

2011 ANNUAL REPORT

IESBA

*Ethics for the Global Accounting Profession—
Building on the Groundwork*



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About the IESBA

The International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting body that develops an internationally appropriate *Code of Ethics for Professional Accountants* (the Code). Its standard-setting process includes the involvement of the Public Interest Oversight Board (PIOB), which oversees the activities of the IESBA, and the IESBA's Consultative Advisory Group (CAG), which provides public interest input into the development of the IESBA's standards and guidance.

The objective of the IESBA, as outlined in its [Terms of Reference](#), is to serve the public interest by setting high-quality ethics standards for professional accountants and by facilitating the convergence of international and national ethics standards. This can enhance the quality and consistency of services provided by professional accountants throughout the world and can strengthen public confidence in the accounting profession.

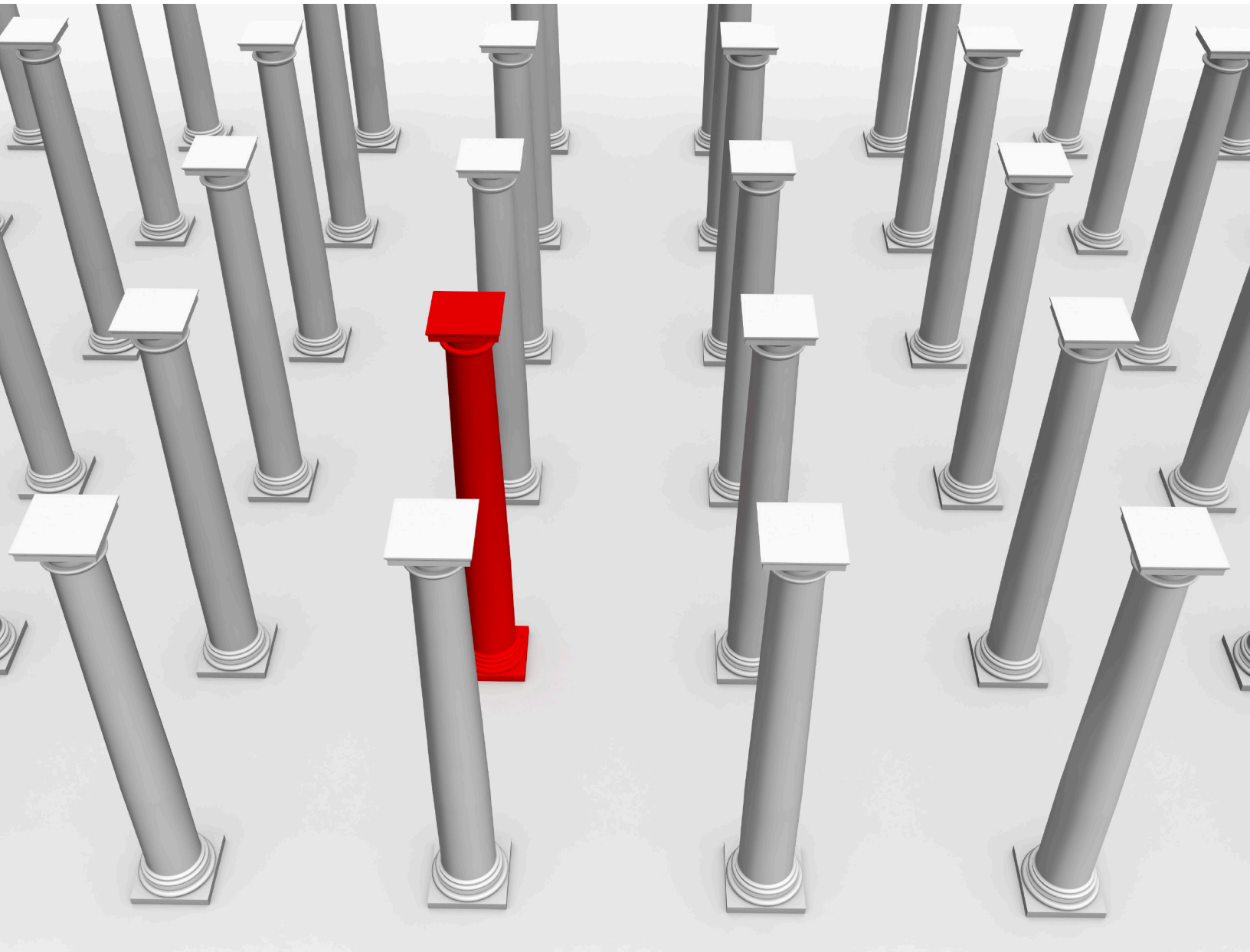
The IESBA's membership consists of 18 volunteer board members from around the world. The 18 members comprise 9 practitioners and 9 individuals who are not members or employees of an audit firm ("non-practitioners").¹ At least three of the non-practitioners are public members: individuals

who are expected to reflect, and are seen to reflect, the wider public interest. All board members are required to sign an annual statement declaring that they will act in the public interest and with integrity in discharging their responsibilities as a member of the IESBA. Members are appointed by the International Federation of Accountants (IFAC) Board, based on recommendations from the IFAC Nominating Committee and with the approval of the PIOB.

In developing its standards, independently and under its own authority, the IESBA is required to be transparent in its activities, and to adhere to [due process](#) as approved by the PIOB. Board meetings, including meetings by teleconference, are open to the public, and agenda papers are available at www.ethicsboard.org. In 2011 the IESBA met in person three times and once by conference call.

The structures and processes that support the operations of the IESBA are facilitated and supported financially by IFAC. The IESBA is a component of the overall IFAC reporting entity; accordingly, its financial results are included within IFAC's audited financial statements. These financial statements are published as part of IFAC's Annual Report, which is available at www.ifac.org.

1 A non-practitioner is an individual who is not a member or employee of an audit practice firm and, in respect to individuals who have been members or employees of such firms, are normally subject to a cooling-off period of three years.



REPORT OF THE CHAIR

Report of Ken Dakdduk Chair of the IESBA

The *Code of Ethics for Professional Accountants* (the Code) establishes ethical standards for professional accountants in public practice and in business. Under IFAC's membership requirements, IFAC member bodies agree to apply no less stringent standards than those stated in the Code. IFAC has 167 member bodies that represent approximately 2.5 million accountants worldwide. In addition, under their membership obligations, members of the Forum of Firms, an association of networks of international accounting firms, must agree to have policies and procedures that conform to the Code for transnational audits. These are audits of financial statements that may be relied upon outside the entity's home jurisdiction and include audits of financial statements of all listed entities.

The IESBA's long-term objective is convergence of the Code's ethical standards for professional accountants, including auditor independence standards, with those issued by regulators and national standard setters. High-quality ethical standards are vital to the profession's ability to serve the public interest and contribute to sustainable, vibrant capital markets. Convergence to a single set of independence standards will enhance the efficiency of global capital markets. Common auditor independence standards also will promote a consistent understanding among investors, public authorities, and others of what it means when an auditor is independent.

As part of the board's convergence efforts, various IESBA members and the IESBA staff engage in outreach activities with regulators, national standard setters, and professional bodies to engage in discussions about the Code. I am particularly appreciative that securities and audit firm regulators have been willing to meet with me and the IESBA staff during the year and engage in a dialogue with us about matters of mutual interest. Such ongoing contemporaneous dialogue has helped

to enrich the board's thinking on key issues under deliberation and contributed to our reaching balanced conclusions. In particular, the board has benefitted from advice received through its consultations with the International Organization of Securities Commissions and the International Forum of Independent Audit Regulators during the year.

Our outreach activities are also aimed at helping those who are adopting the Code to understand the significant changes to the Code that took effect on January 1, 2011. Several IESBA members and the IESBA staff have addressed gatherings of accounting professionals in various jurisdictions, including in Dubai, Vietnam, Singapore, and parts of Europe, North America, and Latin America. We welcome these interactions with our constituents and are gratified by the interest shown in the Code and in the broader objective of serving the public interest with the support of a strong and credible Code.

Effective adoption and implementation of the Code by IFAC member bodies is an important part of achieving international convergence of ethics and independence standards. To that end, the IESBA staff has developed adoption and implementation materials that are available free of charge on the IESBA's website at www.ethicsboard.org. The website also includes several questions and answers (Q&As) on the Code that were developed by the IESBA staff to assist member bodies and others as they adopt and implement the Code. More Q&As are under development.

In October 2011 the IESBA published its 2011–2012 Strategy and Work Plan. I am pleased to report that good progress has been made in fulfilling the ambitions outlined in that plan. But our Strategy and Work Plan are dynamic. The IESBA pays close attention to developments in the business, professional, and regulatory communities to assess whether and how those developments should influence the IESBA's Strategy and Work Plan going forward. Accordingly, our Strategy and



KEN DAKDDUK

“High-quality ethical standards are vital to the profession’s ability to serve the public interest and contribute to sustainable, vibrant capital markets.”

Work Plan remain under constant review and are subject to revision as the board deems appropriate not only to maintain, but to advance the position of the IESBA as a leading international standard setter of ethics requirements for the accounting profession. Recently, the IESBA concluded that 2011 developments warrant the additional action outlined in “Looking Forward.”

Highlights of Progress on 2011 Work Plan

CONFLICTS OF INTEREST

In December 2011 the IESBA issued an [exposure draft](#) that proposed changes to the provisions in the Code that address conflicts of interest. The goal is to provide additional guidance to professional accountants in business and in public practice on this important matter that goes to the heart of an accountant’s ability to be objective when engaged in a professional activity. The proposal provides more comprehensive guidance in identifying, evaluating, and managing conflicts of interest than contained in the current Code.

The IESBA approved this project in October 2009. It examined two sections of the Code that address conflicts of interest—section 220, for professional accountants in public practice, and section 310, for professional accountants in business. In the IESBA’s view, the approach to be taken by a professional accountant in public practice and a professional accountant in business in dealing with a conflict of interest should be broadly similar. The proposal recognizes, however, that conflicts of interest will typically arise in different circumstances for accountants in public practice, particularly because a conflict of interest may arise from professional services provided by other members of the accountant’s firm.

The IESBA anticipates completing this project in 2013.

BREACH OF A REQUIREMENT OF THE CODE

In October 2011 the IESBA issued an [exposure draft](#) that proposed new guidance on addressing a breach of a requirement of the Code. The IESBA believes that any breach of the Code should be treated as a matter of utmost importance. Therefore, the IESBA has proposed changes to the Code that will provide guidance to a professional accountant on the actions to be taken in such situations. The guidance includes a robust framework for addressing a breach of an independence requirement that will result in greater transparency in the firm’s systems for maintaining compliance with independence requirements, and in the judgments it reaches in evaluating the impact of a breach on its objectivity and ability to issue an audit report. The exposure draft is the result of a project that commenced in November 2010.

Under the proposal, a professional accountant would take whatever actions might be available as soon as possible to satisfactorily address the consequences of a breach of the Code. For a breach of an independence requirement, a detailed framework that sets out the specific actions to be taken, including communicating all breaches to those charged with governance, is provided.

The IESBA anticipates completing this project in the second half of 2012.

RESPONDING TO A SUSPECTED ILLEGAL ACT

In 2011 the IESBA made significant progress toward its goal of issuing an exposure draft in 2012 that would set out when it is appropriate for a professional accountant to override the fundamental principle of confidentiality and disclose a suspected illegal act to an appropriate authority. This is one of the most challenging projects the board has undertaken, as overriding a fundamental principle in the Code is a serious matter and must be justified by valid public interest reasons.

The board’s current position is that if the suspected illegal act involved an audit client and the

professional accountant determined that the client had not appropriately addressed the suspected illegal act, the accountant would be required to disclose it to an appropriate authority if: a) the client had not done so, b) the act affects financial reporting or involves matters that are within the accountant's expertise, and c) the act is such that disclosure would be in the public interest. If the suspected illegal act involved a non-audit client or an accountant's employer, the accountant would be required to disclose such matters to the external auditor. If the response to the matter were not appropriate, the Code would make it clear that the accountant has a right to disclose the matter to an appropriate authority, if it would be in the public interest to do so, and would be expected to exercise that right.

The IESBA is aware of the negative repercussions that can result from disclosure and that many jurisdictions do not offer protection to individuals who make such a disclosure. Thus, in exceptional circumstances in which a reasonable and informed third party would conclude that the public interest is not served by such a disclosure because of the probable consequences of doing so, such as the risk to the personal safety of the professional accountant or other individuals, the disclosure would not be required or expected.

The IESBA anticipates completing this project in 2013.

REVISING THE DEFINITION OF "ENGAGEMENT TEAM"

In 2011 the IESBA reconsidered its definition of the term "engagement team" in light of comments from respondents to the International Auditing and Assurance Standards Board (IAASB)'s proposal on ISA 610, *Using the Work of Internal Auditors*, which addresses the external auditor's responsibilities if using the work of an internal auditor in obtaining audit evidence. The comments suggested that the IAASB's proposed guidance would be inconsistent with the IESBA's definition of "engagement team."

The IESBA issued an [exposure draft](#) in early 2012 proposing to revise the definition of engagement team to make it clear that internal auditors providing direct assistance to an external auditor are not considered part of the engagement team under the Code. This is to eliminate any perception that the Code and ISA 610 are in conflict.

The IESBA anticipates completing this project in the second half of 2012.

Looking Forward

ADDITIONAL WORKSTREAMS

The IESBA has added additional workstreams to its Strategy and Work Plan for 2012. The additional workstreams are consistent with the IESBA's remit as an international standard setter of ethics requirements for the global accounting profession. They are also consistent with the IESBA's objective of international convergence between national ethical requirements and those contained in the Code. These additional workstreams may necessitate the IESBA revising the timelines for its other projects.

As outlined in a [Staff Update](#), under the revisions the IESBA will determine:

- What its position is on certain measures being considered by the European Commission, the U.S. Public Company Accounting Oversight Board (PCAOB), and regulators in other major jurisdictions to strengthen the independence of auditors (the measures are firm rotation and further restrictions on non-assurance services);
- Whether accounting irregularities at various companies reveal ethical implications for accountants in business, which may necessitate additions to the IESBA's 2013 standard-setting agenda and result in proposed revisions to the Code; and
- How to increase the visibility of the requirements and prohibitions in the Code and to clarify who is responsible for meeting them.

Oversight and Advice

The IESBA has continued to benefit from its relationship with the Public Interest Oversight Board (PIOB). The PIOB's observations at the 2011 IESBA and IESBA Consultative Advisory Group (CAG) meetings provided valuable independent perspective on the manner in which the board has followed its stated due process and recognized the public interest in developing its standards.

The IESBA has also continued to benefit from the leadership of the independent chair of the IESBA CAG and the advice it receives from the members of the advisory group at all stages of its projects. Further details on the CAG's activities during the year are set out in the "Report of the Chair of the IESBA Consultative Advisory Group."

IESBA Membership

The IESBA welcomed the following new appointments to the board, beginning January 1, 2012:

- Gary Hannaford, Canada
- Stefano Marchese, Italy
- Helene Agélii, Sweden
- Chishala Kateka, Zambia

Acknowledgements

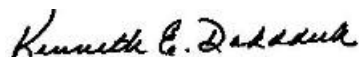
I would like to thank all IESBA members, technical advisors, and observers, along with the IESBA staff, for their unwavering commitment to the IESBA's work and their significant efforts to progress our important initiatives during 2011. Their dedication to the public interest, support of the board's mission, and continuing quest to strengthen the profession's ability to retain the public's trust has been evident throughout the year.

I also would like to thank the following retiring IESBA members, whose terms ended on December 31, 2011, for their contributions to the board:

- Sandrine Van Bellinghen, Belgium
- Bob Rutherford, Canada
- Michael Niehues, Germany
- Nina Barakzai, United Kingdom

Michael Niehues served as the IESBA's deputy chair during 2011. I am pleased that Brian Walsh agreed to be the deputy chair for 2012.

Finally, I would like to thank Jan Munro, IESBA deputy director, for the significant support she provided to the board and to me throughout 2011.



Ken Dakdduk
Chair,
International Ethics Standards Board for Accountants

MEMBERS, OBSERVERS, AND STAFF

International Ethics Standards Board for Accountants

(January 1, 2011 to December 31, 2011)

Board Members	Term Ending	Country	Technical Advisors
Nominated by IFAC Member Bodies			
Ken Dakdduk,* Chair	2012	United States	Lisa Snyder
Michael Niehues,* Deputy Chair	2011	Germany	Petra Gunia
Nina Barakzai	2011	United Kingdom	Tony Bromell
Caroline Gardner	2012	United Kingdom	Tony Bromell
Felicitas Therero Irungu	2013	Kenya	
Alice McCleary	2013	Australia	Eva Tshuridu
Robert Rutherford	2011	Canada	
Isabelle Sapet*	2013	France	Jean-Luc Doyle
Sandrine Van Bellinghen	2011	Belgium	Christine Cloquet
Brian Walsh*	2012	United Kingdom	Tony Bromell
Public Members			
James Gaa	2012	Canada	Stephen Spector
Jörgen Holmquist*	2013	Nordic Federation	
Kate Spargo	2012	Australia	
Nominated by the Transnational Auditors Committee²			
Robert Franchini*	2013	Italy	Sylvie Soulier
Peter Hughes	2012	United Kingdom	
Wui San Kwok	2012	Singapore	Andrew Pinkney
Marisa Orbea	2012	Australia	Liesbet Haustermans
Donald Thomson	2012	Canada	Kim Gibson

IESBA Staff

James M. Sylph, Executive Director, Professional Standards and External Relations
Jan Munro, Deputy Director
Stephenie Luciani, Executive Assistant

Observers

Juan Maria Arteagoitia, European Commission
Richard Fleck,* IESBA Consultative Advisory Group Chair
Koichiro Kuramochi,** Japanese Financial Services Agency
Koichi Uzuka,** Japanese Financial Services Agency

*member of the IESBA's Planning Committee

**partial year

² The executive arm of the Forum of Firms



**IESBA CONSULTATIVE ADVISORY
GROUP**

Report of Richard Fleck Chair of the IESBA Consultative Advisory Group



RICHARD FLECK

Objective and Scope of Activities

The Consultative Advisory Group (CAG) of the IESBA provides technical advice on the IESBA's projects, agenda, and priorities.

Meetings and Membership

The CAG met twice in 2011: in March in New York, United States, and in September in Prague, Czech Republic. As CAG chair, I also attended all three IESBA meetings and four IESBA Planning Committee meetings during the year to represent the views of CAG members.

In 2011 the membership of the CAG increased to 21 members with the addition of the International Association of Insurance Supervisors. The IFAC Small and Medium Practices Committee also became an observer of the CAG.

In 2011 we implemented the proposed changes to our governance structures and processes—as recommended by the Monitoring Group and Public Interest Oversight Board—which included rotation of CAG membership.

Key Highlights for 2011

During 2011, the work of the CAG focused on providing technical advice to the IESBA in relation to its initiatives:

- **Responding to a Suspected Illegal Act**—at its March and June meetings, the CAG received a report on this difficult and complex project, which addresses the circumstances in which a professional accountant would be required or permitted to override the fundamental principle of confidentiality and report an illegal act to an appropriate authority.

- **Breach of a Provision of the Code**—the CAG received a report on this project at its March meeting. Some CAG members expressed concern that the IESBA was proceeding too quickly with this project. While the IESBA did intend to approve the exposure draft at its June meeting, it deferred approval of the proposals until October, which provided CAG members with the opportunity to discuss the latest proposals at its September meeting.
- **Conflicts of Interest**—the CAG received a report on this project at both of its meetings and the IESBA approved an exposure draft at its October meeting.

At a time when financial reporting and the role of the accountancy profession are subject to considerable governmental and public scrutiny, these projects are of particular importance if confidence in financial reporting and auditing—and the reputation and standing of accountants whether in practice or in business—are to be maintained.

Conclusion

I would like to thank all the members of the CAG for their time and continued commitment over the past year. I would also like to extend my thanks to Ken Dakdduk, IESBA chair, and to the chairs of the task forces for the efficient way in which the various drafts have been presented to the CAG, and to all of the IESBA for its careful consideration of CAG member comments. Finally, I would like to express my thanks to the IESBA staff for their support of the CAG.

Richard Fleck
Chair, IESBA Consultative Advisory Group

Consultative Advisory Group Member Organizations

Members

Asian Financial Executives Institutes
Basel Committee on Banking Supervision
BUSINESSEUROPE
CFA Institute
European Commission
European Federation of Accountants and Auditors
for SMEs
European Federation of Financial Executives
Institutes
Fédération des Experts Comptables Européens
Gulf States Regulatory Authorities
Institute of Internal Auditors
International Association of Insurance Supervisors
International Organization of Securities
Commissions
International Organization of Supreme Audit
Institutions
Organisation for Economic Co-operation and
Development
National Association of State Boards of Accountancy
North American Financial Executives Institutes
Sri Lanka Accounting and Auditing Standards
Monitoring Board
World Bank
World Federation of Exchanges

Observers

IFAC Small and Medium Practices Committee
US Public Company Accounting Oversight Board

For more information about the IESBA, please contact:
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