



**INTERNATIONAL FEDERATION  
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**Agenda Item**

**D**

**Committee** Ethics Consultative Advisory Group

**Meeting Location:** Four Seasons Hotel Washington, 2800 Pennsylvania Avenue

**Meeting Date:** September 9, 2009

**Strategic Planning**

**Objectives of Agenda Item**

To report on responses to IESBA Strategic Review Survey and to obtain CAG members preliminary input on IESBA priorities for 2010-2012

**Discussion**

In March 2008, the IESBA issued a Strategic and Operational Plan for 2008-2009. To date, for the period covered by the plan, the IESBA's work effort has focused on the two independence projects and drafting conventions. The IESBA approved the changes resulting from the drafting conventions project at its April meeting and, after PIOB consideration of due process, the revised Code was issued in early July 2009. The IESBA is, therefore, in the position to start new projects.

The IESBA's terms of reference and due process require the strategic review to include a formal survey of key stakeholders to obtain views about issues that they believe should be addressed in the immediate future. The Strategic Plan is exposed for public comment for a period of no less than 60 days. The IESBA considers the comments received on exposure as it revises and finalizes the plan. Consistent with other documents, the input of the CAG is sought at key stages and the final plan is issued after PIOB consideration and approval of due process.

**2008-2009 Strategic and Operational Plan**

In addition to convergence and implementation support, the 2008-2009 Strategic and Operational Plan identifies three projects for the period:

- Ethical Responsibilities of Accountants when Encountering Fraud and Illegal Acts
- Conflicts of Interest
- Accountants in Government

Work on these projects was delayed, or deferred, due to the need to focus on completing the revisions to the Code resulting from the Independence I and II and Drafting

Conventions projects. At its meeting in March 2009, CAG members discussed the 2008-2009 Strategic and Operational Plan and provided some views on project priorities.

### *Fraud and Illegal Acts*

Professional accountants in public practice and business may encounter situations including:

- The professional accountant discovers a suspected fraudulent or illegal act;
- The professional accountant has reported an alleged fraudulent or illegal act but no action has been taken, or the action is inadequate; and
- Another individual within the organization has informed the professional accountant about the existence of a suspected fraudulent or illegal act.

The Code, in Section 140, contains general guidance for all professional accountants regarding disclosure of confidential information. The Code provides for three circumstances where professional accountants are required, or may be required, to disclose confidential information:

- Disclosure is permitted by law and is authorized by the client or the employer;
- Disclosure is required by law; and
- There is a professional duty or right to disclosure when not prohibited by law.

The project will involve preparation of a detailed project proposal outlining which parts of the subject matter should be addressed in a global Code of Ethics. The project timetable will indicate whether it is appropriate to develop any guidance for professional accountants in practice at the same time as developing guidance for professional accountants in business or whether, because of the differing legal and other issues, it is more efficient to address separately professional accountants in practice and professional accountants in business.

CAG members made the following comments on this project:

- The project will be a complex and difficult one;
- From the perspective of users of financial statements, the project is critical to help to restore confidence;
- The project will be challenging in light of differing legislative requirements;
- Given the different constraints and issues it might be prudent to split the project and have two streams of work – with one addressing professional accountants in practice and the other addressing professional accountants in business;
- Accountants in business generally have less of an infra-structure on which they can rely and obtain support when they encounter a fraud or illegal act; and
- There are situations where confidentiality should be set aside to address the public interest and it is important that there is a framework to address this.

### *Conflicts of Interests*

The Code, in Section 220, contains general guidance for professional accountants in practice who face conflicts of interest. The Code provides that the professional accountant should take reasonable steps to identify circumstances that could pose a conflict of interest, evaluate the significance of the threat and apply safeguards to address

the threat. The Code provides examples of safeguards the professional accountant should ordinarily apply and others that should be considered.

The project will consider whether additional ethical guidance can be provided for professional accountants in public practice who face conflicts of interest. The project will involve the preparation of a detailed project proposal addressing the scope and timetable of the project. The project proposal will consider such matters as:

- Providing additional guidance on the types of conflicts that could be encountered;
- Providing additional guidance on the institutional mechanisms that can safeguard confidential information and assist in managing conflicts of interest; and
- Developing a process which accountants in practice could follow to identify and address conflicts of interest or potential conflicts of interest.

CAG members made the following comments on this project:

- Given the number of conflicts that can occur, it would be useful for the Code to contain additional guidance on conflicts of interest.

CAG members did not identify any projects that they thought should be given a higher priority than the projects on Fraud and Illegal Acts and Conflicts of Interest.

The National Standard Setters also confirmed the priority of these two projects at its first meeting in April 2009.

#### Accountants in Government

Part B of the Code applies to professional accountants in public practice, who are defined as professional accountants in a “firm”. Part C of the Code applies to professional accountants in business, who are defined as including professional accountants in the public sector. The independence requirements for assurance engagements are contained in Part B. Professional accountants in the public sector perform assurance engagements and it is, therefore, unclear how the guidance and principles in Part B apply (or should apply) to assurance engagements performed by accountants in the public sector.

A project to consider this matter was commenced in 2005 and work on it was deferred at the beginning of 2007 in order to focus on independence and then drafting conventions.

CAG members made the following comments on this project:

- Many accountants in the public sector are not professional accountants as defined by the Code (i.e. they are not members of member bodies of IFAC); and
- The differing legal environments and structures will complicate this project.

The National Standard Setters did not express a view on the priority of this project but noted that internal auditors also conduct assurance engagements. It was noted that one jurisdiction had developed an additional section in its Code of Ethics addressing independence requirements for professional accountants than are not in public practice that perform assurance engagements.

### Survey of Stakeholders

A survey of stakeholders was released on Thursday June 18, 2009 with a requested response date of July 27, 2009. The survey was widely released including to all PIACs, PIAC CAGs, Forum of Firms members, IESBA-NSS Members, respondents to previous exposure drafts and IFIAR. The survey was also placed on the IESBA website.

The survey stated that the Fraud and Illegal Acts and Conflicts of Interest were priorities of the Board and asked respondents to confirm the priority of these two projects. The survey also identified other possible projects (which had either been suggested by the national Standard Setters or by respondents to IESBA strategic review in 2007) and requested input on the priority of these projects and contained some opened ended questions to allow respondents to identify other possible projects.

### Results of Survey

The response date was July 2009 but the survey was held open until August 5, 2009 to allow for late responses. Agenda Paper D.1 provides an analysis of the comments received.

The following responses to the survey were received:

Response	Count	Percent
Professional Accountant in Public Practice	28	27.7%
Professional Accountant in Business	4	4.0%
User of Financial Statements (e.g., Investor, Customer, Creditor / Supplier, Lender, Analyst)	1	1.0%
Standard Setter	2	2.0%
Regulator	8	8.0%
IFAC Member Body	41	40.5%
Other	35	16.8%
<b>Total</b>	<b>101</b>	<b>100%</b>

The Planning Committee has had an initial review of the comments received but, in light of the timing of the survey and the CAG meeting, has not yet had a chance to receive the comments in detail. The IESBA will consider the comments at their October 2009 meeting. The following comments are, therefore, only the initial reactions of the Planning Committee to the comments received.

### *Overall comments*

While disappointed with the number of responses from professional accountants in business and users and the absence of responses from some stakeholders, the Planning Committee notes that the responses are strongly supportive of the identified projects priorities and support an emphasis on convergence of international and national standards.

*Comments by Section*

*Part 2: Implementation Support*

Many respondents either stated that no additional material was necessary or expressed the view that the items noted should be sufficient to support implementation of the Code. Some respondents expressed the view that case studies and or examples of application of the Code would be useful support materials. Some respondents stated that the IESBA should develop material to provide assistance for application and implementation of the Code in an SMP environment.

The Planning Committee has considered these comments and its initial view is that, given the limited resources of the Board, the development of case studies is not a high priority. It is of the view that a short paper outlining the implications of the Code in an SMP environment would be useful and, therefore, proposes that this be developed and added to the implementation support toll-kit.

*Part 3: IESBA Possible Future Projects*

*3.1 Conflicts of Interest*

92% of respondents expressed the view that this project was either very important or important. The Planning Committee has developed a project proposal for this project which is included as Agenda Paper C.

*3.2 Fraud and Illegal Acts*

91% of respondents expressed the view that a project to develop ethical guidance for professional accountants who encounter fraud or illegal acts was either very important or important. The Planning Committee is in the process of scoping this project.

*3.3 Independence Requirements for Accountants not in Public Practice who Perform Assurance Engagements*

54% of respondents expressed the view that this project was either very important or important.

*3.4 Ethical Guidance for Professional Accountants in Public Practice Providing Non-Assurance Services*

65% of respondents expressed the view that this project was either very important or important.

*3.5 Independence – Collective Investment Vehicles Including Mutual Funds*

48% of respondents expressed the view that this project was either very important or important.

The Planning Committee has considered these comments and its initial view is that the respondents to the survey felt that the above three projects are of a lower priority than the conflicts and fraud projects. The Planning Committee is also of the view that if the Board determines that it has sufficient capacity to undertake another project, in addition to the

convergence and implementation support initiatives, respondents have not expressed a clear preference as to which project should be undertaken first.

### *3.6 Other Projects for Part B of the Code*

While several respondents suggested additional topics for Part B, there was no consensus on which topics should be addressed. In addition, many respondents expressed the view that there should be a period of stability before any further independence standards were issued to allow time for adoption and implementation.

The Planning Committee has considered these comments and it is of the view that, absent any urgent issues, there should be a period of stability to allow time for adoption and implementation.

### *3.7 Other projects for Part C of the Code*

Several respondents stated that the IESBA should review part C of the Code. While these respondents did not suggest any specific projects there was recognition that Part C of the Code had not been reviewed or updated for some time.

The Planning Committee has considered these comments and its initial view is that sections of Part C will be updated through the Conflicts and Fraud and Illegal Acts projects. Respondents did not identify any specific sections of Part C that needed to be addressed.

### *3.8 Any Other Projects*

Some respondents suggested that IESBA consider whether the structure of the Code might be a barrier to convergence. These comments are discussed under Part 5 below.

### *4.0 Other IESBA Initiatives*

Several respondents stated that it would be useful for the IESBA to issue a thought piece on integrity. Some respondents, however, stated that IESBA should not issue such thought pieces.

The Planning Committee has considered these comments and its initial view is that, given the resources of the Board, issuing a thought piece on integrity is not a high priority.

### *5.0 Finalizing the Survey*

Several respondents emphasized the need for a pause in new standards on independence to provide firms and member bodies time to implement the revised Code.

Several respondents emphasized the need for the IESBA to consider the implications of the Code in an SME/SMP environment and one suggested that the IESBA consider the merits of the EC's "think small first" proposals and how they might work for Ethics.

Several respondents stated that IESBA should focus on promoting the Code and furthering its objective of international convergence.

The Planning Committee has considered these comments and agrees that, absent any urgent issues, there should be a period of stability to allow time for adoption and implementation. With respect to the comments on the SME/SMP environment, the Planning Committee will consider ways in which this could be addressed. The Planning Committee will also consider the comments on convergence as it further develops its convergence initiative.

### **Material Presented**

Agenda Paper D.1      Results of survey of key stakeholders

### **Action Requested**

1. CAG members are asked to consider the results of the survey of stakeholders and provide views on the priorities of the matters noted.