

# **Overview Comparison of the Code of Ethics (Revised July 2009) to the Code of Ethics (Revised July 2006)<sup>1</sup>**

## **OVERVIEW**

This paper outlines the principal changes to the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. The full text of the revised Code can be downloaded free of charge from

## **CORE CHANGES**

### **(a) Drafting Conventions**

New and consistent drafting conventions have been adopted throughout the Code. In particular, the word 'shall' has been adopted to "impose a requirement on the professional accountant or firm to comply with the specific provision in which 'shall' has been used" unless an exception is permitted (see 100.4). Further, the Code has adopted consistent use of the terms, 'consider', 'evaluate' and 'determine'.

### **(b) Conceptual Framework Approach**

There is an enhanced explanation of the 'conceptual framework approach' (100.1 – 100.11). This includes a requirement to apply safeguards, when necessary, to eliminate threats or reduce them to an 'acceptable level' – previously safeguards had to be considered if a threat was other than 'clearly insignificant'. As a result, references to 'clearly insignificant' have been removed. 'Acceptable level' has been defined.

### **(c) Threats to Compliance with the Fundamental Principles**

The Code includes a revised description of the 'threats' (100.12), together with modified examples of circumstances which create threats (see 200.3 – 200.8).

### **(d) Structure**

The existing Section 290 (Independence) has been split into two sections:

- Section 290, dealing with audit and review engagements
- Section 291, dealing with other assurance engagements

Section 291 states "This section addresses independence requirements for assurance engagements that are not audit or review engagements. Independence requirements for audit and review engagements are addressed in Section 290. If the assurance client is also an audit or review client, the requirements in Section 290 also apply to the firm, network firms and members of the audit or review team."

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<sup>1</sup> This document has been prepared by the IESBA staff to assist people with implementation. It is a non-authoritative document issued for information purposes.

All material relating to the provision of assurance services, other than audit and review engagements, has been moved to Section 291. The explanation of an assurance engagement is now included in Section 291.

### **(e) Review Engagements**

Reviews of financial statements are subject to the same independence requirements as audits of financial statements. The terms “Review engagements” and “Financial Statements” are defined.

## **KEY REVISIONS TO SECTION 290 (INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS)**

### **(a) Public Interest Entities (PIEs)**

The Code introduces a new definition of ‘Public Interest Entities’ (290.25). Firms and member bodies are encouraged to consider whether ‘other entities’ should also be treated as Public Interest Entities (290.26).

The revised Code extends certain independence requirements to all Public Interest Entities (see subsection (h) below).

### **(b) Documentation**

The Code introduces additional guidance on what firms are required to document as to their conclusions regarding compliance with independence requirements (290.29).

### **(c) Client Mergers and Acquisitions**

The Code introduces new requirements and application guidance addressing situations where, as a result of a merger or acquisition, an entity becomes a related entity of an audit client (290.33 – 38).

### **(d) Key Audit Partner**

The Code introduces a new term ‘Key Audit Partner’ to whom, notably in the case of Public Interest Entities, certain requirements will apply (see definitions). Firms will need to analyse which partners should be regarded as a Key Audit Partner with respect to an individual audit client.

### **(e) Management Responsibilities**

The Code introduces a new section dealing with ‘Management Responsibilities’. The firm shall not assume a management responsibility for an audit client. The Code contains a description of activities that would, and would not, be generally regarded as a management responsibility (see 290.162 – 166) and requires the firm to be satisfied regarding certain responsibilities that management must accept in order to avoid the risk of the firm assuming a management responsibility when providing non-assurance services to an audit client.

## **(f) Taxation Services**

The Code contains new provisions relating to threats that are created by certain tax services. The provisions address tax services under four broad headings:

- Tax return preparation
- Tax calculations for the purposes of preparing the accounting entries
- Tax planning and other advisory services, and
- Assistance in the resolution of tax disputes

Introduces a prohibition on a service where the effectiveness of tax advice depends upon a particular accounting treatment or presentation and there is a reasonable doubt thereon, and the effect on the financial statements is material.

## **(g) Corporate Finance Services**

Enhanced discussion of nature of Corporate Finance Services, the threats created, factors to consider and potential safeguards.

Introduces a prohibition on a service where the effectiveness of corporate finance advice depends upon a particular accounting treatment or presentation and there is a reasonable doubt thereon, and the effect on the financial statements is material.

## **(h) Requirements Relating to Public Interest Entities**

The Code includes (and extends) certain specific requirements in relation to PIEs. In overview, these are:

### Employment – Cooling Off

- A cooling off period must be met before a Key Audit Partner or the firm's Managing Partner (or equivalent) joins an audit client that is a PIE as:
  - a Director or Officer, or
  - an employee in a position to exert significant influence over the preparation of the accounting records or the financial statements
- Cooling off period:
  - Key audit partner: one audit opinion covering a period of not less than 12 months for which the partner was not a member of the audit team
  - Firm's Managing Partner (or equivalent): one year

### Audit Partner Rotation

- Key Audit Partner in respect of a public interest entity is required to rotate after seven years
- Shall not be a member of the engagement team or be Key Audit Partner for two years
- In rare cases due to unforeseen circumstances outside the firm's control a KAP may be permitted to stay on the engagement if continuity is especially important to audit quality

- In certain circumstances where a firm has only a few people with necessary knowledge and skill to serve as the KAP and rotation is therefore not an available safeguard, rotation is not required provided:
  - an independent regulator has provided an exemption from partner rotation in such circumstances; and
  - that regulator has provided alternative safeguards, which are applied.

#### Non-assurance services

- In addition to the provisions on non-assurance services that apply to all audit clients, the following non-assurance services shall not be provided to a public interest entity:
  - **Accounting and bookkeeping services** (except in emergency situations and in the case of immaterial related entities)
  - **Tax calculations** for the purpose of preparing accounting entries that are material to the financial statements (except in emergency situations)
  - **Internal audit services** that relate to:
    - a significant part of the internal controls over financial reporting;
    - financial accounting systems that generate information significant to the client's accounting records or financial statements; or
    - amounts or disclosures that are material to the financial statements
  - **Valuation services** which have a material effect on the financial statements
  - **Design or implementation of IT systems** that form a significant part of the internal control over financial reporting or generate information that is significant to the accounting records or financial statements
  - **Recruiting services** with respect to a director or officer of the entity or individual in a position to exert significant influence over the accounting records or the financial statements that involve:
    - searching for or seeking out candidates for such positions; and
    - undertaking reference checks of prospective candidates for such positions.

#### **(i) Contingent Fees**

The Code introduces a new prohibition on contingent fees for a non-audit assurance service to an audit client if certain specified conditions are met (290.226).

#### **(j) Evaluation and Compensation**

The Code introduces a requirement that a Key Audit Partner shall not be evaluated on or compensated based on that partner's success in selling non-assurance services to the partner's audit client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.

#### **(k) Fees – Relative Size**

The Code introduces a new requirement where the total fees from the audit client exceed 15% of the total fees of the firm for two consecutive years:

- the matter must be discussed with audit committee, and one of the following safeguards applied:

- Pre-issuance review performed by a professional accountant who is not a member of the firm prior to the issuance of the audit opinion on the second year's financial statements; or
- Post-issuance review performed by professional accountant who is not a member of the firm before the issuance of the audit opinion on the third year's financial statements.

### **(l) Restricted Use and Distribution reports**

The Code contains new modified independence requirements relating to certain audit and review reports that include a restriction on use and distribution (290.500 – 514). Similar provisions are included in 291.21-27.

### **OTHER PARTS OF THE CODE**

The other parts of the Code have been amended as a result of the drafting conventions and other changes made to improve clarity of the provisions. There are no major changes of principle.

### **DEFINITIONS**

A number of the definitions have been revised and some new definitions have been included. See the detailed paper for more information.