confusion for PAs and unintended consequences.²³
8. Other view expressed include:
 - PS is an "enabler of compliance with the FPs."²⁴
 - The approach taken by the International Accounting Education Standards Board (IAESB) is an appropriate basis for extending PS as a requirement for all PAs in the Code.²⁵
 - The exercise of PS is important for tax and consulting engagements and that the Code should

¹⁸ **Regulators:** IRBA

¹⁹ **Regulators:** IRBA

²⁰ **NSS:** APESB; **Firms:** BDO; **MBs:** CAPC, FACPCE, ICAEW, ICAS; **OPs:** PAIB, PKF

²¹ **Firms:** DTT; **MBs:** IDW; **OPs:** SMPC

²² **Firms:** EYG; **MBs:** IDW,

²³ **MB:** ACCA, AE, ICAEW; **OPs:** SMPC

²⁴ **MBs:** ICAEW

²⁵ **Firms:** GTI

explain the role of PS in performing those non-assurance services.²⁶

Documentation

9. A respondent²⁷ to Structure ED-2 suggested that the timing of events should be added as part of the information to be documented in the proposed application material (e.g., paragraphs 210.8 A3 and 270.5 A1 (310.10 and 370.6 Part C close-off)).

C. Recently Completed Projects

10. In responding to Structure ED-2, some respondents provided alternate drafting suggestion that they believe should have been made to the approved NOCLAR, long association (LA) and Part C close-off documents. In the case of the Part C project, a listing of those suggestions is included in [Agenda Item 8-C](#) of the September 2017 IESBA meeting materials.

LA

11. In relation to the allowance for one additional year in rare cases due to unforeseen circumstances outside the firm's control, a respondent²⁸ pointed out that depending on when this occurs in a year, a one year extension may not be sufficient to address the audit of the client for that fiscal year and asked that consideration be given to a potential extension so that the audit that occurs in that period could be completed.
12. In relation to the LA requirements that apply only to engagement partners, engagement quality control reviewers and key audit partners for public interest entity audits, a respondent²⁹ asked that consideration be given to applying requirements to other members of the engagement team that have played a "significant role" in the audit of a public interest entity.

NOCLAR

Use of the Term "Clearly Inconsequential"

13. Some respondents to Structure ED-2³⁰ commented that proposed Part 2 includes a reference to clearly inconsequential matters in paragraph 260.7 A3, and is therefore limited to the NOCLAR section. This important clarification ought not to be limited to the section on NOCLAR alone, but should be extended to all circumstances giving rise to potential threats covered by the Code, since a clearly inconsequential matter can *per se* not be deemed to threaten compliance with a fundamental principle anywhere in the Code.

²⁶ **MBs:** NYSSCPA

²⁷ **MBs:** ICAS

²⁸ **Firms** BDO

²⁹ **Regulators** IOSCO

³⁰ **MBs** IDW WPK **OPs** SMPC (IFAC)

D. Other Matters

Ethical Outcomes

14. Separately, and in response to the Structure ED-2, a regulatory respondent³¹ agreed with the proposed restructured text's emphasis on overarching requirements, but believed that the proposals did not go far enough in setting out "ethical outcomes" for PAs. The respondent:

- Was of the view that there was an absence of a clear linkage between the fundamental principles and the detailed requirements; there should be more clarity and emphasis of the centrality of the fundamental principles;
- Suggested that an explicit linkage should be established between the framework and detailed requirements so that it is clearer how the requirements meet the ethical outcomes in each section of the Code.

In essence, the respondent believed that in each section and subsection of the Code there should be a statement of its required ethical outcome.

Close Family

15. A respondent to Structure ED-2¹ suggested that the restructured Code be amended so as to prohibit an engagement team member's close family from holding a material financial interest in, or serving as a director or officer of, the assurance client.

Definitions and Terminology

16. In response to Structure ED-2 and Safeguards ED-2, there were requests for more guidance to explain the meaning of:
- Significance as used in the Code, in particular in the context of identifying, evaluating, and addressing threats.³²
 - Assurance, audit and review teams.³³ The respondent commented that the definitions of these terms in the Code include only individuals who are in a position to '*directly*' influence the outcome of an engagement, and creates a risk that an ability to influence is seen purely as a structural consideration (related to the position of an individual in a firm). The respondent was of the view that such an assessment should be driven by a consideration that captures all of those who have the ability to influence and are relevant to the engagement.

IESBA-IAASB Coordination Matters

17. Some respondents to Safeguards ED-2 suggested that the terminology in the Code and the International Auditing and Assurance Standards Board (IAASB's) standards should be more closely

³¹ **Regulators:** UKFRC

³² **Regulators:** IFIAR, NASBA; **Firms:** CHI, **Public Sector:** GAO; **MBs:** ICAEW, KICPA

³³ **Regulators** UK FRC

aligned.³⁴ More specifically:

- A respondent³⁵ noted that the IAASB does not define “audit team” for the purposes of its International Standards on Auditing (ISAs) but the IAASB (and IESBA) include “engagement team” as a defined term.
 - A respondent³⁶ to Structure ED-2 noted that the restructured Code’s use of “may” is inconsistent with its use in the ISAs where it does not denote “permission” but rather actions auditors might take.¹ The IESBA might consider whether the IESBA and the International Auditing and Assurance Standards Board (IAASB) might be consistent in their use of this terminology.
2. A few respondents to the PS and PJ ED emphasized the need for continued IESBA-IAASB-IAESB coordination.³⁷

³⁴ **Firms:** CHI; **Regulators:** IRBA, UKFRC; **NSS:** NZAuASB; **MBs:** IDW; **OPs:** SMPC

³⁵ **Regulators** UK FRC

³⁶ **Regulators** UK FRC

³⁷ **Regulators:** IRBA, UKFRC; **Firms:** BDO, CHI, EYG, PWC; **MB:** AE, **OPs:** PKF, SMPC