



International Federation of Accountants



Implications of New Independence Standards for Professional Accountants

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International Ethics Standards Board for Accountants (IESBA) Objective



- Serve and protect the public interest
- Establish high-quality ethical standards for all professional accountants including independence
- Facilitate international convergence
- Thus enhancing the quality and consistency of services provided by professional accountants

IESBA – Current and Recent Projects



- Drafting conventions
- Independence (I and II)

Drafting Conventions



- Implications of IAASB Clarity Project
- *Shall* – to be used to denote:
 - a requirement to comply with specific guidance (e.g. a fundamental principle)
 - A clear prohibition
 - “An accountant shall not be associated with...”

IESBA – Independence Overview



- Strengthened provisions in section
- Public interest entities
- Cooling-off
- Partner rotation
- Non-assurance services
- Fees
- Compensation

Independence – Entities of Public Interest



- Listed entity provisions to be applied to public interest entities
- Public interest entities
 - Listed entities
 - Entities defined by regulation or legislation as a public interest entity
 - Entities for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements as apply to listed entities

Cooling-off period



- Applies to public interest entities
- Applies to firm's Senior or Managing Partner (Chief Executive or equivalent) and to key audit partners:
 - Engagement partner
 - Engagement quality control reviewer
 - Other audit partners who make key judgments on significant matters with respect to the audit

Cooling off period



- Cooling-off period required before individual takes one of the following positions:
 - Director
 - Officer; or
 - Employee in a position to exert significant influence over the preparation of the accounting records or the financial statements
- Cooling off periods:
 - Senior or managing partner – one year
 - Key audit partner – one audit opinion covering a period of not more than 12 months for which the partner was not a member of the audit team

Partner rotation – key audit partners



- Applies to public interest entities – rotate after seven years, do not return to audit team for two years
- In rare cases, due to unforeseen circumstances outside of the firm's control, may be permitted to stay on the engagement if continuity is especially important to audit quality

Rotation – Exception



- Rotation not required when:
 - Independent regulator has provided an exemption from partner rotation where firm has only a few people with necessary knowledge and skill to serve as key audit partner; and
 - Independent regulator has provided alternative safeguards

Non-Assurance services – Management Functions



- A firm shall not perform management functions for an audit client
- Management functions:
 - Leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources
- When providing non-assurance services management responsible for:
 - making the significant decisions and judgments; and
 - accepts responsibility for the actions to be taken as the result of the service

Non-assurance services



- Accounting and bookkeeping
 - Non PIE – can provide if services are of a routine or mechanical nature
 - PIE – prohibited except in emergency situations
- Valuation services
 - Non PIE – prohibited if material and significant subjectivity
 - PIE – prohibited if material
- IT Systems
 - Non PIE – design or implement specific safeguards needed
 - PIE – prohibited design or implementation

Non-assurance services (contd)



- Litigation support
 - Non PIE – if involves estimation of damages – prohibited if material *and* involves a significant degree of subjectivity
 - PIE – Prohibited if material
- Corporate finance
 - PIE – prohibited if material, effectiveness depends on particular accounting treatment and reasonable doubt as to appropriateness of treatment
- Recruiting services
 - PIE – prohibited searching for or checking references of directors/officers and senior financial management

Internal Audit Services



- Non-public interest
 - Shall only provide internal audit services if it is satisfied that management takes responsibility for the services
 - Shall not assume a management responsibility
 - Performing a significant part of the internal audit activities increases possibility of assuming a management responsibility
- Public interest
 - Shall not provide internal audit services that relate to:
 - A significant part of the internal controls over financial reporting
 - Financial accounting systems that generate information that is, separately or in the aggregate, material to the financial statements
 - Amounts or disclosures that are, separately or in the aggregate, material to the financial statements

Tax Services



- Tax return preparation
 - Generally do not create a threat
- Tax calculations
 - Non PIE – may create a threat
 - PIE – except in emergency situations, prohibited if material and for the purpose of preparing accounting entries
- Tax planning and other advisory services
 - Non PIE and PIE – if material, effectiveness of advice depends upon particular accounting treatment and there is doubt as to appropriateness of treatment – self- review threat generally too significant
- Assistance in tax dispute
 - Advocacy threat
 - Prohibited if material and acting before a public court or tribunal

Partner Compensation and Evaluation



- Key audit partners shall not be evaluated on or compensated based on the partner's success in selling non-assurance services to their audit clients
- Compensating or evaluating other members of the audit team for selling non-assurance services may create a threat

Fees



- Public interest
 - If total fees from an audit client exceed 15% of total fee of the firm for two years
 - Pre-issuance review performed by professional accountant who is not a member of the firm: or
 - Post-issuance review performed by professional accountant who is not a member of the firm

Proposed Effective Date



- Effective date 18 months after release of revised Code – January 1, 2011
- Transitional measures for new requirements:
 - Partner rotation requirements – one extra year
 - Public interest entities – one extra year
 - Non-assurance services – an extra six months to complete

Convergence of Independence Standards - Challenges



- Independence standards address same topics but differences in detail
- Inconsistent understanding among auditors, investors, preparers, and regulators
- Complexity of detail leading to higher risk of minor violations
- Higher costs
- Somewhat reduced auditor choice

Convergence – Opportunities



- Member bodies
 - IFAC Statement of Membership Obligations
 - IFAC Compliance Advisory Panel
- Regulators
 - Independence focus

IESBA Convergence Plan



- IFAC plans to issued fully revised and clarified independence standard mid 2009
- Convergence toolkit and resources
- Comparison with other jurisdictions
- National Standard Setters meeting
- Liaison with relevant parties – EC, IOSCO, others
- Other promotional opportunities.

IESBA – Future Activities



- Implementation support for new Code
- New Projects
 - Ethical responsibilities when encountering fraud or illegal acts
 - Conflicts of interests
- Strategic and Operating Plan