

DATE: August 11, 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 on March 5, 2008. The report provides an update on each of the working projects of IESBA.

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 a revised draft at its April meeting. The IESBA approved the revised draft but, due to the significance of some of the changes, determined that re-exposure of two items was appropriate. The re-exposure draft calls for comments on two areas:

- *Internal audit services* – The majority of respondents to the exposure draft agreed, explicitly or implicitly, with the proposal to permit the provision of internal audit services to audit clients provided that certain conditions are met. In considering the comments, the IESBA noted that the majority of regulators and independent standard setters responding to the exposure draft were of the view that there should be a restriction on providing financial internal audit services to audit clients that are public interest entities. The re-exposure draft proposes to restrict such services;
- *Fees relative size* – The exposure draft proposed that when total fees from an audit client that is a public interest entity exceed 15% of the total fees of the firm, the self-interest threat created would be too significant unless the matter is disclosed to those charged with governance, and either a post or pre-issuance review is conducted not less than once every three years. The review would be conducted by a professional accountant from outside the firm. In considering the comments on exposure, the IESBA determined that the guidance should be strengthened in two respects. Firstly, to require either a pre-issuance or a post-issuance review of the second audit opinion and in each subsequent year when the fees continue to exceed 15%, and secondly, to indicate that when total fees significantly exceed 15%, the firm should determine whether the significance of the threat is such that a post-issuance review would not be sufficient and, therefore, a pre-issuance review is required.

The comment period for the re-exposure draft ends on August 31, 2008. The exposure draft comments and the proposed Task Force response will be discussed at the November 2008 CAG.

Drafting Conventions

At its June 2008 meeting the IESBA approved an exposure draft containing the proposed changes to the Code resulting from the drafting conventions project. This matter is addressed in further detail under Agenda Item C.

Convergence

The objective of the IESBA includes convergence of international and national ethical standards. The IESBA has developed a draft convergence plan and course of action to promote recognition of the IFAC Code. This matter is addressed in further detail under Agenda Item D.

Other Matters

Given the approval of the Drafting Conventions Exposure Draft at the June 2008 meeting the timetable has been revised and the October 2008 meeting cancelled. The IESBA next meets on December 10-12, 2008 in London, United Kingdom.

Richard George