

DATE: February 20, 2008
TO: Ethics CAG
FROM: Richard George, Chair IESBA
SUBJECT: Report from the IESBA

Introduction

This report summarizes the activities of the IESBA since the last Ethics CAG meeting in December 2007. The report provides an update on each of the working projects of IESBA and an overview of the expected activities before the next CAG meeting in September 2008. The Board has met once on January 21-23, 2008. Draft minutes for this meeting may be available at the CAG meeting. If not they will be distributed to CAG members when they are available.

Independence Part I

At the December 2007 meeting the CAG considered a first draft of the changes to respond to comments received on exposure and provide comment to the Task Force. The Task Force met directly after the CAG meeting to finalize the draft. At its January 2008 meeting, the IESBA approved revisions to the Code resulting from the exposure draft that was issued in December. The only significant change made to the draft subsequent to the draft discussed by the CAG in December was a refinement to the definition of public interest entities to respond to comments received at the CAG meeting. Public interest entities are now defined as:

(i) listed entities, and (ii) any entity (a) defined by regulation or legislation as a public interest entity or (b) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

The Revised Section 290 and new 291 and the Basis for Conclusion will be considered by the PIOB at its meeting in March for confirmation that due process has been followed. The revised sections will be included in the drafting conventions exposure draft and the Code issued in final form at the end of 2008.

In addition to the definition of public interest entities, discussed above, the more significant change to the existing Code are:

- Extending the requirements for audits of listed entities to audits of all entities of public interest;

- Expanding the partner rotation requirements on audits of entities of public interest to all key audit partners (the engagement partner, the individual responsible for the engagement quality control review and other audit partners on the engagement team who are responsible for key decisions or judgments with respect to the audit);
- Requiring partner rotation for public interest entities except in circumstances when an independent regulator has provided an exemption for firms that have only a few people with the necessary knowledge and experience to serve as a key audit partner on public interest entity audits;
- Establishing a mandatory “cooling-off” period before a key audit partner joins a former audit client that is an entity of public interest, or the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent) joins such an audit client;
- Non-audit services – strengthening some of the guidance on the provision of non-audit services, including:
 - Valuation services – providing guidance on what is meant by significant subjectivity and restricting material valuations for entities of public interest;
 - Taxation services – providing additional guidance on taxation services. Recognition that taxation services comprise a broad range of services including tax return preparation, preparation of tax calculations to be used as the basis for the accounting entries in the financial statements, tax planning and other advisory services and assistance in the resolution of tax disputes;
 - Information technology services – for audit and review clients that are not entities of public interest, restricting the design *and* implementation of financial information technology systems that are used to generate information forming part of a the client’s financial statements. In the cases of audit and review clients that are entities of public interest, restricting services that involve either the design or implementation of such systems;
 - Corporate finance services – expanding the guidance and aligning it to the provision of tax planning and other advisory services when the advice is dependent upon a particular accounting treatment or presentation;
 - Recruiting senior management – for audit and review clients that are entities of public interest, restricting recruiting of individuals who can exert significant influence over the client’s financial statements.
- Partner compensation – additional guidance to recognize that compensation and evaluation policies can create a threat to independence. Restricting the compensation or evaluation of key audit partners for selling of non-assurance services to their audit clients; and
- Splitting existing Section 290 into two sections – proposed revised Section 290, which sets out independence requirements for audit and review engagements, and proposed

new Section 291, which sets out independence requirements for other assurance engagements.

Independence Part II

The exposure draft comment period ended on October 15, 2007. The Board discussed the comments received at its meeting in January 2008 and provided direction to the Task Force. The Task Force has revised the guidance at the direction of the Board. This matter is addressed in further detail as part of Agenda Item C.

Drafting Conventions

At its January 2008 meeting, the IESBA discussed proposed changes to the Code resulting from the implications of the Clarity project on the Code. The IESBA considered, inter alia, how the Code describes matters that may create a threat and how it describes matters that do create a threat. The Task Force meets again on March 3, 2008. This matter is addressed in further detail as part of Agenda Item D.

Other Matters

The next IESBA meetings are:

- April 15-17 – New York, United States of America
- June 24-25 – Europe, Brussels, Belgium
- October 21-23, 2008 – TBD, China
- December - TBD

Richard George