

Changes in the IESBA Code of Ethics 2023 and their potential impact

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Types of changes

- ▶ Rearrangements to improve flow of narrative
- ▶ Changes resulting from ISQM 1 instead of ISQC
- ▶ New sections
 - ▶ Group Audits
 - ▶ Fees and communication to TCWG and public stakeholders
 - ▶ Provision of non-assurance services to audit clients
 - ▶ Provision of tax services to audit clients

Part 4A Independence for Audit & Review Engagements

- ▶ Sec 400 - Applying the Conceptual Framework - *few additions*
- ▶ Sec 410 – Fees – *major revisions/ rewordings*
- ▶ Sec 411 – Compensation and Evaluation Policies - *No Change*
- ▶ Sec 420 – Gifts & Hospitality - *No Change*
- ▶ Sec 430 – Actual or Threatened Litigation - *No Change*
- ▶ Sec 510 – Financial Interests - *No Change*
- ▶ Sec 511 – Loans and Guarantees - *No Change*
- ▶ Sec 520 – Business Relationships - *No Change*
- ▶ Sec 521 – Family and Personal Relationships - *No Change*
- ▶ Sec 522 – Recent Service with an Audit Client - *No Change*
- ▶ Sec 523 – Serving as a Director or Officer of an Audit Client - *No Change*
- ▶ Sec 524 – Employment with an Audit Client - *No Change*

Part 4A Independence for Audit & Review Engagements (Cont...)

- ▶ Sec 525 – Temporary Personnel Assignments - *No Change*
- ▶ Sec 540 – Long Association of Personnel with an Audit Client – *No Change*
- ▶ Sec 600 – Provision of Non-Assurance Services to an Audit Client – *Major changes*

Sec 601	Accounting and Bookkeeping services
Sec 602	Administrative services
Sec 603	Valuation services
Sec 604	Tax services
Sec 605	Internal Audit services
Sec 606	Information Technology System services
Sec 607	Litigation Support services
Sec 608	Legal services
Sec 609	Recruiting services
Sec 610	Corporate Finance services

- ▶ Sec 800 – Report on Special Purpose Financial Statements that Include a Restriction on Use and Distribution - *No Change*

Prohibition on assuming management responsibilities

- ▶ Prohibition on assuming management responsibilities has been moved from Section 600 to section 400.
- ▶ Now prohibition on assuming management responsibilities applies to all independence aspects of firm and audit client relationship and not only for NAS.
- ▶ A firm is prohibited from assuming a management responsibility for an audit client (which involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources).

Engagement & Audit Team

Addition of new sub-section on '**Engagement Team and Audit Team**' - distinguishing who are members of audit team or engagement team inline with the changes with ISQM standards (400.8-400.12)

Engagement Team and its members

- ▶ includes all partners and staff in the firm who perform audit work on the engagement, and any other individuals who perform audit procedures who are from network firm/ other than a network firm, or service provider.
- ▶ an individual from a component auditor firm who performs audit procedures on financial information.
- ▶ Individuals with expertise in a specialized area of accounting or auditing who perform audit procedures are engagement team members.

Difference between audit team and engagement team

- ▶ Individuals who have direct influence over the outcome of audit engagement through consultation (technical or industry-specific issues, transactions or events for the engagement) are Audit Team Members but not Engagement Team Members.
- ▶ Individuals who are external experts are neither engagement team nor audit team members.
- ▶ In case of EQR, the EQ reviewer and any other individuals performing EQR are audit team members but not engagement team members

Impact of this addition

Audit services to non-assurance client

- ▶ Firm shall not accept PIE audit client to which it has provided non-assurance service unless:
 - ✓ Service completed before audit;
 - ✓ Firm applied necessary safeguards;
 - ✓ In reasonable and informed third party view, threats to the firm's independence reduced to an acceptable level. *(R400. 32)*

Possibility of elimination of self-review threat

- ▶ A threat to independence created by the provision of a non-assurance service by a firm or a network firm
 - prior to the audit engagement period or prior to the period covered by the financial statements on which the firm will express an opinion
 - is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited by another firm.

Actions that might be regarded as eliminating or reducing to an acceptable level any threats

- ▶ Include:
 - The results of the service had been subject to auditing procedures in the course of the audit of the prior year's financial statements by a predecessor firm.
 - The firm engages PA from outside firm to perform a review of the first audit engagement consistent with the objective of an engagement quality review.
 - PIE engages another firm outside of the network to Evaluate the results of NAS; or Re-perform the service

Group Audits

Group Audits

- ▶ Addition of **new Section 405 on 'Group Audits'** to address various independence considerations in an audit of group financial statements inline with ISA 600 (Revised).
- ▶ ISA 600 (Revised) requires the group engagement partner to take responsibility - whether the component auditors understand and will comply with the relevant ethical requirements - independence, that apply to the group audit.
- ▶ A component auditor firm that participates in a group audit engagement might separately issue an audit opinion on the financial statements of the component audit client.

Responsibility of Group Audit Partner

- ▶ Make a component auditor aware of the relevant ethical requirements that are applicable.
- ▶ Communicate at appropriate times the necessary information to enable the component auditor firm to meet its responsibilities.
- ▶ If a matter comes to the attention of the group engagement partner that indicates that a threat to independence exists, group engagement partner to evaluate the threat and take appropriate action - as per ISA 220 (Revised).

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Group Audits (Cont...)

Communication from component auditor to Group engagement partner includes:

- ▶ whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.
- ▶ Any independence matters that require significant judgment; and
- ▶ In relation to those matters, the component auditor firm's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.

Independence of Group Auditor within network

- ▶ A group auditor firm shall be independent of the group audit client
- ▶ A network firm of the group auditor firm shall be independent of the group audit client.

Component Auditor outside the group auditor firm's network shall:

- ▶ Be independent of the component audit client;
- ▶ Apply the relevant requirements with respect to financial interests / loans and guarantees **of** the entity on whose group financial statements the group auditor firm expresses an opinion.

Group Audits (Cont...)

Independence of Component Auditor not part of network

Members of the group audit team shall be independent of:

- ▶ The component audit client;
 - ▶ The entity on whose group financial statements the group auditor firm expresses an opinion; and
 - ▶ Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the component audit client
- ▶ Notify the component auditor firm about any relationship or circumstance the individual knows, might create a threat to the individual's independence for group audit.

Provision of NAS within group

- ▶ When the group audit client is PIE, a component auditor firm outside the group auditor firm's network shall comply with the relevant provisions that are applicable to PIE w.r.t provision of non-assurance services to the component audit client
- ▶ Non-assurance prohibited services (even component non-PIE) include:
 - ▶ Providing accounting and bookkeeping services to a component audit client that is not a public interest entity.
 - ▶ Designing the information technology system/ some aspect, where such IT system generates information for the component audit client's accounting records or financial statements.
 - ▶ Acting in an advocacy role in resolving a dispute or litigation before a Tribunal or Court.

Breach of Independence at Component Firm Level

- ▶ Breach might occur despite a component auditor firm having a system of quality management designed to address independence requirements.
- ▶ Responsibility of Component Auditor when breach occurs:
 - ▶ The component auditor firm shall:
 - ▶ End, suspend or eliminate the interest or relationship;
 - ▶ Evaluate the significance of the breach and its impact on the component auditor firm's objectivity and ability to perform audit work for the purposes of the group audit;
 - ▶ Depending on the significance of the breach, determine whether action can satisfactorily address the consequences of the breach; and
 - ▶ Promptly communicate in writing the breach to the group EP, including the component auditor firm's assessment of the significance of the breach and any actions proposed to address the breach.

Breach of Independence at Component Firm Level (Cont...)

Breach – Responsibility of Group Engagement Partner

- ▶ Upon receipt of the component auditor firm’s communication of the breach:
 - ▶ Review the component auditor firm’s assessment of the significance of the breach and its impact, any action that can be or has been taken to address the consequences of the breach;
 - ▶ Evaluate the group auditor firm’s ability to use the work of the component auditor firm for the purposes of the group audit; and
 - ▶ Determine the need for any further action.
 - ▶ Exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component auditor firm’s objectivity is compromised, and therefore, the group auditor firm is unable to use the work of the component auditor firm for the purposes of the group audit
- ▶ If it is determined that the consequences of the breach have been satisfactorily addressed group auditor firm may continue to use the work of the component auditor firm for the group audit.

Breach – Communication with TCWG

Group auditor firm shall discuss with TGWG of the group audit client:

- ▶ The component auditor firm’s assessment of the significance and impact of the breach including the nature and duration of the breach, and the action that can be or has been taken; and
- ▶ Whether the action will satisfactorily address the consequences of the breach.

Breach of Independence at Component Firm Level (Cont...)

The group auditor firm shall communicate in writing to TCWG of the group audit client and obtain their concurrence that the action has been taken to satisfactorily address the consequences of the breach.

- ▶ **If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm shall not use the work performed by the component auditor firm for the purposes of the group audit**

Key Audit Partner

- ▶ A key audit partner makes key decisions or judgments on significant matters with respect to the audit of the group financial statements on which the group auditor firm expresses an opinion in the group audit.
- ▶ Determined by the group engagement partner whether a component auditor is a key audit partner for the group audit.
- ▶ If so, the group engagement partner shall:
 - ▶ Communicate that determination to that individual; and
 - ▶ Indicate:
 - ▶ In the case of all group audit clients, that the individual is subject to paragraph R411.4; and
 - ▶ In the case of group audit clients that are public interest entities, that the individual is also subject to paragraphs R524.6, R540.5(c) and R540.21.

Audit Fees

- ▶ Audit fees comprise fees or other types of remuneration for an audit or review of financial statements.
- ▶ Fees for professional services are usually negotiated with and paid by an audit client this creates a self-interest threat and might create an intimidation threat to independence.
- ▶ Code requires that before a firm or network firm accepts an audit or any other engagement for an audit client, the firm determines whether the threats to independence created by the fees proposed are at an acceptable level.
- ▶ Code also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the audit.
- ▶ A firm shall not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.
- ▶ Communication about fees-related information with TCWG has been extensively discussed, to provide them background and context to the audit fees to consider firm's independence.

Audit Fees (Cont...)

Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include:

- ▶ The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- ▶ Any linkage between fees for the audit and other than audit services - relative size etc.
- ▶ Extent of any dependency between the level of fee and the outcome of the service.
- ▶ Whether the fee is for services to be provided by the firm or a network firm.
- ▶ Operating structure and compensation arrange
- ▶ The significance of the client, nature of the client, for example whether the client is a PIE.
- ▶ Role of TCWG in appointing the auditor and agreeing fees, emphasis on the quality of the audit and the overall level of the fees.
- ▶ Whether the level of the fee is set by an independent third party, such as a regulatory body / quality of firm's audit work is subject to review of an independent third party, such as an oversight body.

Audit Fees (Cont...)

Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the audit client include:

- ▶ The firm's commercial rationale for the audit fee.
- ▶ Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

Examples of actions that might be safeguards to address such threats include:

- ▶ Having an appropriate reviewer who does not take part in the audit engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- ▶ Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

Audit Fees (Cont...)

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services.

- ▶ Factors that are relevant in evaluating the level of such threats include:
 - ▶ ratio of fees for services other than audit to the audit fee.
 - ▶ length of time during which a large proportion of fees for other than audit services has existed.
 - ▶ nature, scope and purposes of the services - whether recurring services or law or regulation mandates the services to be performed by the firm.

Overdue Fees

Self-interest threat might be impacted if fees payable by an audit client for the audit or services other than audit are overdue during the period of the audit engagement

Factors that are relevant in evaluating the level of such a self-interest threat include:

- ▶ The significance of the overdue fees or length of time the fees
- ▶ The firm's assessment of the ability and willingness of the audit client to pay the overdue fees.

Audit Fees (Cont...)

Audit clients that are not PIEs – Total fees from a client represents more than 30% of the total fees received by a firm for 5 consecutive years

- ▶ Firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:
 - ▶ Prior to the audit opinion being issued on the fifth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, review the fifth year's audit work; or
 - ▶ After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional body review the fifth year's audit work.
- ▶ If situation continues
 - ▶ Continue applying the safeguard for each year.

Audit Fees (Cont...)

Audit clients which are PIE – fee represents more than 15% for two consecutive years

- ▶ Firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, a review, consistent with the objective of an engagement quality review, performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.
- ▶ if the circumstances described above continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued (subject to an exception).

Performing Non-Assurance Services

General changes

- ▶ When a firm or a network firm provides a non-assurance service to an audit client, there is a risk that the firm or network firm will assume a management responsibility.
- ▶ Where the Code expressly prohibits the provision of a non-assurance service to an audit client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the financial statements on which the firm will express an opinion.
- ▶ Where a firm provides multiple NAS to an audit client, individual for each service and the overall combined impact of the threats created to independence need to be evaluated by firm (600.12).

Performing Non-Assurance Services (Cont...)

Audit clients which are PIE

- ▶ A firm or a network firm shall not provide NAS if that service creates a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion;
- ▶ A firm or a network firm may provide advice and recommendations in relation to information or matters arising in the course of an audit provided that the firm:
 - ▶ Does not assume a management responsibility; and
 - ▶ Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.
- ▶ Firm's communication with TCWG of PIE is required before providing non-assurance services to PIE audit client and its related entities, that might create threats to firm's independence (**600.21-23**).

Performing Non-Assurance Services (Cont...)

Examples of advice and recommendations that might be provided:

- ▶ Advising on accounting and financial reporting standards or policies and financial statement disclosure requirements.
- ▶ Advising on the appropriateness of financial and accounting control
- ▶ Proposing adjusting journal entries arising from audit findings.
- ▶ Discussing findings on internal controls over financial reporting and processes and recommending improvements.
- ▶ Discussing how to resolve account reconciliation problems.
- ▶ Advising on compliance with group accounting policies.

Examples of actions that might be safeguards to address such threats include:

- ▶ Using professionals who are not audit team members to perform the service.
- ▶ Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.
- ▶ Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

Tax Services

Tax service to **all audit clients**

- ▶ A firm /network firm shall not provide a tax service or recommend a transaction to an audit client if:
 - ▶ the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and
 - ▶ a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

Tax planning and Tax advisory services

A firm/network firm shall not provide tax advisory and tax planning services to PIE audit client that create a self review threat, except when these:

- a) Are supported by a tax authority or other precedent;
- b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
- c) Have a basis in tax law that the firm is confident is likely to prevail

Safeguards include:

- ▶ Using professionals who are not audit team members to perform the service.
- ▶ Obtaining pre-clearance from the tax authorities

Tax Services (Cont...)

Tax service involving Valuations

The provision of tax services involving valuations might arise in a range of circumstances including:

Merger and acquisition transactions.

- ▶ Group restructurings and corporate reorganizations.
- ▶ Transfer pricing studies.
- ▶ Stock-based compensation arrangements

When a firm or a network firm performs a valuation for tax purposes

- ▶ Performing a valuation for tax purposes for an audit client will not create a self-review threat if:
 - ▶ The underlying assumptions are either established by law or regulation, or are widely accepted; or
 - ▶ The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Valuation for a client that is a PIE

- ▶ A firm or a network firm shall not perform a valuation for tax purposes for PIE audit client
- ▶ Safeguards to address an advocacy threat created include:
 - ▶ Using professionals who are not audit team members to perform the service.
 - ▶ Obtaining pre-clearance from the tax authorities.

Key Changes of Part 4A

Section	Description
R604.24	<p>Resolution of Tax Disputes before a tribunal or court to a PIE audit client is not allowed (<i>what constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction</i>)</p> <p>ASEC Views: <i>since this may have significant implications on the tax practice of the audit firms, legal opinion has been sought, what constitutes a “tribunal” in Paksitan</i></p>
R607.6	A firm or a network firm shall not provide litigation support services to PIE client.
R608	Firm/ network firm shall not act in an advocacy role for a PIE audit client in resolving a dispute or litigation before a tribunal or court.
R610.5	A firm/ network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments.

Assurance Engagements other than Audits

Key changes

- ▶ Certain additions in examples
- ▶ Assurance engagement defined
- ▶ Roles of parties in assurance engagements clarified
- ▶ New section regarding fee introduced
- ▶ Contingent fee explained and prohibited
- ▶ Threats in overdue fees
- ▶ Attestation engagement reference included in several clauses
- ▶ Independence clauses for assurance clients which are PIE