

REINFORCING TRUST IN THE PROFESSION

IESBA[®]





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ABOUT THE IESBA



The International Ethics Standards Board for Accountants® (IESBA®) is an independent standard-setting body that develops a *Code of Ethics for Professional Accountants™* (the Code) that is appropriate for the global accountancy profession. 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. A single set of high-quality ethics standards can enhance the quality and consistency of services provided by professional accountants throughout the world, thereby contributing to public confidence in

the accounting profession.

The IESBA's standard-setting arrangement has a number of elements designed to ensure and protect the independence of the board, and to ensure that the standards it develops are of high quality. With respect to the board's independence, the most important of these is formal, independent, public interest oversight by the Public Interest Oversight Board (PIOB).

Threats to the independence of the IESBA are further safeguarded by three other aspects of the process. The first is a highly transparent due process for standard setting that is formally approved by the PIOB. The second is the involvement of the IESBA's Consultative Advisory

Group (CAG) and observers in the standard-setting process. The CAG provides public interest input into the development of the IESBA's standards and guidance, which also contributes to their quality. The third is the requirement that members of the IESBA annually sign declarations that they will act in the public interest and with integrity, and will not submit to any improper influence. In addition, all nominating organizations are required to sign a declaration that they will not exert undue influence that might impair the members' ability to serve or act with independence, integrity, and in the public interest.

The IESBA's membership consists of an independent chair and 17 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"). 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. The appointments of members to the IESBA, including the independent chair, are based on the recommendation of the IFAC Nominating Committee and endorsement of the International Federation of Accountants® (IFAC®) Board, and approved by 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.

The Code establishes ethics standards for professional accountants in public practice and in business. Under IFAC's membership requirements, IFAC member bodies have committed to apply standards at least as stringent as those stated in the Code. IFAC has over 175 members and associates 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, have agreed

to have policies and methodologies that conform to the Code for [transnational audits](#).

The structures and processes that support the operations of the IESBA are facilitated 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, which are published as part of [IFAC's Annual Review](#) at www.ifac.org.

Please visit www.ethicsboard.org for more information, and follow the IESBA on Twitter [@Ethics_Board](#).

"A single set of high-quality ethics standards can enhance the quality and consistency of services provided by professional accountants throughout the world, thereby contributing to public confidence in the accountancy profession."



Left to right: Wui San Kwok, Kate Spargo, Alice McCleary, Brian Caswell, Marisa Orbea, Reyaz Mihular, Don Thomson, Jörgen Holmquist (late Chair), Peter Hughes, Robert Franchini, Isabelle Sapet (Deputy Chair), Chisala Kateka, Helene Agélie, James Gaa, Gary Hannaford. (Not pictured: Caroline Gardner, Claire Ighodaro, Stefano Marchese)

MESSAGE FROM THE INTERIM CHAIR



WUI SAN KWOK
INTERIM CHAIR



It is with great sadness that I write this message for the IESBA's 2013 Annual Report. Shortly after informing the IESBA staff of the messages he planned to include in the 2013 Report, the late IESBA Chair Jörgen Holmquist passed away in March 2014. The staff have drafted this message based on discussions with Jörgen. I have reviewed these words, with help from memories of the many conversations that I had with Jörgen on his thoughts and how he saw his duties as chair. I hope they closely reflect the messages he would have wished to convey. The board paid tribute to Jörgen at its meeting in April 2014.

Ethics is the foundation on which public trust in the accounting profession is built. Public trust is especially important to the profession as professional accountants play, and are entrusted to serve, a wide variety of important public interest roles. For this reason, Jörgen Holmquist felt it both a privilege and an important responsibility to lead the IESBA as the international organization that sets the ethics standards for the profession globally.

In the period after the global financial crisis, there has been significant public focus on the profession. For example, regulators in many jurisdictions have been actively exploring ways to further strengthen auditor independence.

In this context, it is important that the board continues to play a key contributor role to reinforcing public trust in the profession. The board does so through promoting the standing, and widespread adoption, of the IESBA *Code of Ethics for Professional Accountants* (the Code). A critical success factor is effective outreach to stakeholders. Outreach is important to promoting the adoption of the Code and building understanding with stakeholders. Outreach is also necessary for the board to be responsive in understanding current developments and making timely, appropriate enhancements to the Code so that it remains a set of high-quality international ethics standards for global application.

Hence, during 2013, the board significantly increased not only its technical agenda work, but also its outreach to stakeholders. Significant progress was achieved on five major projects and the development of the board's *Strategy and Work Plan for 2014-2018*. These are described more fully in the [Technical Director's report](#).

OUTREACH

A highlight in 2013 was the success of the board's outreach efforts. Board members and IESBA staff contributed immensely, directly or indirectly, by participating or lending support to those outreach efforts. This success, however, could not have been possible if not for the tireless efforts of Jörgen. He was a strong believer in outreach to stakeholders to build and reinforce public trust in the Code. He was indefatigable in promoting the widespread adoption of the Code, believing it not in the public interest for there to be significantly inconsistent standards throughout the world.

His work in reaching out to stakeholders over the course of 2013 speaks for itself—13 countries visited and over 110 meetings with, or presentations to, stakeholders (including meetings with 22 international and national regulatory bodies and public authorities), and other related activities. These raised the visibility of the board and promoted its work to an international audience. It also reinforced an attribute of the board that is especially important, i.e., that the board is an independent international standard setter that develops a code of ethics for global application. The board has to put on

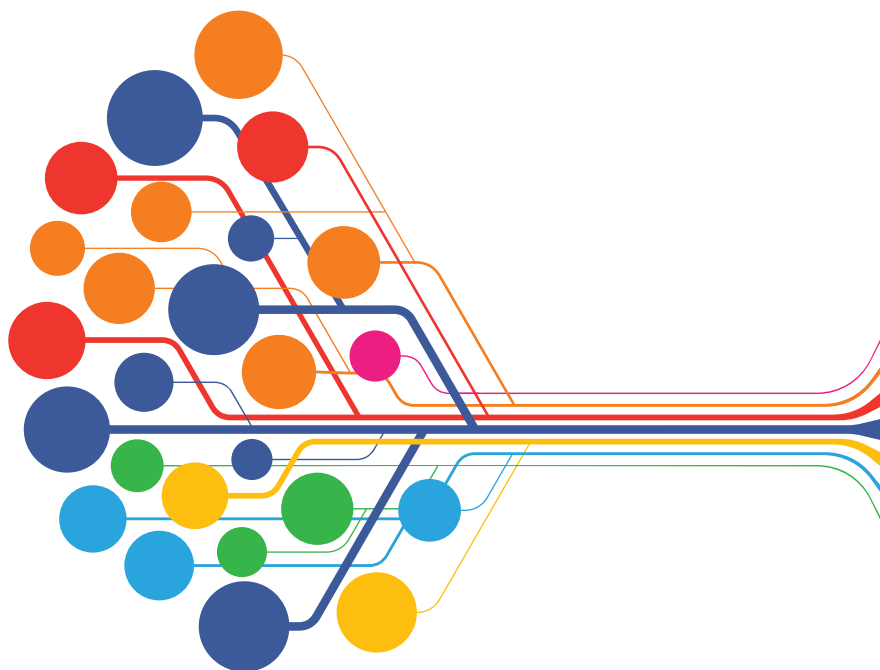


a global lens and be objective when considering a matter. This includes being open to considering alternative practices in addressing an issue, and taking into account potential implications for different stakeholder groups, which could be in the public interest. The board has to adopt a balanced approach to standard setting, including ensuring that the Code is appropriate, operable, and widely accepted in a global context.

The board also sought as far as practicable to be inclusive in its outreach. As an independent international standard setter, the board regards all stakeholder groups as important. These include, but are not limited to, international regulators (such as the International Organization of Securities

Commissions (IOSCO) and the International Forum of Independent Audit Regulators (IFIAR)); jurisdiction-specific regulators; standard setters; the investor community; the profession (such as the Forum of Firms and IFAC member bodies); developing nations and segment-specific stakeholders (such as small- and medium-sized enterprises, practitioners and professional accountants in business (PAIBs)).

The board will continue to pursue outreach to stakeholders as a strategic focus going forward. In doing so, the board hopes to build a stronger understanding of each other's perspectives on matters of mutual interest, and fostering regulatory and other stakeholders' trust in the board's independent work.



EMERGING ISSUES

The board believes it important to identify emerging issues on a timely basis. This will help the board to be responsive in understanding current developments and making timely, appropriate enhancements to the Code so that it remains a robust set of international ethics standards. I am pleased to report that the board approved the establishment of an Emerging Issues and Outreach Committee (EIOC) in 2013. The EIOC will oversee the board's initiatives on emerging issues. It will also advise the board on its strategy for outreach, given the importance of outreach as described earlier. Further details about this initiative are included in the [Technical Director's report](#).

IMPORTANT MESSAGES GOING FORWARD

As a result of leading the board's outreach efforts and through the board's consultation with stakeholders on its future strategy, Jörgen had

intended to convey a number of important messages in his Chair's Message.

First, the board is *independent*. It is not the voice of the profession. As a public member,¹ Jörgen took pride in being independent of the profession and in championing the independence of the board. He strongly believed in the robustness and appropriateness of the standard-setting arrangements currently in place. There are built-in checks and balances to ensure the public interest is served, including oversight by the PIOB and public interest input from the IESBA CAG. Importantly, he also believed that the involvement of the profession is integral to developing high-quality standards.

Secondly, the Code is, and will remain, *principles based*. He was concerned about the views of some stakeholders advocating for more "bright lines" in the Code, purely or primarily to facilitate greater enforceability of the Code. The Code already contains

"bright line" provisions that are appropriate to address specific circumstances. Jörgen saw the Code's principles-based approach as one of its greatest strengths. In fact, "principles based" is the only practical way for any set of standards to be globally operable. No code can ever envisage and address every possible ethical issue that may arise, globally. The threats and safeguards approach in the Code provides a framework for professional accountants to think carefully about the ethical principles that should be applied in specific circumstances and to exercise sound professional judgment in determining appropriate behaviors and actions. The board remains open to better understanding how enforceability can be improved. The future Strategy and Work Plan of the board envisages engaging more closely with the regulatory community, the profession, and other stakeholders to explore this matter. There needs, however, to be a balance, recognizing the principles-based approach that is the Code.

Thirdly, the Code is a set of *high-quality* ethics standards. It is designed for global, rather than specific jurisdiction, application. It is developed in an open and transparent manner with input from a wide range of stakeholders globally and with full due process. Jörgen was concerned about the broad statement that some stakeholders have made, calling the Code the "lowest common denominator" standard, whenever there is a view that is not similarly shared by the board. This is not a reasonable characterization of the Code. It is

¹ Public members should be able, and seen, to reflect the wider public interest.

“Ethics is the foundation on which public trust in the accounting profession is built. Public trust is especially important to the profession as professional accountants play, and are entrusted to serve, a wide variety of important public interest roles.”



unavoidable, given the vast number of jurisdictions with differing national circumstances and legal frameworks, that a particular jurisdiction may have to implement certain provisions that are different from those in the Code due to unique jurisdiction-specific factors. Furthermore, it does not mean that provisions that are “stricter” than those in the Code are necessarily better. The Code would otherwise be adopting the strictest provisions of any jurisdiction in the world, without regard to appropriateness, operability, and widespread acceptability, in a global context.

Last but not least, the board is cognizant of the *burden of adoption and implementation* on national standard setters and the profession and, indirectly, businesses and organizations that rely on professional accountants. The board will therefore be mindful of properly assessing the needs for any new or revised standards, recognizing that its decisions and actions must serve to fulfill its overriding commitment to advance the public interest.

ACKNOWLEDGEMENTS

I wish to thank all board members, technical advisors, official observers, and staff for their tremendous commitment and contributions to the work of the board. There was clearly a spirit of collegiality in which the board operated in fulfillment of its mandate. The board expresses special appreciation to Isabelle Sapet (deputy chair), Robert Franchini, and Alice McCleary whose terms ended in 2013. They have served the board with distinction and their wise counsel will be missed. The board also expresses its gratitude to the Consultative Advisory Group and the PIOB which have provided valuable advice to the board, particularly in areas concerning the public interest.

Finally, the board expresses its gratitude to Jim Sylph, Executive Director, Professional Standards and External Relations, for his 14 years of service and invaluable advice to the IESBA and its predecessor, the IFAC Ethics Committee. Jim retired

from his position at the end of June 2014. His experience and wisdom will be missed. We warmly welcome his successor, James Gunn, as Managing Director, Professional Standards, and look forward to working closely with him.

Wui San Kwok
Interim Chair

REPORT OF THE TECHNICAL DIRECTOR



KEN SIONG
TECHNICAL DIRECTOR



In 2013, the board met in person four times and once by conference call. The board made significant progress in delivering on the services and activities outlined in its *Strategy and Work Plan, 2011-2012*, including the four new work streams added to its agenda in February 2012 in response to developments in the external environment:

- A review of the provisions in the Code that deal with long association of senior personnel (including partner rotation) with an audit client;
- A review of the non-assurance services (NAS) provisions in the Code to ensure that they continue to support a rigorous approach

to independence for assurance services;

- A review of Part C of the Code addressing professional accountants in business (PAIBs); and
- A reconsideration of the structure of the Code with a view to enhancing its usability, thereby facilitating increased adoption and more effective implementation of the Code.

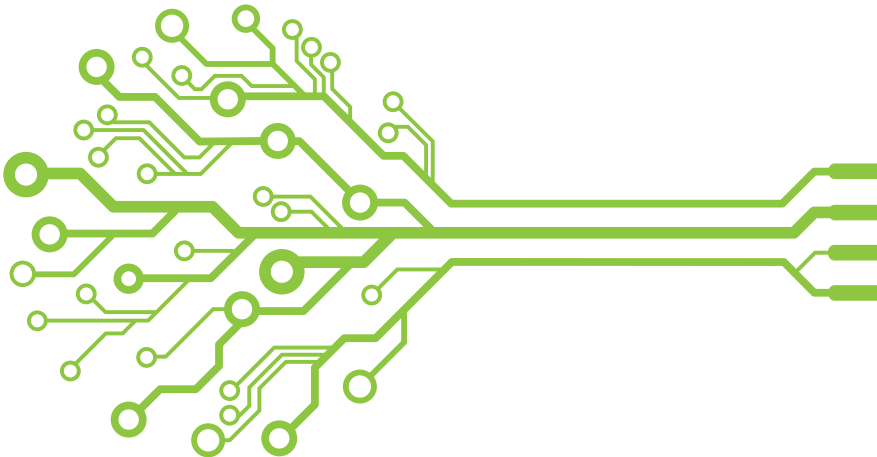
The board also advanced the development of its future Strategy and Work Plan (SWP), and devoted significant time and effort to reaching out to stakeholders. I summarize below the board's accomplishments in 2013 and the progress it achieved on its various projects and initiatives during the year.

FUTURE STRATEGY AND WORK PLAN

In January 2013, the board conducted a survey of stakeholders to facilitate the development of its next SWP. The board received over 100 responses to the survey. Following advice from the PIOB, the board decided not to extend its 2011-2012 SWP into 2013 but to develop its next SWP to cover the five-year period from 2014, and to continue progressing its ongoing work streams in the interim. In December, the board issued the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2014-2018*, which included proposed priorities and actions based on the following four strategic themes:

- (a) Maintaining a high-quality Code for application by professional accountants globally;
- (b) Promoting and facilitating the adoption and effective implementation of the Code;
- (c) Evolving the Code for continued relevance in a changing global environment; and
- (d) Increasing engagement and cooperation with key stakeholders.

The development of the Consultation Paper benefited from public interest input from the IESBA CAG and feedback from the board's national standard setter (NSS) liaison group.



The board recognizes the importance of monitoring developments in the external environment to assess whether and how these developments should influence its ongoing strategy and work plan. Accordingly, the board is committed to ensuring that its future SWP remains dynamic.

DEVELOPMENT OF STANDARDS

Changes to the Code Released in 2013

In March, the board published changes to the Code to address two important topics—a breach of a requirement of the Code and conflicts of interest—and a revised definition of the term “engagement team.” The changes to the Code regarding breaches, which became effective on April 1, 2014, reflect the board's view that any breach of a requirement of the Code, particularly an independence requirement, must be treated very seriously.

The changes to the Code relating to conflicts of interest, which became effective on July 1, 2014, have resulted in more comprehensive guidance for professional accountants in identifying, evaluating, and managing such conflicts both in public practice and in business. The changes reflect the importance the board attaches to addressing conflicts of interest in a

robust way as these create threats to professional accountants' objectivity and may create threats to the other fundamental principles. The changes are timely given the diverse services professional accountants nowadays provide in public practice and the diverse roles they play in business.

The change to the term “engagement team” addressed a perceived inconsistency between the use of internal auditors to perform procedures on the external audit (“direct assistance”) and the Code's requirement for the engagement team to be independent of the audit client. In completing this project, the board liaised closely with the International Auditing and Assurance Standards Board (IAASB) in the context of the IAASB's finalization of its revision of International Standard on Auditing (ISA) 610.² The revised definition is effective for audits of financial statements for periods ending on or after December 15, 2014.

2014 DEVELOPMENTS

The final *Strategy and Work Plan, 2014-2018*

was approved by the board in July 2014 and issued in September 2014 after PIOB confirmation of due process.

² ISA 610 (Revised 2013), *Using the Work of Internal Auditors*



In September, the board published a revised definition of the term “those charged with governance” and related changes to the Code. The changes more closely align the definition of this term in the Code with that in the ISAs, thereby eliminating any potential confusion. The revised definition and related changes to the Code became effective on July 1, 2014.

Ongoing Projects

Responding to Suspected Non-Compliance with Laws and Regulations

This project commenced in October 2009 and has undoubtedly been one of the most challenging endeavors that the board has undertaken, reflecting the complex issues involved and the high expectations of professional accountants and their ethical conduct when they come across suspected non-compliance with laws and regulations (NOCLAR).

The board received over 70 responses to the August 2012 Exposure Draft (ED), *Responding to a Suspected Illegal Act*, from a wide range of stakeholders, reflecting the high level of interest in the topic. The responses

provided plenty of food for thought, with some in favor of the approach set out in the ED but many others raising legitimate concerns about the practicality of the proposals and their operability on a global basis, the potential for unintended consequences, and the impact on the public interest.

After considering the significant comments received on the ED, the board explored an alternative approach regarding a professional accountant’s responsibilities when encountering a suspected illegal act. Among other matters, the board agreed to align the term “illegal act” with the term “non-compliance with laws or regulations” used in the ISAs. In addition, it explored the possibility of establishing a presumption, which can be rebutted, that disclosure of suspected NOCLAR to an appropriate authority will be made by auditors under certain conditions for clients that are public interest entity (PIE) audit clients. It also explored the concept of a permission, but not a requirement, in the Code for professional accountants to disclose suspected NOCLAR to an appropriate

authority where such disclosure would not be deemed to be a breach of the duty of confidentiality under the Code. The board also further discussed the scope of the proposals, materiality thresholds for action, documentation, and communication between an existing and a proposed auditor when there is a change in professional appointment.

In December 2013, the board agreed a tentative direction forward as a basis for further consultation with key stakeholders through a series of three global roundtables in Hong Kong, Brussels, and Washington, DC, in May, June, and July 2014, respectively. The input received from the roundtables would provide a basis for the board to consider issuing a second ED by the first half of 2015.

2014 DEVELOPMENTS

The board successfully held the three global roundtables on NOCLAR in Hong Kong on May 20, Brussels on June 13, and Washington, DC on July 10. The board considered the feedback received from the roundtables at its October 2014 meeting and will consider a draft ED for re-exposure at its January 2015 meeting.



Long Association

Following an extensive research phase, the board began reviewing the long association provisions in Section 290 of the Code.³ The board determined that the project serves the public interest as long association of firm personnel on an audit engagement with an audit client or audit team can impact objectivity and professional skepticism—important contributors to audit quality. The board acknowledged that a perception issue exists with respect to the current long association provisions in the Code, particularly as the length of time an individual may serve a PIE audit client in a key audit partner (KAP) role may be 14 out of a total of 16 years. The board therefore felt it important, and in the public interest, to consider whether the provisions remain appropriate for addressing the threats arising from long association.

The issues involved are complex and interwoven. The factors that give rise to threats to independence may also be factors that contribute to audit quality. These could include knowledge of the audit client and its

2014 DEVELOPMENTS

In August 2014, the board issued for public comment an **ED** of proposed changes to the provisions in Section 290 of the Code dealing with long association of senior personnel with an audit client. Corresponding changes to Section 291 of the Code,⁴ dealing with long association of senior personnel with an assurance client, have also been proposed. The board anticipates approving the final changes to the Code by the first half of 2015.

operations and continuity of personnel on the audit engagement. In addition, while the board is aware of calls from some stakeholders for requirements to be strengthened, it also recognizes that arbitrary requirements can create unintended hardship on companies when rotations are forced to occur at times of change or transition.

Informed by the research findings, the board discussed proposed improvements to the overall framework of principles addressing long association. It also explored, among other matters,

who should be subject to the rotation requirement; whether and to what extent the duration of the cooling-off period for a KAP on a PIE audit engagement should be increased; consideration of time served prior to becoming a KAP in the rotation decision; permissible activities during the cooling-off period; the involvement of those charged with governance in the rotation decision; and whether there should be rotation requirements for audits of entities that are not PIEs.

³ Section 290, *Independence—Audit and Review Engagements*

⁴ Section 291, *Independence—Other Assurance Engagements*

2014 DEVELOPMENTS

In May 2014, the board issued for **exposure** proposed changes to certain provisions of the Code addressing non-assurance services for audit clients in the three areas noted. The board anticipates finalizing the changes to the Code by the first quarter of 2015.



Non-Assurance Services

During the year, the board considered the findings from a survey of 26 jurisdictions, including the G-20, which it undertook for purposes of more precisely scoping out a project addressing the topic of NAS. The survey inquired whether national ethics requirements addressing NAS are more restrictive than the corresponding provisions in the Code. The board noted from the responses from 24 of those jurisdictions that most of them had similar provisions relative to the Code and that where the provisions were more restrictive, this was usually due to local laws and regulations. On the basis of these findings, and taking into account feedback the board had received from the regulatory community regarding specific issues, the board approved in September a project focusing on the following:

- The provision of additional guidance and clarification regarding what constitutes “management responsibility” in Section 290 of the Code;

- The provision of better guidance and clarification regarding the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs; and
- A review of the emergency exception provisions in the Code pertaining both to accounting and bookkeeping services, and to taxation services.

In December, the board commenced deliberation on the issues to be addressed in these three areas.

Review of Part C of the Code— Professional Accountants in Business

Following research undertaken by a Working Group the board had established in 2012 to identify the most pressing ethical issues PAIBs face and to determine whether Part C should be strengthened to better promote ethical behavior by PAIBs, the board approved in March a project to review that part of the Code to ensure that its provisions remain appropriate and robust.

2014 Developments

In November 2014, the board issued for exposure proposed changes to Part C arising from Phase I of the project. The changes are expected to be finalized in the second half of 2015.

Phase I of the project addresses, in particular, the issue of pressure by superiors and others to engage in unethical or illegal acts, and the responsibility of PAIBs to produce financial reports that are faithful representations of the economics of transactions. Phase II of the project addresses the topic of inducements.

During the year, the board made headway in deliberating the issues to be addressed under Phase I and, in particular, considered preliminary enhanced guidance on the topic of pressure, and the issue of misuse of discretion with an intention to mislead in the preparation or presentation of financial information.

2014 DEVELOPMENTS

In April 2014, the board received the Working Group's final report and recommendations, and approved a project on restructuring the Code. In October 2014, the board approved a **Consultation Paper** to seek feedback from stakeholders on possible approaches that could be taken to improve the clarity and usability of the Code through revising its structure. It is anticipated that the board will consider a draft restructured Code with a view to approving it for exposure by the fourth quarter of 2015.

Structure of the Code

In June, the board approved the terms of reference for the Working Group formed to advise the board on ways to improve the usability of the Code, thereby facilitating its adoption, effective implementation, and consistent application around the world. In December, the board considered the Working Group's preliminary report and recommendations based on its research, which addressed whether there was a case for change and, if so, the nature of any changes that might be necessary.

The findings indicated a broad-based appetite for change. There was widespread support for increasing the visibility of requirements and clarifying the language in the Code on a timely basis. There was also support for, but less urgency associated with, developing a repackaged and electronic Code, and for complementary materials to help users better understand the Code.

The board supported the direction of the Working Group's preliminary recommendations with respect to enhancing the visibility of the Code's

requirements, clarifying responsibility for compliance with the Code's requirements, simplifying the wording in the Code, repackaging parts of the Code, and an electronic Code. The board also considered a suggested approach to restructuring the Code.

EMERGING ISSUES AND OUTREACH

In June, the board approved the terms of reference for a Working Group formed to advise the board in relation to emerging issues and outreach. The aims of the initiative are to enable the board to better identify emerging issues or international developments that may have an impact on its Strategy and Work Plan outside of its normal strategic planning process, and to have an appropriate strategy for outreach.

Pursuant to the Working Group's recommendations, and as noted in the **Interim Chair's Message**, the board established the Emerging Issues and Outreach Committee (EIOC) in December to oversee the initiative going forward. The board also approved the EIOC's

terms of reference and related working processes.

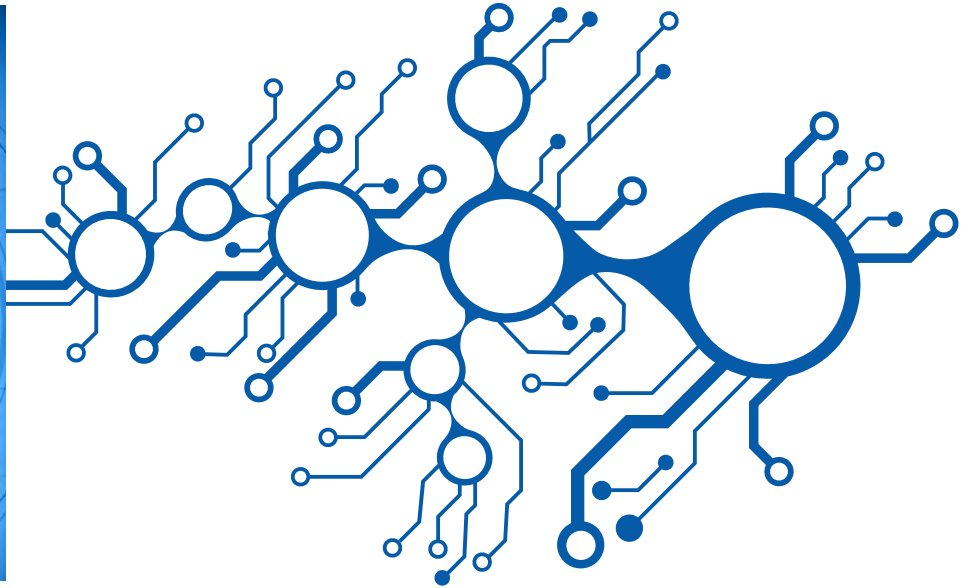
The EIOC reports to the board on a half-yearly basis, starting from April 2014.

SUPPORTING AUDIT QUALITY

In 2013, the board continued its support for, and collaboration on, the IAASB's **Audit Quality project** through representation on the IAASB's Audit Quality Task Force. The objective of the project is to develop a Framework to raise awareness of the key elements of audit quality, encourage stakeholders to explore ways to improve audit quality, and facilitate greater dialogue among stakeholders on the topic.

The project recognizes that audit quality encompasses the key elements that create an environment that maximizes the likelihood that quality audits are performed on a consistent basis. Accordingly, the critical public interest focus of the project is to ensure that those key elements are identified and globally understood.

The Framework was finalized by the IAASB in December. The Framework acknowledges that while the quality of an audit rests with auditors, it is nevertheless influenced by several factors. It distinguishes the inputs, processes, and outputs that contribute to audit quality at the engagement, audit firm, and national levels. It also explains the importance of appropriate interactions among stakeholders and the relevance of various contextual factors.



OVERSIGHT AND ADVICE

The PIOB observed all of the IESBA and IESBA CAG meetings in 2013. The board greatly values the oversight that the PIOB brings to the standard-setting process and particularly appreciated the public interest perspectives and counsel that PIOB members shared during the board meetings. The PIOB's oversight ensures that the board's work is, and is seen to be, conducted in the public interest and with proper regard for due process. Such oversight is an important contributor to the Code achieving global recognition and acceptance.

During the year, the board benefited from the input, insights, and advice of the CAG on the board's various projects and initiatives. 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](#) on page 24.

ENGAGING WITH STAKEHOLDERS

As noted in the [Interim Chair's Message](#), the board committed substantial resources and time during the year to reaching out to its stakeholders around the world. This sustained level of effort recognizes the importance of outreach not only as a means for the board to keep stakeholders abreast of its ongoing work program and the important public interest issues it is addressing on its agenda, but also as an invitation to stakeholders to engage in dialogue with the board on its key projects and initiatives and other matters of mutual interest. The stakeholder groups to which the board reached out were varied, including regulators and public authorities, preparers, investors and those charged with governance, standard setters, international and regional organizations, IFAC member bodies, and firms. Of particular importance were the board's efforts to maintain and further develop its relationships with international and national regulatory and audit oversight bodies, including IOSCO, IFIAR, the European Audit Inspection

Group (EAIG), the Basel Committee on Banking Supervision, and the US Public Company Accounting Oversight Board (PCAOB).

The board also hosted its annual meeting with its NSS liaison group in May, with participants representing 13 different jurisdictions and 18 different bodies with full or partial responsibility for setting independence and ethics standards. The event provided an opportunity for the board to benefit from the input of NSS on its various projects and initiatives, and to hear about emerging ethics issues and developments at the national level that may be of international relevance.

For details about the board's outreach and related activities during the year, please see pages 19-23.





APPOINTMENTS

The board was pleased to note the appointment of Wui San Kwok from Singapore as Deputy Chair for 2014.

The board welcomed the following new appointments to the IESBA for three-year terms from January 1, 2014:

- Atsushi Kato, Japan
- Sylvie Soulier, France
- Wen Zhang, China

The board was also pleased to note the appointment of Kristian Koktv-edgaard as the new chair of the IESBA CAG for a three-year term from July 1, 2013, following his election by the member organizations of the CAG.

The above appointments were approved by the PIOB.

ACKNOWLEDGEMENTS

I would like to pay my personal tribute to the late IESBA Chair Jörgen Holmquist for his leadership and inspiration, and for his achievements in bringing the board into closer touch with its stakeholders and building their trust in the Code and the board's work. I would also like to express my appreciation to all the board members, technical advisors, official observers, and all those who contributed to the work of the board in 2013. I am also grateful to my staff team, whose dedication and efforts in supporting the board in all its activities have enabled it to deliver on its strategic commitments.

Ken Siong
Technical Director, IESBA

Those interested in following specific projects are encouraged to monitor their status by visiting the [IESBA's website](#), in particular, the [Projects](#) and [Meetings](#) pages. The IESBA also releases on its website podcast summaries of its meetings shortly after each meeting. In addition, the IESBA website includes a [project timetable](#), updated quarterly, that lists current projects and initiatives and the board meetings at which they are expected to be discussed. Stay in touch by subscribing to the IESBA eNews ([log-in or register](#)) and following the IESBA on Twitter ([@Ethics_Board](#)).

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

(January 1, 2013 to December 31, 2013)

Board Members	Term Ending	Country	Technical Advisors
PUBLIC MEMBERS			
Jörgen Holmquist, * Late Chair	2015	Sweden	
James Gaa	2015	Canada	
Kate Spargo	2015	Australia	
NON-PRACTITIONERS			
Helene Agéllí	2014	Sweden	Tone Maren Sakshaug
Caroline Gardner*	2015	United Kingdom	Tony Bromell
Gary Hannaford	2014	Canada	
Claire Ighodaro	2014	United Kingdom	
Chishala Kateka	2014	Zambia	
Alice McCleary	2013	Australia	Eva Tshauridu
PRACTITIONERS			
Brian Caswell	2014	United States	Lisa Snyder
Robert Franchini*	2013	Italy	Sylvie Soulier
Peter Hughes	2015	United Kingdom	
Wui San Kwok*	2015	Singapore	Andrew Pinkney
Stefano Marchese	2014	Italy	Elbano de Nuccio
Reyaz Mihular	2014	Sri Lanka	
Marisa Orbea	2015	Australia	Liesbet Haustermans
Isabelle Sapet, * Deputy Chair	2013	France	Jean-Luc Doyle
Donald Thomson	2015	Canada	Kim Gibson



Standing (left to right): Christopher Jackson, Technical Manager; Asteway Tilahun, Executive Assistant; Kaushal Gandhi, Technical Manager

Seated (left to right): James M. Sylph, Executive Director, Professional Standards & External Relations; Ken Siong, Technical Director, IESBA

IESBA STAFF

James M. Sylph, Executive Director, Professional Standards and External Relations

Ken Siong, Technical Director

Chris Jackson, Technical Manager

Kaushal Gandhi, Technical Manager[^]

Karlene Mulraine, Technical Manager[^]

Astu Tilahun, Executive Assistant[^]

Ye-Mei Ling, Administrative Assistant[^]

OBSERVERS

Juan Maria Arteagoitia, European Commission

Richard Fleck, outgoing IESBA CAG Chair, United Kingdom^{**^}

Kristian Koktvedgaard, incoming IESBA CAG Chair, Denmark^{**^}

Seiya Fukushima, Financial Services Agency, Japan[^]

Hiroyuki Dairaku, Financial Services Agency, Japan[^]

*Member of the IESBA Planning Committee

**Observer to the IESBA Planning Committee

[^]partial year

COMMUNICATING WITH STAKEHOLDERS

2013 Meetings, Conferences and Events

REGULATORS AND AUDIT OVERSIGHT BODIES

Meeting with leadership of the Australian Securities and Investments Commission, Sydney, Australia
Meeting with the Chairman and Deputy Chairman of the Australian Financial Reporting Council, Sydney, Australia
Meeting with representatives of the Bank of Portugal, Portuguese Audit Public Oversight Body, Stock Exchange Regulator and Public Sector Audit organization, Lisbon, Portugal
Meeting with the General Director of Banking Regulation and Financial Stability, and the Director of Banking Supervision, Bank of Spain, Madrid, Spain
Teleconferences with the Chair of the Auditing Subcommittee of the Basel Committee on Banking Supervision
Meeting with the Chair of the liquidity group of the Basel Committee on Banking Supervision, Paris, France
Meeting with representatives of the Chinese Securities Commission, Beijing, China
Meetings with the President, General Director of Markets, and General Director of Financial and Accounting Reports, Comisión Nacional del Mercado de Valores, Madrid, Spain
Meeting with EAIG, Paris, France
Meeting with the Chair and staff of the European Securities and Markets Authority, Paris, France
Meeting with the Head of Accounting Law and Auditing Law Section, Federal Ministry of Justice of Germany, Berlin, Germany
Meeting with representatives of the Financial Stability Board, Basel, Switzerland
Meetings with the President and staff of the Haut Conseil du Commissariat aux Comptes, Paris, France
Meeting with the Chair of IFIAR, Washington, DC, USA
Plenary meeting of IFIAR, Noordwijk, the Netherlands
Meeting with the IFIAR Standards Coordination Working Group, Paris, France
Meeting with the CEO of the Irish Auditing & Accounting Supervisory Authority, Dublin, Ireland
Meeting with leadership of the Irish Chartered Accountants Regulatory Board, Dublin, Ireland
Meeting with the IOSCO Secretary General, Madrid, Spain
Meeting with IOSCO Committee 1, Washington, DC, USA
Teleconference with IOSCO Committee 1
Meetings with the Chair of IOSCO Committee 1, Washington, DC, USA
Meeting with representatives of the Japan Audit and Supervisory Board Members Association, Tokyo, Japan
Meeting with representatives of the Japanese Financial Services Agency, Tokyo, Japan
Meeting with representatives of the Korean Financial Services Commission, Seoul, Republic of Korea
Meeting with representatives of the Korean Financial Supervisory Service, Seoul, Republic of Korea

Meeting with leadership and staff of the Netherlands Authority for Financial Markets, Amsterdam, the Netherlands

Meetings with leadership of the UK Financial Reporting Council, London, UK and New York, USA

Meeting with the Chair, Board members, and staff of the US PCAOB, Washington, DC, USA

PREPARERS, INVESTORS, GOVERNANCE ORGANIZATIONS, AND OTHERS

Audit Committee Chairs and Chief Financial Officers roundtable, Sydney, Australia

Meeting with the General Counsel of the Council of Institutional Investors, Washington, DC, USA

STANDARD SETTERS

Meeting with the Chair of the IFRS Foundation Trustees, Paris, France

Meeting with the Ethics Committee of the JICPA, Tokyo, Japan

IESBA–National Standard Setters Meeting, New York, USA

IFAC MEMBER BODIES

Council Meeting of the Association of Chartered Certified Accountants (ACCA), London, UK

Interview for the ACCA's *Accounting and Business* journal

Interview for ACCA's *Accountancy Futures* magazine

Meeting with leadership of Chinese Institute of Certified Public Accountants (CICPA), Beijing, China

Meeting with leadership of the Chamber of Hungarian Auditors, New York, USA

Meeting with leadership of Chartered Accountants Ireland, Dublin, Ireland

Meeting with the President of the Compagnie Nationale des Commissaires aux Comptes (CNCC), Paris, France

Meeting with the CNCC Ethics Working Party, Paris, France

Article for magazine of Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)

Meeting with leadership of CPA Ireland, Dublin, Ireland

Article in CPA Australia's *InTheBlack* magazine, "How Should Accountants Respond to Illegal Acts?"

Interview for article in CPA Australia's *InTheBlack* magazine, "More Ethics Guidance for IESBA Members Being Considered"

Meeting with leadership and staff of the Institut der Wirtschaftsprüfer, Berlin, Germany

Meeting with leadership of the Institute of Chartered Accountants in Australia, Sydney, Australia

Presentation at the Institute of Chartered Accountants of Barbados Seminar, Barbados

Meeting with the Executive Director, Technical, Institute of Chartered Accountants in England and Wales, London, UK

Interview for the *Management Accountant* journal of the Institute of Cost & Management Accountants of Pakistan

Interview for the *Strategic Finance* magazine of the US Institute of Management Accountants regarding the IESBA's Exposure Draft, *Responding to a Suspected Illegal Act*

Meetings with leadership of the Instituto de Censores Jurados de Cuentas de España (ICJCE), Madrid, Spain
Conference with ICJCE members, Madrid, Spain
Interview for ICJCE magazine, <i>Auditores</i>
Meeting with the Japanese Institute of Certified Public Accountants (JICPA) PAIB Council, Tokyo, Japan
Meeting with representatives of JICPA, Tokyo, Japan
Presentation at JICPA seminar, Tokyo, Japan
Interview for JICPA magazine
Presentation at Korean Institute of Certified Public Accountants (KICPA) Seminar, <i>Audit, Assurance and Ethics – Current Issues and Future Strategies</i> , Seoul, Republic of Korea
Meeting with leadership of Nederlandse Beroepsorganisatie van Accountants (NBA), Amsterdam, Netherlands
Interview for the Norwegian Institute of Public Accountants magazine
Meeting with the Executive Board of the Ordem dos Revisores Oficiais de Contas (OROC), Lisbon, Portugal
Meeting with leadership of OROC, Lisbon, Portugal
Presentation at OROC seminar, Lisbon, Portugal
Interview for OROC newsletter and Portuguese press
Meeting with Board of Ordem dos Técnicos Oficiais de Contas (OTOC), Lisbon, Portugal
Presentation at OTOC conference on ethics, Lisbon, Portugal
Interview for OTOC magazine article and webTV content
Meeting with the President and staff of the Vietnam Accounting Association, Vietnam
Meeting with leadership of the Vietnam Association of Certified Public Accountants, Vietnam
Jour Fixe meeting with representatives of Wirtschaftsprüferkammer (WPK), Institut der Wirtschaftsprüfer (IdW), German Federal Ministries of Justice and Economy, Auditor Oversight Commission, and the German profession, Berlin, Germany
Interview for WPK magazine

GOVERNMENTS AND PUBLIC SECTOR ORGANIZATIONS

Meeting with the Deputy Governor, Bank of Spain, Madrid, Spain
Meeting with the Chinese Vice Minister of Finance, Beijing, China
Meeting with the Director, Accounting Regulatory Department, and staff of the Chinese Ministry of Finance, New York, USA
Meeting and teleconference with European Parliament member and legal aide, New York, USA
Meeting and teleconference with the Deputy Director, Finance Department, and staff of the International Monetary Fund (IMF), Washington, DC, USA
Meeting with Myanmar Accountancy Council and Myanmar Institute of CPAs, including representatives of the Central Bank of Myanmar, Directorate of Investment and Company Administration, Federation of Commerce and Industry, and Internal Revenue Department

Meeting with the President of the Spanish Institute of Accounting and Auditing (ICAC), Madrid, Spain
Meeting with the Deputy Director General of Technical Supervision and the Deputy Director General of Technical Auditing Standards, ICAC, Madrid, Spain
Meeting with the Vietnamese Minister of Finance and staff, Vietnam
Meetings with representatives of the World Bank, Washington, DC, USA, and Vietnam
Seminar with World Bank and IMF staff, Washington, DC, USA
Presentation to World Bank Vietnam regional offices via videoconference

ACCOUNTING FIRMS

Presentations to Forum of Firms, Vienna, Austria and New York, USA
Meeting with the Chair of the Global Public Policy Committee (GPPC), London, UK
Meeting with GPPC, Paris, France
Presentation at HLB International's Auditing and Financial Reporting Conference, Copenhagen, Denmark
Meeting with the Standards Working Group of the Six Largest Accounting Firms, New York, USA

ACADEMIC AND RESEARCH ORGANIZATIONS

American Accounting Association Annual Meeting, Anaheim, USA
Public lecture, <i>Ethical Issues for Accountants Working in Business, Government and Not-for-Profit Organizations</i> , jointly hosted by CPA Australia and the International Governance and Performance Research Centre at Macquarie University, Sydney, Australia

REGIONAL ORGANIZATIONS AND EVENTS

Keynote address by IESBA Chair at the Accounting Professional and Ethical Standards Board's evening function, Sydney, Australia
Presentations at CRECER conference, Cartagena, Colombia
Fédération des Experts-Comptables Européens (FEE) Audit Committee roundtable, Brussels, Belgium
Meeting with the Chair of the FEE Ethics Committee, Brussels, Belgium
Meeting with the Chief Executive of FEE, Brussels, Belgium
FEE Members' Assembly, Brussels, Belgium
Presentation at seminar organized by the Vietnam Association of Certified Public Accountants and CPA Australia, Vietnam
Roundtable with representatives of WPK, IdW, German Federal Ministries of Justice and Economy, and German Auditor Oversight Commission, Berlin, Germany

OTHER OUTREACH AND RELATED ACTIVITIES

Meeting with IFAC Compliance Advisory Panel, New York, USA

Presentation at IFAC Council Workshop, *Key Developments in Ethics*, Seoul, Republic of Korea

Meeting with IFAC PAIB Committee, New York, USA

Meeting with IFAC SMP Committee, New York, USA

Interview for the *Accountant* magazine

Interview with Australian Financial Review

Interview with Australian *Business Review Weekly*

Interview for Spanish newspaper, *El País*

Interview for the *Global Accountant* magazine

Interview for April 2013 IFAC newsletter

Interview with IESBA Chair, "The Role of Ethics in Restoring Confidence," published in IFAC member body journals or magazines in Hungary, Pakistan, Malaysia, Malta, Singapore, Ireland, and Republic of Korea

Press interviews with *Option Finance* and *Revue Française de Comptabilité*, Paris, France

REPORT OF THE CHAIR OF THE IESBA CONSULTATIVE ADVISORY GROUP



KRISTIAN KOKTVEDGAARD
CHAIR IESBA CAG



In July 2013, I had the honor and privilege to become the chair of the IESBA Consultative Advisory Group (CAG) following Richard Fleck, who had served as the first independent chair of the CAG since 2006. Under Richard Fleck's leadership, the CAG developed and made significant contributions to the standard-setting process of the IESBA.

OBJECTIVES

The objectives of the IESBA CAG and the representatives of the CAG member organizations serving on the CAG are both to provide technical advice on projects of the IESBA as well as strategic advice on the IESBA

agenda and work program, including project priorities and timetables.

The CAG comprises member organizations that are interested in the development and maintenance of high-quality international ethics standards for professional accountants. To the extent practicable, membership includes a balance of geographical representation and includes regulators, international organizations, users and preparers. See page 27 for a full list of members.

The CAG does not need to reach consensus. Actually, the strength of the CAG is in the breadth of views represented and the resulting debate and dialogue that enrich the advice

the CAG is able to give to the IESBA. One of my immediate priorities is to further improve the representation of relevant member organizations in order to ensure a continued high level of advice to the IESBA.

KEY HIGHLIGHTS FOR 2013

In 2013, the IESBA CAG met twice in person—in April and September. It had two conference calls—in January and October. During this time, the IESBA CAG was able to engage with and advise the board on all the projects on its technical agenda. Highlights are discussed below.



Strategy and Work Plan

In 2013, the CAG discussed and advised on the board's Strategy and Work Plan for 2014-2018. The CAG was generally supportive of the strategic themes in the plan. Emphasis was placed on adoption and implementation of the Code, and the CAG urged the board also to remain focused on the enforceability of the Code. During the discussions, the CAG also touched on the topic of acceptance of the Code. The CAG highlighted the importance of communications that can be readily understood by, for instance, investors and other users as a vehicle to achieve this acceptance.

Responding to Suspected Non-Compliance with Laws and Regulations

One project in particular has generated intense discussions, both in the CAG and in the board: Responding to Suspected Non-Compliance with Laws and Regulations (formerly called Responding to a Suspected Illegal Act). This project is particularly challenging because the expectations of professional accountants vary from jurisdiction to jurisdiction, as do the consequences of reporting suspected illegal acts given the differing legal environments. In general, the CAG continued to make the public interest an important focal point, and advised the IESBA to explore how to address

practicalities and create the right incentives rather than diluting or abandoning the project.

Independence Requirements

The IESBA has two narrow projects that address selected independence requirements in the Code: non-assurance services and long association. The CAG discussed and was generally supportive of the project proposal for non-assurance services.

The CAG recognized the importance of the long association project in light of the public interest in ensuring continued independence of auditors when conducting audit engagements. One of the important areas discussed was the consideration



of cooling-off periods. The representatives of the CAG were generally in favor of extending the cooling-off period to three years. There was also general consensus on limiting the mandatory rotation requirements to apply only to audits of public interest entities.

Part C—Professional Accountants in Business

Part C of the Code addresses the requirements of professional accountants in business. Our discussions on Part C led to a number of very good debates, which demonstrate the variety of backgrounds represented by the CAG and also the complexity and subjective nature of certain

topics, such as, in particular, pressure by superiors and others to engage in unethical or illegal acts.

Structure of the Code

The CAG sees increasing the use of the Code to be in the public interest. So, the CAG found this project, which aims to increase the accessibility and, in turn, adoption of the Code, to be of great importance. The CAG not only discussed format improvements including producing an enhanced electronic Code, but also content-related measures including, for instance, the addition of one-page summaries especially aimed at stakeholders outside the profession. It was recognized by the CAG that these could not replace the Code itself. The CAG also cautioned the board not to focus on this project in isolation, but rather to test and incorporate the thinking, relating to, for instance, drafting conventions, reading grade, and the general readability of the Code, into the other current projects.

CONCLUSION

In the coming year, we will continue to face many challenges. Ethical discussions are often inherently difficult due to the jurisdictional variances as I mentioned above, and the increasingly globalized world that we all live in. Not only do we have difficult projects to discuss, but we also have to continue our efforts to restore public trust and confidence, including that of investors, in the profession and the Code. It will not be easy, which is why I am ever grateful to the volunteers who have generously lent their time

and expertise to serving on the CAG, enriching our discussions and ensuring the public interest is served.

The CAG has been very fortunate to have had the benefit of the experience and advice of many individuals. Our success is dependent upon a constructive engagement between the IESBA and its task forces, and the CAG—to all of whom I am very grateful. In addition, I have quickly learned to appreciate the invaluable support, dedication, and professionalism of the IESBA staff.

During the year, a number of CAG representatives have rotated off. I would like to take this opportunity to extend my gratitude and appreciation for the dedication and time they have invested in the CAG and more importantly to the standard-setting process. While we will miss both their collegiality and contributions, we welcome and look forward to benefiting from new CAG member organizations and their representatives.

Finally, I would be remiss not to pay tribute to the late IESBA Chair Jörgen Holmquist, who demonstrated a passion for the work of the IESBA in the public interest and with whom the CAG was privileged to have engaged during his time as chair of the board.

Kristian Koktvedgaard

Chair, IESBA CAG

CONSULTATIVE ADVISORY GROUP MEMBER ORGANIZATIONS AND OBSERVERS

MEMBER ORGANIZATIONS

Asian Financial Executives Institutes

Basel Committee on Banking Supervision

BUSINESSEUROPE

CFA Institute

European Commission

European Federation of Accountants and Auditors for SMEs

European Financial Executives Institutes

Fédération des Experts Comptables Européens

Financial Reporting Council, United Kingdom

Gulf States Regulatory Authorities

Institute of Internal Auditors

International Association of Insurance Supervisors

International Corporate Governance Network

International Organization of Securities Commissions

International Organization of Supreme Audit Institutions

National Association of State Boards of Accountancy

North American Financial Executives Institutes

Organisation for Economic Cooperation and Development

Sri Lanka Accounting and Auditing Standards Monitoring Board

World Bank

World Federation of Exchanges

OBSERVERS

IFAC Small and Medium Practices Committee

Public Company Accounting Oversight Board, United States

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