



**INTERNATIONAL FEDERATION
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Agenda Item

3

Committee International Ethics Standards Board for Accountants

Meeting Location: Mandarin Oriental, Singapore

Meeting Date: November 2-3, 2010

Inadvertent Violation

Objective of Agenda Item

1. To discuss and approve a project proposal addressing an inadvertent violation of the Code

Background

The Code contains some paragraphs which address an inadvertent violation of a provision of the Code. These paragraphs were commented on in a response to the IESBA's Drafting Conventions Exposure Draft, issued in July 2008. The IESBA recognized that the issues raised were beyond the scope of that ED and they would be considered, as appropriate, for a future project.

Discussion

The Planning Committee of the IESBA has re-considered these provisions in the Code and recommends the IESBA undertake a project to consider this matter. The Planning Committee has developed a draft project proposal (Agenda Paper 3-A) addressing the matter.

The Planning Committee is of the view that the project scope should reconsider the provisions in the Code addressing an inadvertent violation of the Code, including whether the Code should contain such provisions and, if so, how the provisions can best serve to protect the public interest.

If the conclusion is that the Code should contain such provisions it will assess the following matters:

- *Scope of Coverage* – The project will consider whether the provisions should apply to all of the Code or only to the independence provisions of the Code.

- *“Inadvertent”* –The project will consider whether “inadvertent” is the appropriate descriptor and if so whether guidance should be given on the meaning of inadvertent.
- *Consequences of a violation* – The project will consider whether there are some violations that are of such magnitude that, even if the action creating the violation was inadvertent, compliance with the fundamental principles would still be compromised.
- *Quality Control Policies and Procedures in Place* – The inadvertent provisions in the Code addressing independence require the firm to have appropriate quality control policies and procedures in place equivalent to this required by ISCQ. The project will consider whether this requirement continues to be appropriate or whether additional guidance is required.
- *Safeguards* –The project will consider whether any additional guidance should be given, including, the types of safeguards that might be appropriate.
- *Discussion with those Charged with Governance* – The project will consider whether there should be a requirement to report.
- *Implications of an Inadvertent Violation* – The project will consider the implications, for example it would be deemed to not to compromise compliance with the fundamental principles or whether the Code should indicate that, provided certain criteria are met, no enforcement action need to be taken or it would not impact the firm’s ability to issue the audit opinion.

The draft project proposal was presented to the CAG at its meeting on September 13, 2010. CAG members were informed that the IESBA would consider the Planning Committee’s recommendation at the November meeting in Singapore. The CAG discussed the scope of the project and CAG members expressed support for the project, with some CAG members indicating that this is a project that should be addressed as a priority.

Material Presented

Agenda Paper 3	This Agenda Paper
Agenda Paper 3-A	Draft Project Proposal

Actions Requested

1. IESBA members are asked to consider and comment on the scope of the project.
2. IESBA members are asked to approve the project proposal.