

May 2011

**Basis for Conclusions:  
IESBA Strategy and Work Plan  
2011-2012**

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*Prepared by the Staff of the International Ethics Standards  
Board for Accountants*

## **BASIS FOR CONCLUSIONS**

### **IESBA STRATEGY AND WORK PLAN 2011-2012**

This Basis for Conclusions for the IESBA Strategy and Work Plan 2011-2012 (the "Plan") has been prepared by staff of the International Ethics Standards Board for Accountants ("IESBA" or "Board"). It is a separate document from the Plan and is thus not part of the Plan.

#### **Background**

1. The Plan was developed with input from a survey conducted by the IESBA. In June 2009, an online survey was posted on the IFAC website, publicized in the IFAC news and sent directly to interested parties. The survey was sent to: current and past IESBA members and technical advisors; members of the IESBA's Consultative Advisory Group (CAG); other IFAC Public Interest Activity Committee members and technical advisors; various National Standards Setters; IFAC member bodies; regulatory and oversight organizations; and respondents to recent IESBA exposure drafts. 101 responses were received as a result of the survey, providing a range of views on the IESBA's planned strategic direction.
2. The IESBA issued an exposure draft (the "ED") of the Plan in March 2010, with a comment deadline of June 15, 2010. The IESBA received 37 comment letters from a variety of respondents, including regulators, IFAC member bodies, and firms. In addition, members of the IESBA CAG discussed the ED and provided informal feedback to the Board.

#### **Issues Raised on Exposure**

3. The most significant issues raised by respondents in their submissions to the IESBA related to:
  - Period of stability;
  - Development of standards;
  - Adoption and implementation;
  - Convergence; and
  - Communications.

#### **Period of Stability**

4. A number of respondents to the ED explicitly welcomed the IESBA's intent to provide a period of stability during which no new independence requirements would be issued and become effective. A smaller number of respondents expressed the view that the period of stability should be extended to all changes to the revised Code as opposed to only new changes to the independence requirements.
5. The IESBA is of the view that the period of stability should be limited to new changes to the independence requirements of the Code. The Plan, therefore, indicates that the IESBA

will provide a period of two years after the effective date of the Code (January 1, 2011) during which no new independence requirements promulgated after that date will become effective, unless there is an urgent need to respond to new or unforeseen circumstances.

### **Development of Standards**

6. A number of respondents to the ED commented on the priority of existing and proposed projects. The ED indicated that the IESBA planned to continue work on the two projects that it commenced in late 2009: *Conflicts of Interest* and *Responding to Suspected Fraud and Illegal Acts*. The ED also indicated that the IESBA intended to commence a project addressing which entities should be considered to be a related entity of a collective investment vehicle, including a mutual fund, and whether the existing definition of “related entity” should be revised for purposes of audits of collective investment vehicles. The ED also provided information on two projects that respondents to the June 2009 survey had ranked as priority projects but which the IESBA did not intend to address during the period of the Plan. The first of these projects would consider whether guidance is needed on how the independence requirements in Sections 290 and 291 of the Code should apply to other professional accountants not in public practice who perform assurance engagements, such as accountants in government and internal auditors. The second project would consider whether additional ethical guidance is needed for professional accountants in public practice who provide non-assurance services, such as financial advisory services, taxation services, and actuarial services, to non-assurance clients.
7. The majority of respondents were supportive of the projects addressing conflicts of interest and suspected fraud and illegal acts. Some respondents, while expressing support for those projects, indicated that they should result only in guidance and not any additional requirements. This will be considered by each project Task Force as the projects progress. Some respondents provided views on the scope of these two projects, which are being considered by each of the Task Forces.
8. Respondents to the ED were mixed as to whether a project on the related entity definition in the audit of collective investment vehicles should be included in the IESBA's 2011-2012 work plan. Some supported the project, expressing the view that the current related entity definition did not work well when applied to audits of collective investment vehicles. Others did not support the project. They thought that the ways in which collective investment vehicles are structured differ significantly in various jurisdictions and it would not be possible for a global Code to contain guidance that is specific to each structure. They also noted that this is a very specialized area that only a small number of accountants deal with. In their view, it did not justify taking up the Board's limited resources. They said that if the project were undertaken, it should not be a high priority.
9. The Board's agenda for 2011 and 2012 is already filled with priority projects, a couple of which (fraud and conflicts) were approved but had been deferred until the Board completed its revisions of the independence provisions of the Code. In view of the comments received evidencing a lack of broad support for this project, any effort to undertake such a project would first require that the Board perform research to understand the various investment vehicle structures that respondents said exist around the world and determine

the feasibility of providing additional guidance. Because the Board has limited resources, such research cannot be undertaken during the period of the work plan. For these reasons, and the fact that the Board has no evidence that the current definition has resulted in independence problems, the Board decided not to add the project to its 2011-2012 agenda.

10. Some respondents expressed the view that the IESBA should undertake the two projects (Independence Requirements for Professional Accountants who are not in Public Practice who Perform Assurance Engagements and Ethical Guidance for Professional Accountants in Public Practice Providing Non-Assurance Services) respondents to the survey ranked as a high priority but which the IESBA did not plan to address during the period of the Plan. Given the IESBA's full agenda for the next couple of years, it will reconsider these projects when it develops its next work plan.
11. The IESBA has added a project to its Plan to review the provisions in the Code that deal with an inadvertent violation of the Code. The IESBA was encouraged to undertake this project by the International Organization of Securities Commissions in its response to the IESBA's Drafting Conventions Exposure Draft, issued in July 2008. After considering IOSCO's comments, the IESBA concluded that a project should be undertaken to reconsider the provisions, including whether the Code should contain such provisions and, if so, how the provisions can best serve to protect the public interest.
12. One respondent stated that the IESBA should consider projects to explore the ethical testing of members seeking professional level membership and establishing standards for organizations in applying disciplinary actions. These projects are outside of the IESBA's purview and it has passed the comments on for consideration to the International Accounting Education Standards Board.
13. One respondent stated that with the adoption of international standards for assurance engagements other than audits or reviews, it will be important to focus on the sufficiency of Section 291 with respect to these engagements. The IESBA will monitor the work of the International Auditing and Assurance Standards Board and determine whether any additional projects should be undertaken as part of the IESBA's next work plan.
14. One respondent expressed disappointment that the ED did not give more attention to the subject of providing non-assurance services to publicly listed audit clients. The IESBA has considered this matter and will be looking to the benchmarking exercise referred to under the convergence initiative for areas that merit attention.

### **Adoption and Implementation**

15. Respondents were supportive of the IESBA's adoption and implementation plans and indicated that this should be a priority. Respondents expressed support for the adoption and implementation materials issued by the IESBA staff. Some respondents indicated that it would be useful for the IESBA to provide a mechanism for consulting on the Code and issuing interpretive guidance. While establishing a consultation mechanism could be a longer-term undertaking, in late 2010 the IESBA staff issued interpretive guidance in the form of twenty-five non-authoritative Questions and Answers (Q&As) based on questions about the revised Code received to date. During the period covered by the Plan, the IESBA staff will issue additional Q&As as appropriate.

16. Many respondents noted that adoption and implementation materials would be of particular assistance to small and medium-sized practitioners and welcomed the IESBA's strategy to work closely with the IFAC Small and Medium Practices Committee. The Plan indicates that the IESBA has undertaken a research project, the objective of which is to determine and understand what unique and challenging issues are faced by professional accountants in small and medium-sized entities and in SMPs when complying with the Code and what the IESBA might do to help in addressing those challenges.
17. Some respondents indicated that adoption and implementation of the Code would be aided by either plain language materials or material that assists users in identifying the prohibitions in the Code. The IESBA has developed a one page high-level summary of the prohibitions in the Code that relate to the audits of public interest entities. The IESBA will be determining the most effective way to utilize that summary.

### **Convergence**

18. Many respondents to the ED expressed support for the IESBA's long-term objective of convergence between international and national ethics and independence standards.
19. Some respondents, while expressing support for the IESBA's convergence objective, stated that the Plan should contain more detail on the convergence initiatives. The IESBA agreed. Accordingly, the Plan describes the IESBA's three interrelated convergence activities:
  - Seeking input on the types of improvements to the Code that regulators and national standard setters believe should be made for the Code to gain acceptance and recognition in their jurisdictions;
  - Analyzing the Code for purposes of comparing its key provisions to the standards and regulations of select jurisdictions; and
  - Continuing to expand the IESBA's outreach activities to engage various regulators and national standard setters in dialogue to facilitate its convergence efforts.
20. Many respondents expressed support for the IESBA's intention to seek input on whether in a group audit situation the parent auditor would accept foreign auditors of foreign subsidiaries complying with the independence requirements in the Code, rather than the requirements that apply to the parent auditor. The International Organization of Securities Commissions responded saying that many of their members believe that further improvement of the Code must precede such consideration. The Plan indicates that the IESBA will seek input on the types of improvement to the Code that regulators and national standard setters believe should be made. The IESBA continues to believe that use of the Code in group audit situations is an important interim step toward convergence of national and international ethics and independence standards and will be seeking input on this in its ongoing dialogue with regulators and national standard setters.
21. One respondent noted that IFAC Statement of Membership Obligations (SMO) 4 does not contain the requirement contained in SMO 3 that member bodies have a central objective of convergence. The IESBA notes that the Compliance Advisory Panel is reconsidering the wording of all of the SMOs and the IESBA will provide input during this process.

### **Communications**

22. Respondents to the ED were generally supportive of the IESBA's planned communication activities. One respondent suggested that it would be helpful to interested stakeholders to receive more detailed and timelier reports on issues being discussed, or that have been discussed, at IESBA and CAG meetings. The IESBA and CAG agenda papers are publicly available on the IESBA's website before each meeting. The IESBA will be implementing some process changes to enable the draft minutes of IESBA meetings to be completed promptly after each meeting and made public. A similar goal will be pursued for minutes of the CAG meetings.
23. One respondent noted that participation by IESBA members or staff in seminars and conferences was helpful to explain the Code. IESBA members and staff have been active in this regard and more activity is expected during the period covered by the Plan.

### **Other Comments**

24. Respondents to the ED were generally supportive of the IESBA's intent to develop and implement an impact analysis process. Some respondents expressed the view that the process will be useful for the IESBA to accommodate the needs of professional accountants in SMEs and SMPs and in developing nations.
25. Some respondents stated that IESBA should issue some documents in languages other than English. The IFAC Website provides a data base of translations.

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