

The New Code of Ethics

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EXTERNAL REPORTING BOARD

Te Kāwai Ārahi Pūrongo Mōwaho

Agenda

- About the new IESBA Code
 - Overview, What is Included and Architecture
 - Overarching Requirements Relating to Fundamental Principles and Independence
 - The Enhanced Conceptual Framework
- Using the new Code
- Other Substantive Revisions
- Effective Date
- NZ Specific Paragraphs

A New Landscape for Ethics Standards

IESBA



About the New Code

- New design – easier to navigate, use and enforce
 - Completely rewritten
 - Req'ts clearly distinguished from application material
 - New user guide and updated glossary
- Increased focus on compliance with the fundamental principles (FPs) and independence as overarching req'ts
- Enhanced conceptual framework (CF)
 - Clearer and more robust safeguards
 - More tightly integrated into relevant sections of the Code

**MORE
USER-
FRIENDLY**



What is Included

- Packages all substantive advances in ethics and independence over last four years
 - Significant enhancements to conceptual framework
 - Enhanced safeguards provisions better aligned to threats
 - Strengthened Long Association provisions
 - Strengthened provisions re preparing or presenting information
 - New provisions addressing pressure to breach FPs
 - NOCLAR
 - Applicability of relevant PAIB provisions to PAPPs clarified
 - Strengthened provisions regarding inducements
 - New guidance re professional judgment and professional skepticism

**COMPREHENSIVE,
INTEGRATED
SUITE** 

**SIGNIFICANT
UP-
GRADES** 

Architecture

PART 1

**Complying with the Code, Fundamental Principles
and Conceptual Framework**

(Sections 100 to 199)

(All Professional Accountants)

PART 2

**Professional Accountants
in Business (PAIBs)**

(Sections 200 to 299)

*(Part 2 is also applicable to
individuals PAPPs when
performing professional
activities pursuant to their
relationship with the firm)*

PART 3

**Professional Accountants
in Public Practice (PAPPs)**

(Sections 300 to 399)

PARTS 4A & 4B

**International Independence
Standards**

Part 4A—Independence for Audits & Reviews

(Sections
400 to 899)

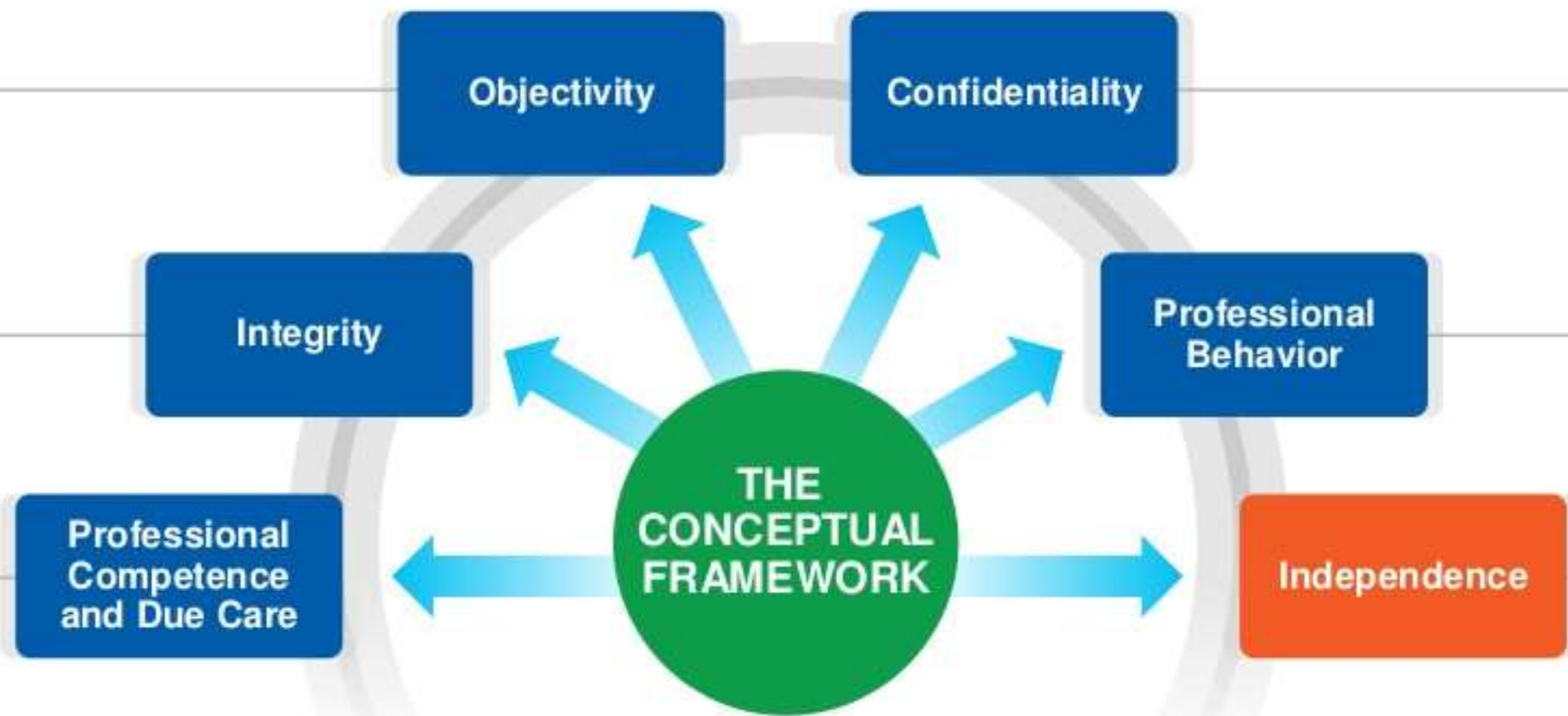
Part 4B—Independence for Assurance Engagements
Other than Audit & Review Engagements

(Sections
900 to 999)

GLOSSARY

(All Professional Accountants)

Overarching Requirements



Categories of Threats

Self-interest

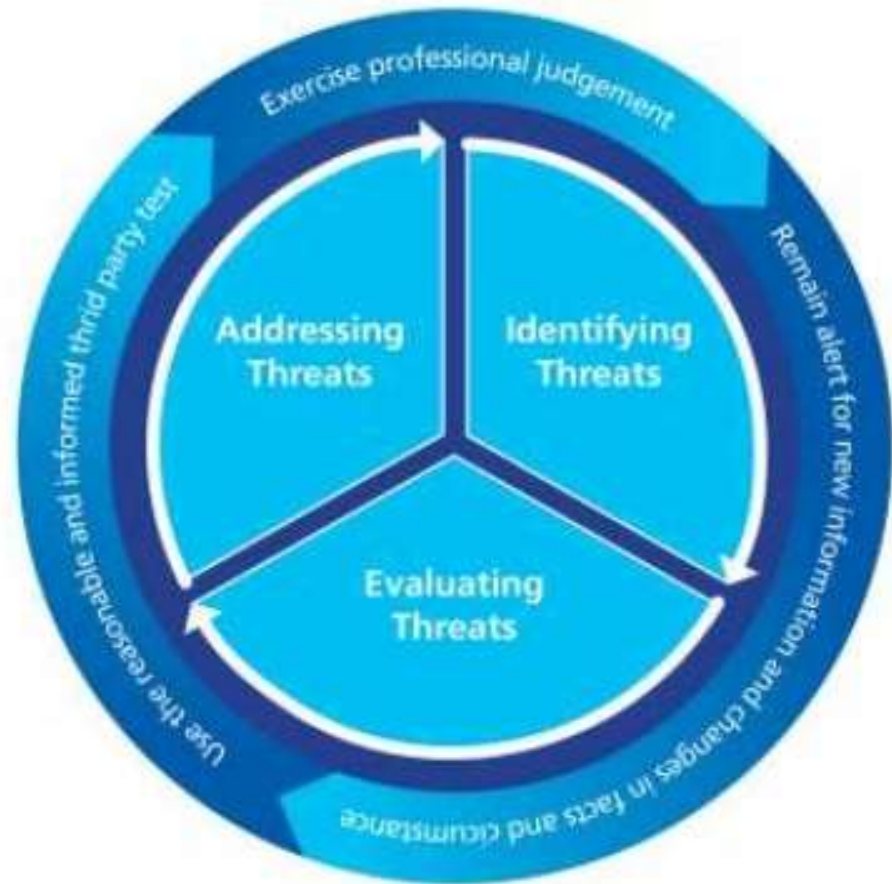
Self-review

Advocacy

Familiarity

Intimidation

The Enhanced Conceptual Framework



- What is it?
 - Dedicated provisions that apply to all PAs, in all circumstances, when dealing with ethics and independence issues
- Why have a conceptual framework?
 - Because establishing an exhaustive list of facts and circumstances that might trigger ethics and independence issues is impracticable

Using the New Code

- Material in Code is integrated, minimal repetition
- Users of Code required to understand and apply:
 - All provisions in Part 1 which deal with FPs and CF
 - Other relevant provisions in subsequent Parts and Sections of the Code (e.g. Parts 1 and 2 apply to PAIBs)
- New headings emphasize scalability
 - Applicable in all circumstances titled either:
 - “General”
 - “All Audit Clients” (i.e., PIEs and non-PIEs) in Section 600
 - “Audit Clients that are not PIEs”
 - “Audit Clients that are PIEs”



Key Enhancements to Conceptual Framework

- Identified threats that are not at acceptable level must be addressed in one of three ways:
 - Eliminate circumstances creating the threats;
 - Apply safeguards; or
 - Decline or end the specific professional activity/service
- Safeguards, RITP and other key concepts clarified
 - Safeguards now more to identified threats
- Emphasis that if threats cannot be addressed, PA must decline or end the specific professional activity
- New req't to “step back” in forming overall conclusion



The Enhanced Conceptual Framework

IESBA



Preparation and Presentation of Information

- More comprehensive provisions addressing PAIBs' responsibilities when preparing or presenting information
- Prohibition on exercising discretion when preparing or presenting information with intent to mislead or inappropriately influence contractual or regulatory outcomes
- Enhanced guidance to assist PAs in disassociating from misleading information



Pressure to Breach Fundamental Principles

- Prohibition on allowing pressure from others to result in a breach of fundamental principles
- Prohibition on placing pressure on others that would lead them to breach fundamental principles
- Guidance to assist in navigating situations involving pressure
- Practical examples to illustrate different situations in which pressure might arise



Inducements, Including Gifts and Hospitality

- Approved April 2018, effective June 2019
- Clarifications about appropriate boundaries for offering and accepting of inducements
- Prohibitions on offering or accepting inducements with intent to improperly influence behavior
- Application of conceptual framework when no actual or perceived improper intent
- Scope includes both PAIBs (Section 250) and PAPPs (Section 340)



Long Association

- Strengthened general provisions addressing long association
- A strengthened partner rotation regime for PIE audits, including:

Extant	Revised
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

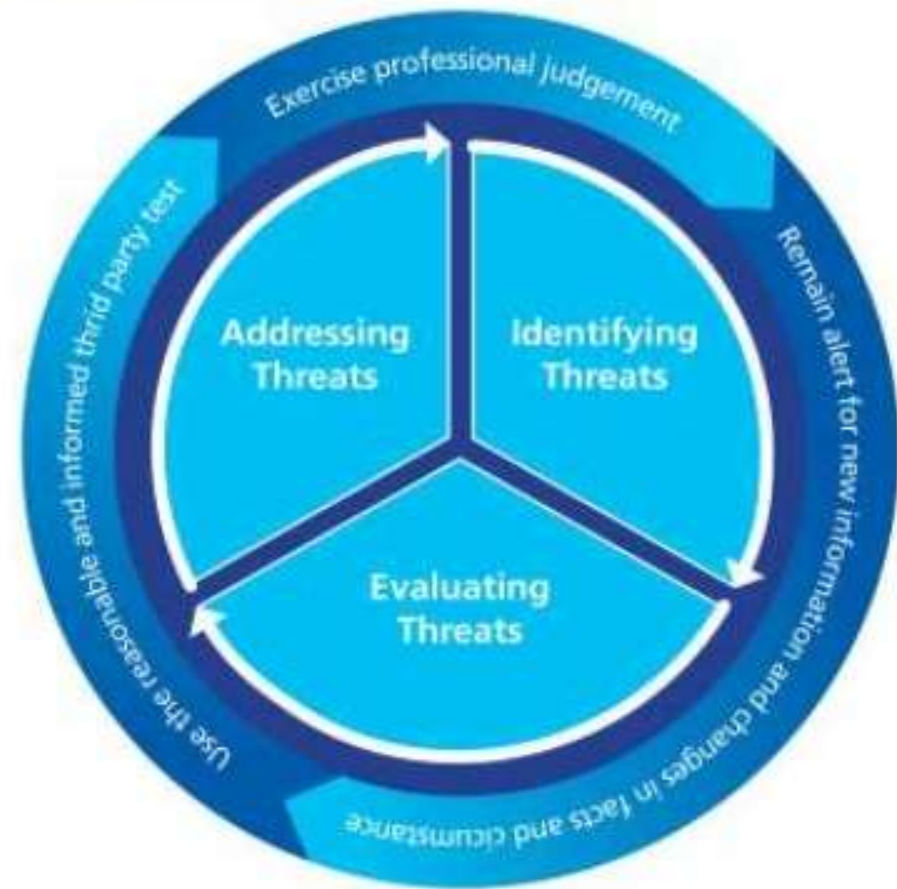
Restrictions on Activities During Cooling-off

- Continuing prohibition on consulting with engagement team or client re technical or industry-specific issues, transactions or events
- But new restrictions:
 - Acting as “client relationship” partner
 - Undertaking any other role or activity (including providing NAS) that would result in individual having significant or frequent interaction with senior management or TCWG, or directly influencing outcome of audit



Non-assurance Services (NAS)

- New and improved guidance to assist in proper application of CF
 - New factors for evaluating threats
 - Enhanced guidance on addressing threats, including revised safeguards provisions
- Prohibition on assuming management responsibilities now more prominent
- Existing prohibitions on provision of certain types of NAS in certain circumstances retained
 - But new prohibition re recruiting services



Applicability of PAIB Provisions to PAPPs

- New requirement and clearer guidance for PAPPs that relevant PAIB provisions in Part 2 are applicable to them when they perform professional activities pursuant to their relationship with the firm, whether as:
 - Whether as contractors, employees or owners of the firm
- Illustrations of situations in which provisions in Part 2 apply to a PAPP



Professional Judgment and Professional Skepticism

- New guidance
 - For all PAs to emphasize the importance of obtaining an understanding of facts and circumstances when exercising professional judgment
 - For auditors and assurance practitioners that explains how compliance with the fundamental principles supports the exercise of professional skepticism



Effective Date

- New Code (including safeguards-related changes)
 - Parts 1, 2 and 3: June 15, 2019
 - Part 4A: audits and reviews of financial statements for periods beginning \geq June 15, 2019
 - Part 4B: for assurance engagements with respect to subject matter covering periods: periods beginning \geq June 15, 2019; otherwise June 15, 2019
- Above does not override effective dates of [NOCLAR](#) and [Long Association](#) provisions
 - Drafted under current structure and drafting conventions



Summary – Changes to the International Code



- Structural revisions
- Enhanced conceptual framework
- Strengthened provisions
 - Long association
 - Inducements
- Strengthened provisions PAIB
 - Pressure to breach the fundamental provisions (new)
 - Preparation and presentation of information (revised)
- Applicability
- New material professional judgement and professional scepticism



The Ethics Board

www.ethicsboard.org

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NZ specific provisions

Compelling reasons

- The international standard does not reflect, or is not consistent with:
 - NZ regulatory arrangements
 - Principles and practices that are considered appropriate in NZ (including significant terminology)
- NZ prefix



NZ specific changes

- Scope
 - Excludes Part 2, professional accountants in business
 - Section 321, second opinions
- Conflicts of interest
 - Always requires disclosure in writing
 - Disengage if adequate disclosure to client is restricted
- Prohibition on accepting or paying referral fees or commissions
- Multiple threats to independence
- Liquidator or receiver – prohibition on providing assurance services
- Application of Part 4A (Independence) to prospective financial information
- Definitions

Extant NZ paragraphs removed

- In relation to other assurance engagements
 - Non-compliance with laws and regulations (NOCLAR)
 - Breaches of independence
 - PIE requirements, including long association and temporary staff assignments

- Extant PES 1, same framework – audit, review, other assurance
- International Code – framework for audit, separate framework for review, assurance
- Proposed NZ Code – framework for audit and review, separate framework other assurance
 - Other assurance: discuss NOCLAR with TCWG *if the assurance practitioner has access to them*
 - Other assurance: documentation is encouraged

Breaches of independence – other assurance

- Extant PES 1, section 291 aligned with section 290
- Proposed new Code, Part 4B, principles based framework
 - Communicate breaches of independence to the *engaging party or those charged with governance*, as appropriate.
 - Use professional judgement in determining appropriate party to communicate breaches of independence with

PIE Requirements – Other assurance



- Prohibitions on providing:
 - a valuation service that would have a material effect on the subject matter information to a client that is a PIE
 - Certain IT system services to a client that is a PIE
 - Certain recruiting services to a client that is a PIE
- Where the relative size of fees is significant to the firm and the client is a PIE
- Long association with the firm when the client is a PIE

Summary – Changes to NZ Specific Content

- NOCLAR
 - Audit and review engagements – no change
 - Other assurance engagements – aligned with the international code
- Breaches of Independence
- PIE requirements, including long association

The ED of PES 1 is available on the XRB website

[Standards for Assurance Practitioners](#) > Standards in development

www.xrb.govt.nz
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