



National Association of State Boards of Accountancy

◆ 150 Fourth Avenue, North ◆ Suite 700 ◆ Nashville, TN 37219-2417 ◆ Tel 615.880-4201 ◆ Fax 615.880.4291 ◆ www.nasba.org ◆

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International Ethics Standards Board for Accountants
International Federation of Accountants
545 5th Avenue, 14th Floor
New York, New York 10017

Via e-mail to: janmunro@ifac.org

Re: Exposure Draft dated July 2012 – Proposed Change to the Definition of “Those Charged with Governance”

Dear Members of the International Ethics Standards Board for Accountants:

We appreciate the opportunity to offer comment to the International Ethics Standards Board for Accountants (IESBA) on the July 2012 Exposure Draft – Proposed Change to the Definition of “Those Charged with Governance.” The National Association of State Boards of Accountancy’s (NASBA) mission is to enhance the effectiveness and advance the common interest of the Boards of Accountancy in the United States and its territories. In furtherance of that objective, we offer the IESBA the following comments on the changes proposed:

Provide Guidance on How an Accountant Should Determine the Appropriate Persons within an Entity’s Governance Structure with Whom to Communicate

In general, we support the proposed changes to definition of “those charged with governance” and the related changes that have been made throughout the Code of Ethics for Professional Accountants. However, we also believe that there is important guidance presented in the International Standard on Auditing No. 260 (ISA 260) on Communication with Those Charged with Governance that should also be brought into the Code of Professional Conduct.

Paragraph 11 of ISA 260 is clear that the auditor should determine the appropriate person(s) within the entity’s governance structure with whom to communicate. This is further supported by a thoughtful discussion in paragraphs A1 – A4 of ISA 260 explaining the diversity of governance structures between public companies, not-for-profit entities, governmental entities, and family own entities and that the appropriate person(s) with whom to communicate may vary depending upon the entity’s governance structure and the matter to be communicated.

The Code of Ethics for Professional Accountants addresses a variety of situations where an appropriate safeguard involves discussing an issue with those charged with governance of the client. In some cases this should involve those with oversight of the financial reporting process. The Code of Ethics for Professional Accountants would be stronger if it included specific guidance for the accountant or auditor on determining the appropriate person(s) within the entity's governance structure with whom to communicate.

From our perspective it is worth being redundant, and the guidance of ISA 260, paragraph 11 and the explanatory material in paragraphs A1 – A4 should also be brought into the Code of Ethics for Professional Accountants. This might be appropriately addressed by adding a few paragraphs on communicating with those charged with governance as part of the discussion of the Conceptual Framework Approach (Section 100 of the Code of Ethics for Professional Accountants).

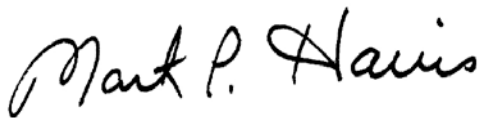
Finally, if the definition of “those charged with governance” includes the requirement that the accountant should determine the appropriate person(s) with whom to communicate, the Code of Professional Conduct for Professional Accountants would not have to constantly refer to “those charged with governance, or a subgroup thereof.” Accordingly, we recommend the IESBA consider incorporating "or a subgroup thereof" into the definition itself, which would obviate the need to repeat those words numerous times in the standards. For example -

Those charged with governance


The person(s) or organization(s) (for example, a corporate trustee), or a subgroup thereof, with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Thank you for considering these comments on the International Ethics Standards Board for Accountants' (IESBA) July 2012 Exposure Draft – Proposed Change to the Definition of “Those Charged with Governance.” We believe that bringing additional explanatory material from the International Standards on Auditing will provide clearer ethical guidance to all accountants.

Very truly yours,



Mark P. Harris, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO