

**Consultation Paper**  
December 2013

*International Ethics Standards Board  
for Accountants*

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## Proposed Strategy and Work Plan, 2014-2018

**IESBA**

International  
Ethics Standards  
Board for Accountants™

This Consultation Paper was developed and approved by the International Ethics Standards Board for Accountants (IESBA).

The IESBA is an independent standard-setting board that develops and issues high-quality ethical standards and other pronouncements for professional accountants worldwide. Through its activities, the IESBA develops the *Code of Ethics for Professional Accountants*, which establishes ethical requirements for professional accountants.

The objective of the IESBA is to serve the public interest by setting high-quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants (IFAC).

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## REQUEST FOR COMMENTS

This Consultation Paper, *Proposed Strategy and Work Plan, 2014-2018*, was developed and approved by the International Ethics Standards Board for Accountants (IESBA).

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by February 28, 2014.**

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Technical Director at [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org).

This publication may be downloaded from the Ethics Board website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

## Introduction

1. The International Ethics Standards Board for Accountants (IESBA, the Ethics Board or the Board) serves the public interest by setting high-quality ethics standards for professional accountants (PAs) in the form of the *Code of Ethics for Professional Accountants* (the Code), and by facilitating the convergence of international and national ethics standards. The Ethics Board believes that a single set of high-quality ethics standards can enhance the quality and consistency of services provided by PAs throughout the world, thereby contributing to public confidence in the accounting profession. The Ethics Board sets its standards under the oversight of the Public Interest Oversight Board (PIOB), and with the advice of the IESBA Consultative Advisory Group (CAG).
2. The Board is undertaking this consultation to obtain views on its proposed future strategy, including possible actions and priorities identified to implement the strategy. The input received will enable the Board to set the course for its future activities in support of its public interest mandate. The IESBA invites comments on any aspect of its proposed strategy.
3. This Consultation Paper has been developed taking into account input received from the Board's January 2013 stakeholder survey (strategy survey), the IESBA-National Standard Setter (NSS) liaison group and other stakeholders, and considering relevant external developments. It comprises the following sections:
  - I. **Strategic Themes for 2014–2018** – The Board's proposed areas of strategic focus.
  - II. **Key Considerations Guiding the Determination of Potential Actions, Priorities and Timing** – The key factors, assumptions and other considerations that affect the determination of potential actions in the next strategy period and the relative priorities of those actions and their timing.
  - III. **Potential Actions, Priorities and Timing** – How the Board intends to focus its efforts in line with its identified strategic themes.
  - IV. **Guide for Respondents** – Specific questions to respondents to help guide input to the Board in determining its future strategy and work plan (SWP).

### I. Strategic Themes for 2014–2018

4. The Ethics Board's strategic themes reflect the Board's vision over the medium to longer term and assist in guiding the Board's activities over the 2014-2018 strategy period, taking into account the context in which the strategy is developed (see Appendix 1). These strategic themes establish in essence the overarching objectives for which decisions are made by the Board regarding work streams to be initiated or other specific actions to be taken, and their priorities, during the strategy period.
5. The Board recognizes that its SWP is, and must remain, dynamic as the context in which the strategy is set can change rapidly, and new developments may call for a reconsideration of the strategic themes or the actions, priorities and timing that have been identified thereunder to maintain the relevance and responsiveness of the Board's actions. Flexibility is therefore important. Accordingly, the Board is committed to actively monitoring emerging issues or other developments that may have an impact on its strategic direction or work plan, and will make adjustments to its SWP if necessary.

6. The strategic themes for 2014–2018 identified by the Board are:
  - (i) *Maintaining a high-quality Code of Ethics for application by PAs globally;*
  - (ii) *Promoting and facilitating the adoption and effective implementation of the Code;*
  - (iii) *Evolving the Code for continued relevance in a changing global environment; and*
  - (iv) *Increasing engagement and cooperation with key stakeholders.*
7. These themes are briefly described below.

#### **Maintaining a High-Quality Code of Ethics for Application by PAs Globally**

8. Setting high-quality ethics standards for PAs in public practice, including auditors, and professional accountants in business (PAIBs) is the essence of the Board's role in the public interest. PAs are involved in a wide variety of roles in practice and in business, and it is important that the Code continues to set a high ethical benchmark for them in any endeavor they choose to pursue in their capacity as PAs.
9. Over the past decade or so, the Board has focused largely on developing robust ethics standards for PAs in public practice, particularly independence standards for audits of financial statements. This will continue to be a strategic focus for the Board, particularly in support of audit quality. However, the Board also envisions in the medium to longer term a Code that more comprehensively addresses the particular ethical issues PAIBs may face in their roles in business.
10. At the same time, the Board believes it is important to take into account the particular perspectives of the small- and medium-sized practice (SMP)/small- and medium-sized entity (SME) constituency when it sets standards. It therefore plans to liaise closely with the IFAC SMP Committee and seek its input on projects and initiatives of relevance to that constituency.<sup>1</sup>
11. The Board is committed to continuing to seek to strengthen the Code where appropriate in order for the Code to remain a leading set of ethics standards for the global profession. In this regard, the Board will be sensitive to balancing the burden of change to the Code and the likely benefit to the public interest of pursuing such change.

#### **Promoting and Facilitating the Adoption and Effective Implementation of the Code**

12. The Board believes that adoption and effective implementation of the Code around the world is an important part of achieving convergence of international and national ethics standards. Globally recognized and accepted ethics standards serve the public interest because they establish a common reference point for PAs wherever they are based relative to the high level of ethical conduct expected of them in providing services to their clients or meeting their responsibilities to their employing organizations. Further, common auditor independence standards provide for a consistent understanding among investors, public authorities and others of what it means for an auditor to be independent, thereby leading to increased confidence in auditors' reports.
13. The Board, however, recognizes that adoption of the 2009 Code is uneven around the world, and there is a need to better understand the extent of adoption. While some jurisdictions have already fully adopted the Code, others have been progressing towards adoption at different speeds for a

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<sup>1</sup> In October 2013, the Board finalized a statement of liaison principles with the IFAC SMP Committee that will guide their future interactions.

number of reasons. Chief among those have been capacity issues and fragmented responsibilities for ethics standards at the national level. But importantly, the Board has also heard from stakeholders that the current structure and drafting convention of the Code have been an impediment to more rapid and wider adoption of the Code and its more effective implementation around the world. As the structure and drafting of the Code are matters within the Board's purview, the Board envisions prioritizing steps over the next strategy period that will lead in the longer term to a Code that is structured and written in a way that will be easier to understand and adopt.

14. Further, recognizing the significant changes to strengthen the Code in recent years, a number of respondents to the strategy survey have encouraged the Board to focus less on issuing new standards and more on outreach to promote the revised Code and raise awareness of its robustness among stakeholders. Equally, the Board has been hearing of regulatory concerns about certain aspects of enforceability of the Code, suggesting the need to address those concerns within the framework of a principles-based Code. Accordingly, the Board foresees outreach to stakeholders to be a key part of this strategic theme.

### **Evolving the Code for Continued Relevance in a Changing Global Environment**

15. The Board reaffirms its strong belief that a principles-based Code provides for a robust set of standards that appropriately equips PAs in navigating the ethical landscape in the diverse professional activities they may undertake. Recognizing this, the Board believes it is important for the Code to remain relevant in the continually evolving context in which it is adopted and implemented. In this regard, the Board envisions the changing global environment as directly impacting the Code in two respects:
  - (a) Regulatory developments that may have implications for the nature and extent of services audit firms may provide to their audit clients; and
  - (b) Continuing globalization of capital markets that has led to increasing complexity and opacity in some areas where PAs practice (particularly in the vast field of collective investment vehicles (CIVs)), and therefore an increased need for guidance on the application of the fundamental ethics principles.
16. The Board envisions the need for it to understand the ethical implications of any regulatory developments internationally and any major shifts or trends in areas of economic activity that rely on the services of PAs. Doing so will enable the Board to preemptively and as necessary evolve the Code to ensure its continued relevance and robustness.

### **Increasing Engagement and Cooperation with Key Stakeholders**

17. The Board greatly values the involvement of its key stakeholders in its standard-setting process. Indeed, the Board firmly believes that input from, and the diverse perspectives of, its stakeholders strongly contribute to the quality of the standards it sets. The Board foresees greater engagement and cooperation with key stakeholders as being a long-term strategic goal not only because this leads to higher quality outputs but also because this results in greater acceptance of the Board's standards.
18. Therefore, over the next strategy period and beyond, the Board anticipates investing time and resources to forge closer working relationships with key stakeholder groups, including regulators and auditor oversight bodies, NSS, the profession, investors and IFAC member bodies.

19. At the same time, the Board has acknowledged the importance of evidence-based standard setting, i.e., basing standard-setting activities on appropriate research and evidence of issues to be addressed. The academic community can play a valuable role in this regard through its research activities, which may yield relevant evidential material as an input to the Board's consideration of future standard-setting issues. The Board therefore foresees nurturing and strengthening its relationship with this stakeholder group in the medium to longer term.

## **II. Key Considerations Guiding the Determination of Potential Actions, Priorities and Timing**

### **New Work Streams in 2012**

20. The Board closely monitors developments in the regulatory, business, and professional fields to assess whether and how those developments could influence its ongoing SWP. Accordingly, the Board's SWP remains dynamic and is subject to revision as the Board determines appropriate, not only to maintain but also to advance the Board's position as a leader in setting ethics standards for the profession internationally.
21. In response to developments in the environment, the Board agreed in February 2012 to add four new work streams to its current work plan. With the PIOB's knowledge and support, the Board commenced preliminary discussions on these work streams in 2012 and initiated research and stakeholder consultations on them throughout 2012 and 2013. These four work streams are:
  - A review of the provisions in the Code that deal with long association of senior personnel (including partner rotation) with an audit client (Long Association);<sup>2</sup>
  - A review of the non-assurance services provisions in the Code to ensure that they continue to support a rigorous approach to independence for assurance services (Non-Assurance Services);<sup>3</sup>
  - A review of Part C of the Code addressing PAIBs (Review of Part C);<sup>4</sup> and
  - A reconsideration of the structure of the Code with a view to enhancing the Code's usability, thereby facilitating increased adoption and more effective implementation (Structure of the Code).<sup>5</sup>
22. These work streams will carry over into the 2014-2018 strategy period.

### **Key Factors**

23. The determination of potential actions and their priorities and timing for the 2014–2018 period depend on a number of key factors, including the following:
  - The potential benefits to the public interest of undertaking the particular action.
  - The extent to which the particular action will further enhance public trust and confidence in the profession, having regard to the diverse areas in which PAs are involved in both practice and business.

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<sup>2</sup> See <http://www.ifac.org/ethics/projects/long-association-senior-personnel-including-partner-rotation-audit-client>

<sup>3</sup> See <http://www.ifac.org/ethics/projects/non-assurance-services>

<sup>4</sup> See <http://www.ifac.org/ethics/projects/review-part-c-code>

<sup>5</sup> See <http://www.ifac.org/ethics/projects/structure-code>

- The degree of urgency in addressing the particular matter, and the potential implications if action is not taken or delayed.
- The global relevance of the particular matter.
- The extent to which the particular action will further advance global adoption of the Code and support its effective implementation.

### **Other Important Factors**

#### *Agenda Capacity and Resources Available*

24. In determining potential new actions for 2014-2018 and the priorities and timing of these actions, the Board believes it is important to take into account the extent of agenda capacity that will open up during the period, and when this is anticipated to occur. The Board also recognizes that it will prioritize completion of projects in progress before undertaking new projects unless circumstances dictate otherwise.
25. Agenda capacity is influenced by a number of considerations, including the following:
  - The number of Board meetings per annum and the duration of each meeting (see Key Assumptions below).
  - The availability of staff resources (see Key Assumptions below).
  - The availability of Board resources, and where appropriate, technical advisor and specialist resources, to participate on task forces and working groups.
  - The timing of completion of projects that have been in progress.
  - The need to maintain some spare capacity to address new issues that may arise during the period (see Importance of Flexibility below).
26. As projects in progress are expected to have varying completion dates, agenda capacity will open up at different times throughout the strategy period. However, given the lead time needed for research and, where appropriate, consultation with stakeholders before a formal project is approved, the Board may start a new work stream *before* the final completion of a current project. The illustrative IESBA Work Plan 2014-2018 in Appendix 2 provides an indication of when the Board anticipates taking on new work streams during the strategy period.
27. The forward work plan is subject to change depending on the progress of the Board's projects, work streams and activities, and, as noted in paragraph 5 above, the need to respond to external developments.

#### *Due Process*

28. The need to adhere to due process is a further important factor that influences the duration and timing of completion of projects. This includes consideration of the need to consult with stakeholders through a public forum or roundtable, or the issuance of a consultation paper where appropriate, which may increase the time it takes to complete a project.

### **Key Assumptions**

29. A key assumption in developing the proposed SWP is that the Board will determine to proceed with the Structure of the Code work stream as a formal project on a high priority basis based on the final



report and recommendations of the Structure of the Code Working Group, expected in Q2 2014. The work stream is exploring ways to enhance the usability and accessibility of the Code. Respondents to the strategy survey overwhelmingly supported the work stream as an important one to pursue during the strategy period, reinforcing the already wide support received for it from the IESBA CAG, NSS and other stakeholders.

30. For purposes of this consultation paper, it is assumed that the Board will prioritize this project and allocate the necessary resources to it before prioritizing any new work stream. The Board will revisit this assumption and make any necessary adjustments to the 2014-2018 SWP before finalizing it in Q3 2014 once the work stream has further advanced and the Board has completed its consideration of the Working Group's final recommendations.
31. The following are other key assumptions underpinning the proposed SWP:
  - For 2014-2018, the Board will meet for three days, four times a year. The agenda will provide for sufficient time to consider matters arising from the Board's Emerging Issues and Outreach initiative.
  - The anticipated Board resources, including staff support, from 2014 will be sufficient to address the identified actions throughout the strategy period. In this regard, excluding the Technical Director, it is assumed that the Board will be supported by three technical staff members during the period, each with capacity to support on average two standard-setting projects (or equivalents). This does not include ad hoc assignments such as outreach support and staff publications that may be allocated to individual staff members. In addition, it is assumed that the Board will continue to benefit from the secondment of a technical staff member from a national standard setter to work on its Non-Assurance Services work stream.
  - There will not be a need to re-expose any of the standard-setting proposals (except potentially in the case of the project on responding to non-compliance with laws and regulations (NOCLAR)).<sup>6</sup>
  - Standard-setting projects will follow normal due process. They may take from 24-36 months to complete, depending on their nature and complexity, and the need for research and stakeholder consultation prior to issuance of an exposure draft or consultation paper.
  - Detailed work on projects is undertaken by task forces drawn from the Board and may include technical advisors or external experts.

### **Importance of Flexibility**

32. The Board believes maintaining flexibility in its future SWP is important as it may be necessary to deploy or redirect resources to address a particular issue or undertake a previously unidentified project on an urgent basis in the light of external developments. In this regard, the Board has set aside spare staff capacity to take on at least one additional standard-setting work stream in the strategy period. The Board will base such a decision on a careful analysis of the particular issue. The Board also will be prepared to make adjustments to the relative priorities and timelines of pre-existing commitments where necessary.

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<sup>6</sup> Formerly called *Responding to a Suspected Illegal Act*

### **III. Potential Actions, Priorities and Timing**

33. This section provides an overview of actions and related priorities and timing that the Board believes would best serve to fulfill its strategic themes over the 2014–2018 period. Prerequisites to the Board starting a standard-setting project include appropriate research into the issues, a proper needs analysis, and consideration of a formal project proposal.

#### **Overview of 2014–2018 Actions, Priorities and Timing**

##### *Maintaining a High-Quality Code of Ethics for Application by PAs Globally*

##### **Current Projects or Work Streams**

34. The Board will prioritize projects or work streams that are on its current work plan and that are expected to continue into the 2014-2018 period, namely NOCLAR, Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code. Appendix 3 provides a tentative indication of the anticipated progress of these projects or work streams from 2014 onwards, including the anticipated timing of their completion. As noted above, however, the forward work plan is subject to change depending on the progress of each project or work stream and the need to respond to external developments.

##### **Guidance Regarding Safeguards in the Code**

35. In response to regulatory input to the strategy survey, the Board plans to undertake a comprehensive review of the safeguards in the Code, particularly in relation to auditor independence. The regulatory concerns revolve around the appropriateness and effectiveness of safeguards in certain areas of the Code. The Board acknowledges that there are a number of practical issues regarding safeguards. In addition, the matter concerns not only the firms that undertake the largest and most complex audits, but also SMPs including sole practitioners.
36. The Board plans to start this new work stream with a first discussion of relevant matters for consideration in Q1 2015 and consideration of a project proposal for approval in Q2 2015.

##### **Audit Quality**

37. Ethics standards are an important factor to audit quality. The Board recognizes that in recent years there has been an increased focus on audit quality by the wider stakeholder community, especially in the aftermath of the global financial crisis. In particular, regulators have challenged firms to further enhance audit quality. In addition, a number of major jurisdictions around the world have been pursuing initiatives, including audit reforms, seeking to enhance audit quality. Further, the IESBA has been represented on a task force of the International Auditing and Assurance Standards Board (IAASB) that has been developing an international framework for audit quality, which is expected to be finalized and issued in early 2014.
38. Given this context, the Board believes it is important that it remains an active participant in the broader audit quality debate internationally. In this regard, the Board plans to carefully consider in 2014 the final recommendations from the IAASB's Audit Quality project regarding areas to explore that have specific ethical dimensions, and determine potential actions and their priorities in the 2014-2018 period. Such actions may include, for example, consideration of additional guidance to clarify the application of some of the fundamental ethical principles in the Code as these pertain to auditors.

39. In this regard, the Board has set aside resources to initiate a potential work stream in this area during the strategy period. The Board anticipates determining the nature, prioritization and timing of this potential work stream prior to finalizing the SWP in Q3 2014.

*Promoting and Facilitating the Adoption and Effective Implementation of the Code*

Structure of the Code

40. As discussed in the Key Assumptions section above, the Board anticipates, subject to consideration of the final report and recommendations of its Structure of the Code Working Group, that its work stream to review the Code's structure will lead to a formal restructuring project in Q2 2014. The Board believes that restructuring the Code to enhance its usability and accessibility will potentially lead to greater acceptance of the Code internationally, as well as its more effective implementation.
41. The Board has taken note of NSS advice not to underestimate the amount of work that may potentially be involved in such a project. The Board expects to firm up its considerations of the implications of this project for the SWP once it has received the final Working Group report and determined a way forward for the project.

Enforceability and Related Matters

42. Feedback from certain regulators and auditor oversight bodies has indicated that enforceability of the Code is a challenging issue, particularly from an inspection perspective. The matter of enforceability is of relevance to the global acceptance of the Code and it is partly linked to the clarity of the Code. The matter will be addressed under the Structure of the Code and Non-Assurance Services work streams in some respects.
43. Related to the above, the Board is aware of some regulatory skepticism regarding the "threats and safeguard" approach underpinning the conceptual framework in the Code, a matter that also is related to the global acceptance of the Code. The Board firmly believes in the robustness of this approach as it stimulates PAs to think carefully about what their ethical conduct should be in different circumstances.
44. These matters highlight the need for the Board to further engage with regulatory stakeholders internationally and nationally to better understand their concerns while also communicating the Board's views on these matters to them. Accordingly, the Board plans outreach to regulatory stakeholders as being an ongoing effort throughout the strategy period. At the same time, the Board plans to commission staff publications to communicate the Board's views on these complex topics. Subject to available resources, work on these publications could start in 2014.

Understanding the Extent of Adoption of the Code

45. The Board recognizes that many jurisdictions around the world are actively pursuing efforts to adopt the Code and that others have already done so. Nevertheless, some on the CAG as well as a few respondents to the strategy survey have encouraged the Board to document the progress of adoption of the Code around the world. The Board accepts that the better it is able to demonstrate momentum in adoption, the easier it will be to encourage and promote further adoption globally. Accordingly, leveraging the work of the IFAC Compliance Advisory Panel regarding IFAC member

bodies' compliance with IFAC's SMO 4,<sup>7</sup> the Board plans in 2014 onwards to further its understanding of the extent of adoption of the 2009 Code.

46. This action does not mean that the Board will undertake a benchmarking exercise with respect to every jurisdiction. Indeed, the Board's limited resources would preclude such an extensive and time-consuming endeavor. Rather, the Board anticipates working closely with IFAC's Compliance Advisory Panel to explore whether IFAC member bodies could be encouraged to benchmark their national ethics standards against the Code, specifically with a view to identifying any national requirements that are more or less stringent than the Code and understanding why.

#### Outreach to Stakeholders and Other Activities in Support of Adoption and Implementation

47. The Board will pursue ongoing action with respect to outreach as a key activity within its efforts to promote and facilitate the adoption and effective implementation of the Code. The Board believes that it is important that stakeholders around the world are made aware of and understand the robustness of the Code and the vital part it plays in supporting the profession's role in the global economy. Accordingly, the Board will plan an active outreach agenda over the strategy period, taking into account directional input from its Emerging Issues and Outreach initiative (see next subsection below).
48. The Board also will be prepared to commission additional staff publications, where necessary and appropriate, in its further efforts to facilitate the adoption and effective implementation of the Code internationally. In particular, the Board will consider commissioning staff publications to raise awareness and enhance understanding of the Code among investors and other stakeholders.

#### *Evolving the Code for Continued Relevance in a Changing Global Environment*

##### Collective Investment Vehicles (CIVs)

49. The Board plans to explore as a new work stream in the strategy period the topic of CIVs, given that the global footprint for CIVs such as mutual funds and hedge funds has continued to increase, in terms of not only amounts invested but also the spread of investors in them globally. This specific topic has been flagged as important by a few of the respondents to the strategy survey. A focus of the initiative will be to seek a better understanding of the application of the "related entity" definition in the Code to such investment vehicles when firms audit the underlying funds, the sponsor/advisor of the funds, or both.<sup>8</sup>
50. The Board recognizes that a number of respondents to the Board's previous strategy consultation did not support a project addressing CIVs given concerns regarding the diversity of management and governance structures for these vehicles around the world, and the difficulty this creates in determining a common approach. However, given the size and reach of the global CIV industry and the fact that regulators have been looking more closely at regulating such vehicles, the Board believes that there is a public interest need for it to focus strategic attention in this area.

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<sup>7</sup> See footnote 13.

<sup>8</sup> The definition of a related entity in the Code is based on control and significant influence. This construct does not work well with collective investment vehicles such as mutual funds. For example, while a fund manager or advisor may determine the types of financial instrument in which the collective vehicle invests, the manager or advisor does not "control" the vehicle in the same way that a majority owner of a corporation controls that corporation.

51. A prerequisite to any consideration of a project in this area will be appropriate research to fully understand the issues. Accordingly, the Board will proceed cautiously before determining whether changes to the Code would be necessary. The Board anticipates that initial discussion on this new work stream would start in Q1 2015, with consideration of a project proposal in Q2 2015.

#### Fee Dependency

52. In response to regulatory input from the strategy survey, the Board plans to initiate a new work stream on fee dependency in the next strategy period. The International Organization of Securities Commissions (IOSCO) has in particular expressed the view that the safeguards for fee dependency in the Code do not appear to be commensurate with the potential threats to independence that the Code seeks to prevent. Among the matters this project may consider are whether guidance should be provided on the circumstances where an auditor should decline an engagement as a safeguard to eliminate any self-interest or intimidation threat that may arise from significant fee dependency; whether quantitative guidance should be provided regarding the level of acceptable fees for audits of entities that are not public interest entities; and whether guidance should be provided regarding when the quantum of fees for non-assurance services provided to audit clients may threaten independence.
53. The IESBA anticipates that initial discussion on this new work stream would start in Q2 2016, with consideration of a project proposal in Q1 2017.

#### Emerging Issues Initiative

54. The Board has recently launched a new initiative to consider emerging issues with a view to determining whether any actions in response to identified issues are needed outside of its normal strategic planning process and whether any adjustments should be made to its current SWP. In December 2013, the Board finalized the relevant processes that will underpin this initiative. Once these processes are in place, the Board anticipates semi-annual discussions on the relevant matters flowing from the initiative throughout the strategy period.

#### *Increasing Engagement and Cooperation with Key Stakeholders*

55. In support of this strategic theme, the Board plans to undertake the following actions on an ongoing basis throughout the strategy period:
  - It will seek to extend and deepen its engagement and cooperation with key stakeholders, recognizing that dialogue with, and contributions from, them are an important ingredient to the quality and global acceptance of its standards. In this regard, the Board will continue to prioritize closer working relationships with international and national regulators and auditor oversight bodies such as the International Organization of Securities Commissions (IOSCO) and the International Forum of Independent Audit Regulators (IFIAR).
  - It will also seek to strengthen its working relationship with its NSS liaison group, recognizing the breadth and depth of experience and expertise they bring to the table. In this regard, the Board will explore opportunities to cooperate or collaborate with NSS on initiatives of mutual interest, leveraging the resources at their disposal.
  - It will continue to actively liaise with the IAASB, the International Accounting Education Standards Board (IAESB), the Forum of Firms, and the SMP Committee, PAIB Committee

and other relevant committees of IFAC in seeking their inputs and perspectives on relevant projects, work streams or initiatives during the strategy period.

56. The Board also plans to explore at the earliest opportunity steps to establish closer links with the academic community, recognizing the contributions that stakeholder group can make through its research or other work to the Board's standard-setting activities.

#### **Summary of Projects, Work Streams and Activities, and Work Plan 2014–2018**

57. Appendix 2 summarizes the projects, work streams and activities the Board proposes to undertake during the strategy period and, where appropriate, when each project, work stream or activity is expected to commence and when it is expected to be completed.
58. Appendix 3 sets out an illustrative work plan for the period that shows how the Board intends to conduct its projects, work streams and initiatives.

#### **IV. Guide for Respondents**

59. The Board welcomes comments on all matters addressed in this consultation paper.
60. The Board in particular would welcome respondents' views on the following:
  - (a) Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why.
  - (b) Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.
  - (c) Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.
  - (d) Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated).
61. The Board invites comments on any other matters you believe would be important for it to consider in developing its SWP for 2014-2018.

## Context for the Ethics Board's Future Strategy

### *Strong Base of International Ethics Standards*

1. Over the past several years, the Board's strategic efforts have been focused on further developing the Code into a robust set of ethics standards for application by PAs globally. These efforts, which included the Independence I<sup>9</sup> and Independence II<sup>10</sup> projects as well as a drafting conventions project,<sup>11</sup> culminated in the July 2009 release of a revised Code that clarified requirements for all PAs and significantly strengthened the independence requirements for auditors. The revised Code, which became effective on January 1, 2011, maintains the Board's principles-based approach to setting ethics standards, supplemented by detailed requirements where necessary.
2. Since the release of the 2009 Code, the Board's efforts have been focused on fulfilling a number of commitments on its current SWP intended to further strengthen the Code. These efforts led to the release in March 2013 of revised standards addressing the topics of conflicts of interest and a breach of a requirement of the Code. Efforts continue apace in progressing the Board's work in a further area of high public interest need, specifically establishing appropriate standards for the conduct of PAs when they face identified or suspected non-compliance with laws and regulations.<sup>12</sup>
3. At the same time, the Board has pursued an active outreach agenda intended to *inter alia* support the adoption<sup>13</sup> of the revised Code around the world. The Board has also focused on developing and further enhancing relationships with international and national regulatory and auditor oversight bodies, and NSS, among other stakeholders. In addition, the Ethics Board staff has released a number of publications commissioned by the Board to support effective implementation of the revised Code.

### *The External Environment – Key Trends, Influences and Challenges*

4. While a number of jurisdictions have already adopted the 2009 Code, proactive steps are being taken in many other jurisdictions around the world to adopt the revised Code. This movement is being aided in no small part by the International Federation of Accountants' (IFAC) Statement of

<sup>9</sup> The Independence I project led to a number of enhancements to the Code with respect to professional accountants performing assurance engagements, including extension of the independence requirements for audits of listed entities to all public interest entities, and strengthening of a number of provisions related to the provision of non-assurance services to audit clients.

<sup>10</sup> The Independence II project resulted in further enhancements to the Code, particularly with respect to the provision of internal audit services to audit clients, and further guidance regarding both the relative size of total fees received from an audit client, and contingent fees.

<sup>11</sup> The drafting conventions project led to enhancements to the Code as a result of the Board's adoption of new drafting conventions.

<sup>12</sup> See <http://www.ifac.org/ethics/projects/responding-suspected-illegal-act>

<sup>13</sup> IFAC's SMO 4, *IESBA Code of Ethics for Professional Accountants*, defines adoption as follows:

*Adoption* is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions, including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.

Membership Obligation (SMO) 4, which requires IFAC member bodies to take actions to have the Code adopted and implemented in their jurisdictions in accordance with their levels of responsibility for ethics standards. This also represents an acknowledgement of the strong base of ethics standards that the revised Code has established. The Board, however, does not underestimate the challenges of adoption, given the diversity of national legal and regulatory frameworks, fragmented responsibilities for the promulgation of ethics standards at the national level in many jurisdictions, and the need for translation, among other reasons. These challenges emphasize the importance of the Board continuing to focus effort on facilitating adoption and implementation of the Code around the world.

5. A further relevant trend has been the increasing efforts of regulators and auditor oversight bodies at both international and national levels aimed at enhancing audit quality, consistent with their roles to protect the public interest. These efforts have manifested themselves in active policy agendas in a number of major jurisdictions such as the European Union, the US and Canada, seeking to reform the audit market or otherwise enhance audit quality, including through measures to further strengthen auditor independence. Additionally, organizations established to promote collaboration in regulatory activity, such as IFIAR, are focusing effort on better facilitating the sharing of knowledge and practical experiences of independent audit regulatory activity among their members, including with respect to inspections of accounting firms' compliance with ethics standards. Outreach to, and liaison with, the regulatory and auditor oversight community will be particularly important in understanding that community's expectations regarding the Board's standards and activities.
6. Finally, standards are also influenced by developments such as evolving technologies, increasing globalization, lowering of barriers to capital flows, and the continual evolution of financial reporting. These developments may, in particular, directly or indirectly affect the demand for, and nature of, services provided by PAs.

#### *The Ethics Board's Strategic Planning Horizon*

7. The Board's previous SWPs have historically covered three-year time spans. The Board proposes to extend the range of its strategy planning period to five years commencing in 2014 (i.e., 2014–2018), recognizing that it generally takes a minimum of 18 months to develop and finalize a new SWP in accordance with due process.
8. The Board believes that this extended strategy period will provide stakeholders with a better understanding of the Board's medium to longer term priorities. It also will enable the Board to better identify priorities for its work plan in the light of its available resources, taking into account the time needed to develop standards with due process. This planning horizon would, however, not preclude the Board from undertaking further consultations with stakeholders should the need arise to make a substantial change to the SWP in response to developments in the external environment.



**APPENDIX 2**

**Projects, Work Streams and Activities for 2014-2018**

Project/Work Stream/Activity	Expected Start <sup>14</sup>	Expected Completion <sup>15</sup>
<b>Maintaining a high-quality Code of Ethics for application by PAs globally</b>		
<b><u>Current Projects/Work Streams</u></b> Responding to Non-Compliance with Laws and Regulations <sup>16</sup> <ul style="list-style-type: none"> <li>Develop appropriate requirements and guidance for professional accountants regarding how to respond in situations where they encounter non-compliance with laws and regulations.</li> </ul>	Commenced Q4 2009	Q1 2016
Long Association <ul style="list-style-type: none"> <li>Review the long association provisions in Section 290 of the Code to ensure that they continue to provide robust and appropriate safeguards against the familiarity and self-interest threats arising from long association with an audit client.</li> <li>Issues being considered under this work stream include:               <ul style="list-style-type: none"> <li>How to strengthen the general framework of principles regarding long association;</li> <li>Whether and, if so, to what extent to increase the duration of the cooling-off period from the current two years for rotated key audit partners with respect to audits of public interest entities;</li> <li>Permissible activities that may be undertaken by the rotated individual relative to the audit client during cooling-off period;</li> <li>Who should be subject to rotation; and</li> <li>The nature and extent of involvement of those charged with governance in the</li> </ul> </li> </ul>	Commenced Q4 2012	Q2 2015

<sup>14</sup> Start date represents date project proposal formally approved or expected to be approved.

<sup>15</sup> The actual completion date may vary depending on the progress of the project or work stream and the need to adhere to due process.

<sup>16</sup> Formerly called *Responding to a Suspected Illegal Act*

Project/Work Stream/Activity	Expected Start <sup>14</sup>	Expected Completion <sup>15</sup>
<i>rotation decision.</i>		
<p>Non-Assurance Services</p> <ul style="list-style-type: none"> <li>Review the non-assurance services provisions in Sections 290 and 291 of the Code to ensure that they continue to support a rigorous approach to independence for assurance services, particularly audits of financial statements.</li> <li>In particular, this work stream will focus on the following topics: <ul style="list-style-type: none"> <li>Clarification of the provisions in Section 290, Independence—Audit and Review Engagements, addressing management responsibilities;</li> <li>Clarification of the concept of “routine and mechanical” services relating to the preparation of accounting records and financial statements; and</li> <li>A review of the emergency exception provisions in the Code pertaining both to accounting and bookkeeping services, and to taxation services.</li> </ul> </li> </ul>	Commenced Q3 2013	Q2 2015
<p>Part C of the Code</p> <ul style="list-style-type: none"> <li>Undertake a review of Part C of the Code to ensure that its provisions as they apply to PAIBs remain appropriate and are robust.</li> <li>In particular, this work stream will focus on the following topics: <ul style="list-style-type: none"> <li>Pressure by superiors and others to engage in unethical or illegal acts (Phase I);</li> <li>The responsibility of PAIBs to produce financial reports that are faithful representations of the economics of transactions, and associated matters (Phase I); and</li> <li>Facilitation payments and bribes (Phase II).</li> </ul> </li> </ul>	Commenced Q1 2013	Phase I – Q2 2016 Phase II – Q4 2018
<p><b><u>New Work Stream</u></b></p> <p>Guidance Regarding Safeguards in the Code</p> <ul style="list-style-type: none"> <li>Review the safeguards in the Code from the perspectives of appropriateness and effectiveness, and consider whether changes should be made, including whether additional safeguards should be specified or whether existing safeguards should be removed.</li> </ul>	Commencing Q2 2015	Q2 2018

Project/Work Stream/Activity	Expected Start <sup>14</sup>	Expected Completion <sup>15</sup>
<b><u>New Work Stream</u></b> Audit Quality <ul style="list-style-type: none"><li>Review the final recommendations from the IAASB's Audit Quality project and consider whether any actions are needed in response to them.</li></ul>	To be determined in 2014 prior to finalization of SWP	To be determined in 2014 prior to finalization of SWP
<b>Promoting and facilitating the adoption and effective implementation of the Code</b>		
<b><u>Current Work Stream</u></b> Structure of the Code <ul style="list-style-type: none"><li>Identify and recommend to the IESBA ways to improve the usability of the Code, thereby facilitating adoption, effective implementation and consistent application</li></ul>	Q2 2014	Q2 2017
<b><u>Ongoing Activities</u></b> Enforceability <sup>17</sup> and related matters <ul style="list-style-type: none"><li>Engage with regulatory stakeholders and consider development of appropriate publications to convey the IESBA's views on such matters.</li></ul>	Ongoing	
Enhancing understanding of the extent of adoption of the Code	Ongoing	
Stakeholder outreach	Ongoing	
Development of staff publications in support of adoption and effective implementation of the Code and to raise awareness and understanding of the Code among investors and other stakeholders	Ongoing	
<b>Evolving the Code for continued relevance in a changing global environment</b>		
<b><u>New Work Stream</u></b> Collective Investment Vehicles <ul style="list-style-type: none"><li>Review the application of the "related entity" definition in the Code to CIVs when firms audit the underlying funds, the sponsor/advisor of the funds, or both, and consider</li></ul>	Commencing Q2 2015	Q2 2017

<sup>17</sup> The topic of enforceability will also be addressed in some respects under the Structure of the Code and Non-Assurance Services work streams.

Project/Work Stream/Activity	Expected Start <sup>14</sup>	Expected Completion <sup>15</sup>
<i>whether changes are needed or whether further guidance should be developed.</i>		
<b><u>New Work Stream</u></b> Fee Dependency <ul style="list-style-type: none"><li><i>Undertake a review of the topic of fee dependency and consider actions that may be appropriate to address identified issues.</i></li></ul>	Commencing Q1 2017	Q2 2019
<b><u>Ongoing Activity</u></b> Emerging issues <ul style="list-style-type: none"><li><i>Consider emerging issues brought forward by the standing Emerging Issues and Outreach working group.</i></li></ul>	Ongoing	
<b><i>Increasing engagement and cooperation with key stakeholders</i></b>		
<b><u>Ongoing Activities</u></b> Active liaison with key stakeholders, including international regulators and auditor oversight bodies, NSS, firms (including SMPs), PAIBs and other stakeholders	Ongoing	
Strengthening of links with the academic community	Ongoing	

**APPENDIX 3****Illustrative IESBA Work Plan 2014-2018<sup>18</sup>**

<b>PROJECTS/WORK STREAMS<sup>19</sup></b>		<b>Dec-2013<sup>20</sup></b>			<b>Apr-2014</b>		<b>Jul-2014</b>
Responding to Non-Compliance with Laws and Regulations	<b>PIOB end-Nov 2013</b>	First read re-ED <sup>21</sup>	<b>CAG March 2014</b>	<b>PIOB March 2014</b>	Update	<b>PIOB end-June 2014</b>	Update
Long Association		Issues			First read		Approve ED
Non-Assurance Services		Issues			First read		Approve ED
Part C – Phase I		Issues			First read		Second read
Structure of the Code		Preliminary Report			Final report and project proposal		First read draft CP/ED-Independence <sup>22</sup>
Strategy and Work Plan 2014-2018		Approve CP			Full review of CP responses		Approve final

<b>OTHER INITIATIVE</b>	<b>Dec-2013</b>	<b>Apr-2014</b>	<b>Jul-2014</b>
Emerging Issues and outreach	Approve Processes	Discussion	

ED: Exposure draft; CP: Consultation paper

<sup>18</sup> This illustrative work plan is only intended to show how the IESBA plans to carry out its various projects and initiatives during the strategy period. The actual work plan is dynamic and is influenced by the progress achieved on the IESBA's various projects, work streams and initiatives, and may change in response to external developments. The illustrative work plan does not include activities of a regular and an ongoing nature such as stakeholder liaison (other than the Emerging Issues and Outreach Initiative). The work plan for the next four quarters is updated on a quarterly basis and can be accessed at: <https://www.ifac.org/sites/default/files/uploads/IESBA/IESBA-Project-Timetable.pdf>.

<sup>19</sup> The illustrative work plan currently excludes a potential work stream on Audit Quality, the nature, prioritization and timing of which the IESBA anticipates determining in the light of the final recommendations from the IAASB's Audit Quality project, prior to finalizing the SWP.

<sup>20</sup> The actual work plan for December 2013 is shown for information only.

<sup>21</sup> Subject to the IESBA determining that re-exposure would be necessary

<sup>22</sup> Exposure draft assumed to be limited to a restructured Section 290 on independence, subject to IESBA discussion in 2014.

**October 2014 – June 2015**

PROJECTS/WORK STREAMS			Oct-2014		Jan-2015			Apr-2015	Jun-2015	
Responding to Non-Compliance with Laws and Regulations	CAG Sept 2014	PIOB mid-Sept 2014	Second-read re-ED	PIOB Nov 2014	Approve re-ED	PIOB Feb/March 2015 <sup>23</sup>	CAG March 2015 <sup>24</sup>		Full review	PIOB end-June 2015
Long Association					Full review			First read post-ED	Approve final	
Non-Assurance Services					Full review			First read post-ED	Approve final	
Part C – Phase I			Approve ED					Update	Full review	
Part C – Phase II					Update			Issues		
Structure of the Code			Approve CP/ED-Independence		Update			Full review of responses to CP/ED-Independence	Discussion	
<b>New Work Stream (CIVs)</b>					Discussion			Approve project proposal	Issues	
<b>New Work Stream (Safeguards)</b>					Discussion			Discussion	Approve project proposal	

OTHER INITIATIVE	Oct-2014	Jan-2015	Apr-2015	Jun-2015
Emerging Issues and outreach	Discussion		Discussion	

<sup>23</sup> The timing of PIOB meetings from 2015 onwards is tentative and to be determined by the PIOB.

<sup>24</sup> The timing of CAG meetings from 2015 onwards is tentative and to be determined by the CAG.

**October 2015 – June 2016**

PROJECTS/WORK STREAMS	CAG Sept 2015	PIOB mid-Sept 2015	Oct-2015	PIOB mid-Nov 2015	Jan-2016	PIOB Feb/March 2016	CAG March 2016	Apr-2016	Jun-2016	PIOB end-June 2016
Responding to Non-Compliance with Laws and Regulations			First read post-re-ED		Approve final					
Part C – Phase I			First read post-ED		Second read post-ED			Approve final		
Part C – Phase II									Issues	
Structure of the Code			First read Parts A and B <sup>25</sup>		Approve ED-Parts A and B, and final restructured Independence section				Update	
New Work Stream (CIVs)			First read		Second read			Approve ED		
New Work Stream (Safeguards)					Issues			Issues	First read	
New Work Stream (Fee Dependency)									Discussion	

OTHER INITIATIVE	Oct-2015	Jan-2016	Apr-2016	Jun-2016
Emerging Issues and outreach	Discussion		Discussion	

<sup>25</sup> Assumed to be Part A and rest of Part B excluding Section 290; Part C assumed to be addressed under work stream to review Part C of the Code

**October 2016 – June 2017**

PROJECTS/WORK STREAMS	CAG Sept 2016	PIOB mid-Sept 2016	Oct-2016	PIOB end-Nov 2016	Jan-2017	PIOB Feb/March 2017	CAG March 2017	Apr-2017	June-2017	PIOB end-June 2017
Part C – Phase II			First read		Second read			Approve ED		
Structure of the Code			Full review of responses to ED-Parts A and B		First read post-ED Parts A and B			Second read post-ED Parts A and B	Approve Final Parts A and B	
<b>New Work Stream (CIVs)</b>			Update		Full review			First read post-ED	Approve Final	
<b>New Work Stream (Safeguards)</b>			Second read		Approve ED				Update	
<b>New Work Stream (Fee Dependency)</b>			Discussion		Approve project proposal			Issues	First read	
Strategy and Work Plan 2019-2023			Approve survey						Full review	

OTHER INITIATIVE	Oct-2016	Jan-2017	Apr-2017	Jun-2017
Emerging Issues and outreach	Discussion		Discussion	



**October 2017 – June 2018**

PROJECTS/WORK STREAMS	CAG Sept 2017	PIOB mid-Sept 2017	Oct-2017	PIOB end-Nov 2017	Jan-2018	PIOB Feb/March 2018	CAG March 2018	Apr-2018	June-2018	PIOB end-June 2018
Part C of the Code – Phase II			Update		Full review			First read post-ED	Second read post-ED	
New Work Stream (Safeguards)			Full review		First read post-ED			Second read post-ED	Approve final	
New Work Stream (Fee Dependency)			Second read		Approve ED				Update	
Strategy and Work Plan 2019-2023			First read		Approve CP				Full review	

OTHER INITIATIVE		Oct-2017	Jan-2018	Apr-2018	Jun-2018
Emerging Issues and outreach		Discussion		Discussion	

**October 2018**

<b>PROJECTS/WORK STREAMS</b>	<b>CAG Sept 2018</b>	<b>PIOB mid-Sept 2018</b>	<b>Oct-2018</b>	<b>PIOB end-Nov 2018</b>
Part C of the Code – Phase II			Approve final	
<b>New Work Stream (Fee Dependency)</b>			Full review	
Strategy and Work Plan 2019-2023			Approve final	

<b>OTHER INITIATIVE</b>	<b>Oct-2018</b>
Emerging Issues and outreach	Discussion

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