

IESBA 2018 Update

23 June 2018



Building a better
working world

Ethics

A man without ethics is a wild beast loosed upon this world
(Albert Camus)

Ethics is knowing the difference between that you have a right to do and what is right to do (Potter Stewart)

Trust has two dimensions: competence and integrity. We will forgive mistakes of competence. Mistakes of integrity are harder to overcome (Simon Sinek)

Context

- ▶ Ethics a central issue in post-crisis world
- ▶ Expectations of ethical behavior heightened
- ▶ IESBA Code bedrock of public trust in global accountancy profession
 - ▶ Underpinned by strong IESBA public interest commitment
- ▶ Several projects aimed at **raising quality of the Code** by disturbing the *status quo*:
 - ▶ In areas where ethical practice needs to be elevated
 - ▶ To respond effectively to new ethical challenges

Agenda

- ▶ About IESBA
- ▶ Projects and Initiatives
 - ▶ NOCLAR
 - ▶ Long Association
 - ▶ Structure of the Code
 - ▶ Safeguards
 - ▶ Professional Skepticism
 - ▶ Other Improvements
- ▶ Future strategy

Global Adoption of IESBA Code

- ▶ Adopted, used as basis for national ethical requirements, or converged in 100+ countries (Data as of March 2014)
- ▶ Translated in 36+ languages, including all major UN languages





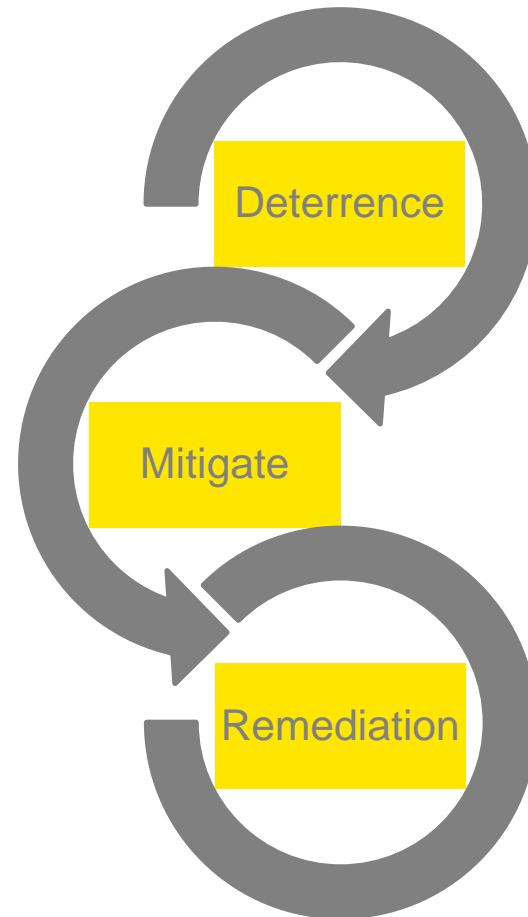
NOCLAR Standard



- ▶ Major contribution to the public interest
 - ▶ Effective July 15, 2017
- ▶ Provides a framework to guide all professional accountants (PAs) in deciding how best to act *in the public interest* when they become aware of NOCLAR or suspected NOCLAR

NOCLAR Response Framework

- ▶ Comply with fundamental principles of integrity and professional behavior
- ▶ Through alerting management/those charged with governance, seek to:
 - ▶ Enable them to rectify, remediate or mitigate consequences of NOCLAR; or
 - ▶ Deter commission of NOCLAR
- ▶ Take such further action as may be appropriate in the public interest



NOCLAR Response Framework - Auditors

- ▶ Auditors need to understand the legal and regulatory framework they are reporting under.
- ▶ Upon becoming aware of actual or suspected NOCLAR, establish what legal or regulatory obligations are triggered
- ▶ Raise the matter with TCGW
- ▶ Fulfil professional responsibilities

Auditors – Assessing Response of Management/TCWG

- ▶ Assess appropriateness of response
 - ▶ Response timely?
 - ▶ Matter adequately investigated?
 - ▶ Action taken to rectify, remediate or mitigate consequences?
 - ▶ Action taken to stop NOCLAR or mitigate risk of re-occurrence?
 - ▶ NOCLAR disclosed to appropriate authority?
- ▶ Determine if further action needed in public interest – nature and extent will depend on various factors, e.g.
 - ▶ Legal and regulatory framework
 - ▶ Urgency and pervasiveness of the matter
 - ▶ Credible evidence of substantial harm to stakeholders?

Courses of action - Auditor

- ▶ Courses of further action include:
 - ▶ Disclose to appropriate authority (even if not required by law or regulation)
 - ▶ Withdraw from engagement and client relationship (where permitted by law or regulation)

- ▶ When to disclose to the appropriate authority?
 - ▶ Disclosure to appropriate authority depends in particular on nature and extent of actual/potential harm to stakeholders
 - ▶ Decision depends also on factors such as:
 - ▶ Whether there is an appropriate authority to intake and follow up on the information
 - ▶ Availability of legal protection
 - ▶ Existence of actual or potential threats to physical safety of PA or others

NOCLAR Response Framework - PAIB

- ▶ Raise the matter with TCGW
- ▶ Comply with applicable laws and regulations
- ▶ Have the consequences of the confirmed or suspected NOCLAR rectified, remediated or mitigated
- ▶ Reduce the likelihood of reoccurrence
- ▶ Seek to deter the commission if it has not happened already

- ▶ Consideration should also be given to communicating the NOCLAR to the external auditors

PAIB – Assessing Response of Senior accountant's superiors /TCWG

- ▶ Assess appropriateness of response
 - ▶ Response timely?
 - ▶ Matter adequately investigated?
 - ▶ Action taken to rectify, remediate or mitigate consequences?
 - ▶ Action taken to stop NOCLAR or mitigate risk of re-occurrence?
 - ▶ NOCLAR disclosed to appropriate authority?

- ▶ Determine if further action needed in public interest – nature and extent will depend on various factors, e.g.
 - ▶ Legal and regulatory framework
 - ▶ Urgency and pervasiveness of the matter
 - ▶ Credibility of the senior accountant's superior/TCWG as it relates to integrity
 - ▶ Will the NOCLAR reoccur?
 - ▶ Credible evidence of substantial harm to stakeholders?

Courses of action - PAIB

- ▶ Courses of further action include:
 - ▶ Disclose to appropriate authority (even if not required by law or regulation)
 - ▶ Informing the management of the parent entity if the company is part of a group
 - ▶ Resignation

- ▶ When to disclose to the appropriate authority?
 - ▶ Disclosure to appropriate authority depends in particular on nature and extent of actual/potential harm to stakeholders
 - ▶ Engaged in bribery
 - ▶ Listed entity
 - ▶ Regulated entity
 - ▶ Harmful products being sold to general public
 - ▶ Tax evasion

Long Association

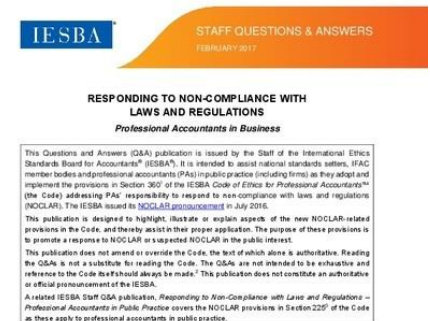
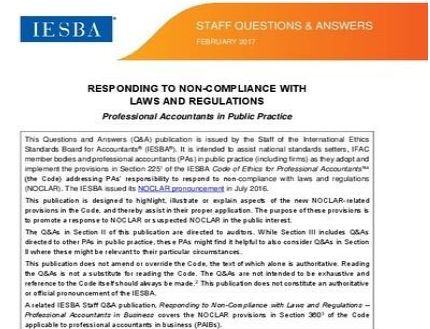


Key changes

Pre-2018	Post-2017
7-year time-on: all KAPs	No change
2-year cooling-off: all KAPs	5-year cooling-off: EP
	3-year cooling-off: EQCR
	2-year cooling-off: all other KAPs

Way forward

- Revised provisions effective for audits of f/s for periods ≥ 15 Dec 2018; restructured version to be issued with restructured Code
- IESBA Staff Q&As issued May 2017
- IESBA commitment to post-implementation review in next strategy period:
 - Take into account relevant legal and regulatory developments (including mandatory firm rotation)
 - Review experience of application of revised provisions in practice



¹ Section 360, Responding to Non-Compliance with Laws and Regulations
² References to the Code in this publication are to the Code text as of the date of this publication. The Code can be accessed at www.iesba.org/ethics/code
³ Section 226, Responding to Non-Compliance with Laws and Regulations

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Towards restructured IESBA Code

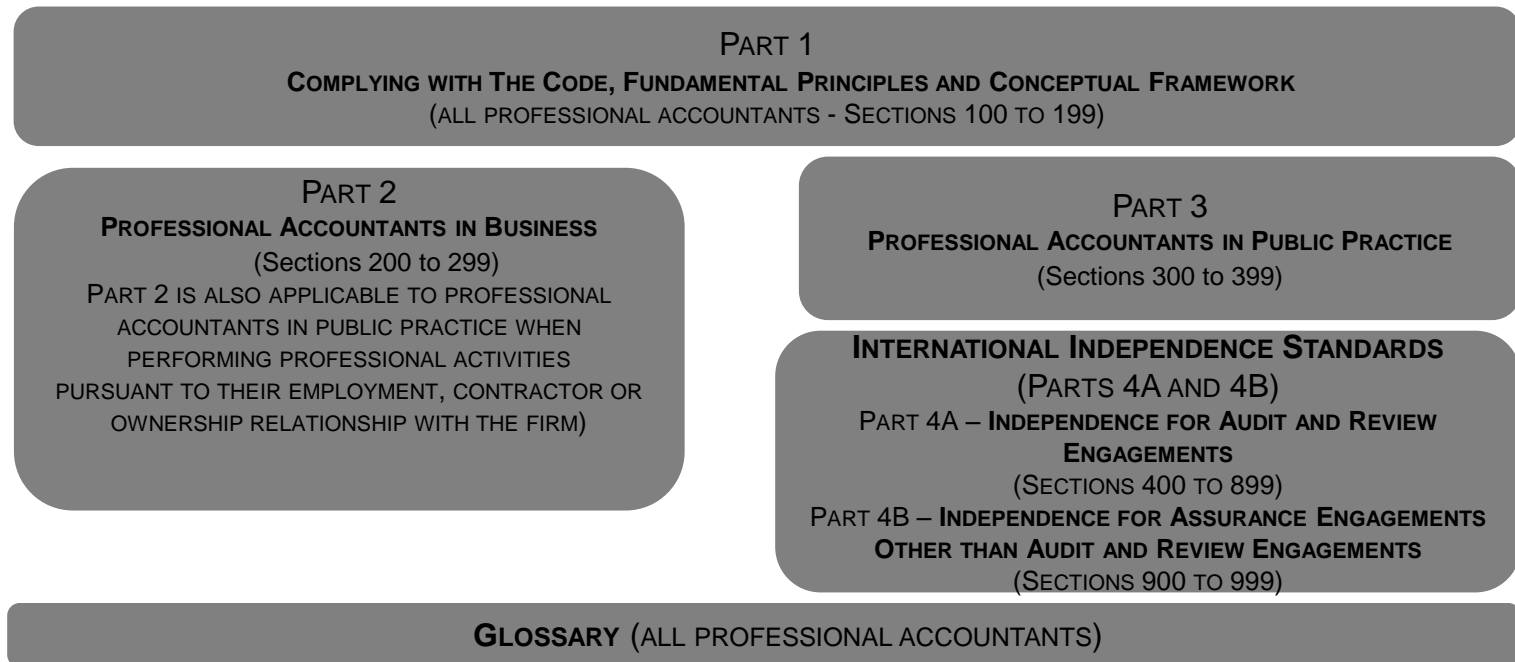


Restructured IESBA Code

- ▶ New title to emphasize key features:
*International Code of Ethics for Professional Accountants
(including International Independence Standards)*
- ▶ New Guide to the Code
- ▶ More self-contained sections
- ▶ Care taken to avoid any inadvertent changes in meaning or any weakening of the Code
- ▶ Increased prominence of fundamental principles and conceptual framework

Restructured IESBA Code

International Code of Ethics for Professional Accountants (including International Independence Standards)

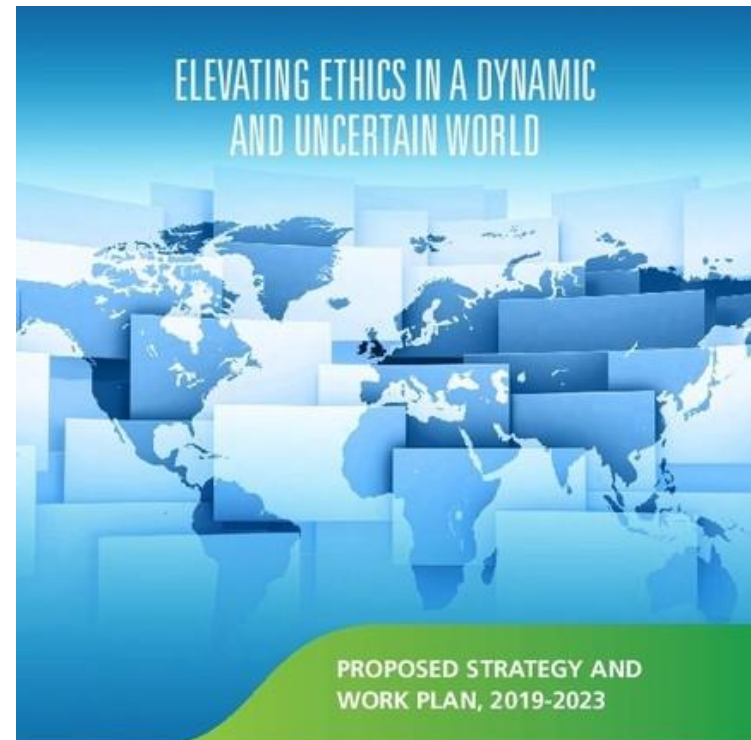


Future plans for IESBA



2019 – 20123 Strategy & Work Plan

- ▶ Comments invited on consultation paper *Elevating Ethics in a Dynamic and Uncertain World*
 - ▶ Deadline: July 16, 2018
- ▶ Global roundtables to obtain stakeholder input on two significant public interest topics: non-assurance services and professional skepticism



IESBA
International
Institute of
Business
Ethics
Standards
Board for Accountants

Questions?

