

# 2012 ANNUAL REPORT

IESBA<sup>TM</sup>



*Connecting and Engaging  
with Our Global Stakeholders*

# TABLE OF CONTENTS

<b>ABOUT THE IESBA</b>	<b>3</b>
<b>MESSAGE FROM THE CHAIR OF THE IESBA</b>	<b>5</b>
<b>REPORT OF THE TECHNICAL DIRECTOR</b>	<b>10</b>
<b>IESBA MEMBERS, OBSERVERS, AND STAFF</b>	<b>16</b>
<b>COMMUNICATING WITH STAKEHOLDERS</b>	<b>17</b>
<b>IESBA CONSULTATIVE ADVISORY GROUP</b>	<b>19</b>



## About the IESBA

The International Ethics Standards Board for Accountants (IESBA) is an independent standard-setting body that develops a *Code of Ethics for Professional Accountants* (the Code) that is appropriate for the global accountancy profession. The objective of the IESBA, as outlined in its Terms of Reference, is to serve the public interest by setting high-quality ethics standards for professional accountants and by facilitating the convergence of international and national ethics standards. A single set of high-quality ethics standards can enhance the quality and consistency of services provided by professional accountants throughout the world, thereby contributing to public confidence in the accountancy profession.

The IESBA's standard-setting arrangement has a number of elements designed to ensure and protect the independence of the board. The most important of these is formal, independent, public interest oversight: the Public Interest Oversight Board (PIOB) has authority over key elements of the standard-setting structure and process.

Threats to the independence of members of the independent standard-setting board are further safeguarded by three other aspects of the process. The first is a highly transparent due process for standard setting that is formally approved by the PIOB. The second is the involvement of the IESBA's Consultative Advisory Group (CAG) and observers in the standard-setting process. The CAG provides public interest input into the development of the IESBA's standards and guidance. The third is the requirement that members of the independent standard-setting board annually sign declarations that they will act in the public interest and with integrity, and will not submit to any improper influence. In addition, all nominating organizations,

and the employing organization of the chair of the independent standard-setting board as appropriate, are required to sign a declaration that they will not exert undue influence that might impair the members' or chair's ability to serve or act with independence, integrity, and in the public interest.

The IESBA's membership consists of 18 volunteer board members from around the world. The 18 members comprise 9 practitioners and 9 individuals who are not members or employees of an audit firm ("non-practitioners"). At least three of the non-practitioners are public members: individuals who are expected to reflect, and are seen to reflect, the wider public interest. Members are appointed by the International Federation of Accountants (IFAC) Board, based on recommendations from the IFAC Nominating Committee and with the approval of the PIOB.

In developing its standards, independently and under its own authority, the IESBA is required to be transparent in its activities and to adhere to **due process** as approved by the PIOB. Board meetings, including meetings by teleconference, are open to the public, and agenda papers are available at [www.ethicsboard.org](http://www.ethicsboard.org). In 2012, the IESBA met in person three times and twice by conference call.

The Code establishes ethics standards for professional accountants in public practice and in business. Under IFAC's membership requirements, IFAC members and associates commit to apply standards at least as stringent as those stated in the Code. IFAC has 173 members and associates in 129 countries that represent approximately 2.5 million accountants worldwide. In addition, under their membership obligations, members

“A single set of high-quality ethics standards can enhance the quality and consistency of services provided by professional accountants throughout the world, thereby contributing to public confidence in the accountancy profession.”

of the Forum of Firms, an association of networks of international accounting firms, have agreed to have policies and procedures that conform to the Code for transnational audits. These are audits of financial statements that are or may be relied upon outside the entity's home jurisdiction and include audits of financial statements of all listed entities.

The structures and processes that support the operations of the IESBA are facilitated and supported financially by IFAC. The IESBA is a component of the overall IFAC reporting entity; accordingly, its financial results are included within IFAC's audited financial statements, which are published as part of [IFAC's Annual Report](#) at [www.ifac.org](http://www.ifac.org).



Back (left to right): Peter Hughes, Brian Caswell, Kate Spargo, Caroline Gardner, Don Thomson, Marisa Orbea, Gary Hannaford, James Gaa, Alice McCleary, Wui San Kwok, Robert Franchini

Front (left to right): Chishala Kateka, Helene Agélii, Jörgen Holmquist (chair), Isabelle Sapet (deputy chair), Felicitas Irungu  
Missing from photo: Brian Walsh (deputy chair) and Stefano Marchese

## Message from the Chair of the IESBA



I am pleased to present the Annual Report of the International Ethics Standards Board for Accountants for 2012. The role of the accountancy profession in the global economy and the public's trust in the profession are built on a foundation of ethics and the profession's commitment to acting in the public interest. For this reason, it is both a privilege and an important responsibility for me to lead the body that sets the ethics standards for the profession globally.

In September 2012, I became the first independent chair of the Ethics Board. I took up this new role in a period of significant change for the profession. The recent global financial crisis has placed the profession under greater scrutiny than in the past. Given the active policy agendas in a number of major jurisdictions that are seeking to reform, in particular, the audit market, the status quo is highly unlikely. At the same time, public trust in the profession continues to be buffeted by the spate of recent accounting scandals that have made the headlines. These events emphasize even further, I believe, the important role of the Ethics Board in ensuring that the standards it sets are robust, and promoting and facilitating their adoption and effective implementation around the world.

### My Main Priorities

My first priority is to lead the board in fulfilling its technical agenda in accordance with its strategic commitments. The board has a number of important projects underway or that it has recently started that will seek to further strengthen the *Code of Ethics for Professional Accountants* (the Code). These deserve the greatest time and consideration by the board, given the far-reaching



impact of any resulting standards and changes to the Code on accountant behavior. I will touch on them later in my message and more information on them is provided in the "[Report of the Technical Director](#)."

I see outreach as an important part of my responsibilities in order to enable, encourage, and promote a deeper understanding by stakeholders and the public of the strategies and activities of the board. I believe outreach serves a number of important goals, including helping to increase stakeholder awareness, support, and acceptance of the board's work, enabling the board to hear of specific stakeholder concerns and needs, understanding stakeholders' perspectives on key issues, and increasing their acceptance of the board's role as the international ethics standard setter for the profession. For these reasons, I have started and will be leading an ambitious outreach program over the coming year.



As part of this outreach, I will be seeking to enhance regulatory trust in the board and its work. I firmly believe that trust from regulators and audit oversight bodies is essential to the board's remit of setting ethics standards for the profession, particularly independence requirements for auditors. As the regulatory community is charged with enforcement, I do not believe that the board's standards could carry the same legitimacy and credibility that support their global acceptance without close dialogue with this constituency. At the same time, it is important to recognize that the board is an independent body and it behooves the board to carefully listen to, and engage with, all its stakeholders in striving for balanced positions on key issues in the public interest. I believe that the fact that I am not an accountant can only help in both respects.

A further priority I see for the board is timely identification of emerging issues. Standard setting, by its nature, can be perceived to move at a glacial pace in this age of

instantaneous communication. This reality, however, does not mean that the board's strategic processes should be rigid and unresponsive to developments in a world of constant flux. Far from it, I believe it is critical that the board is able to identify, outside of its normal strategic planning process, significant issues or developments that could have repercussions for its work and its strategic direction. Doing so will help support the board's leadership role in setting ethics standards, improve stakeholder perceptions of the board's responsiveness and relevance, and assist the board in identifying the important debates it should lead or seek to influence. My ambition, therefore, in the coming year will be to establish a mechanism to identify as early as possible emerging ethics issues, and to agree on an approach that will allow the board to work on items already on its work plan, while also leaving room to address those emerging issues the board believes are important and relevant to the board's mandate.

Finally, it is important for the board to have internal processes and working procedures that are even more efficient so that it reaches conclusions in a timely fashion, while allowing sufficient time for thorough consultation with stakeholders and meeting the due process requirements agreed with the Public Interest Oversight Board (PIOB). Indeed, I envisage that any efficiencies the board manages to achieve will be applied toward extending and deepening its consultation with stakeholders. Already, I have started discussions with the board in this area and look forward in the coming year to instituting appropriate changes in that regard.

## Highlights of the Year

I am pleased to report that in December, the board approved two important standards, *Breach of a Requirement of the Code and Conflicts of Interest*, thereby fulfilling commitments in the board's Strategy and Work Plan 2011-2012. The changes to the Code from the breaches project reflect the board's view that any breach of a requirement of the Code, particularly an independence requirement, must be treated very seriously. The changes to the Code relating to conflicts of interest have been an important priority for the board given the expanding roles of professional accountants and the continuing growth of firms, not only in size but also in diversity of practice. I am confident that these two sets of changes have strengthened the Code even further.

In August, the board issued *Responding to a Suspected Illegal Act*, an Exposure Draft representing a milestone in

“I see outreach as an important part of my responsibilities in order to enable, encourage, and promote a deeper understanding by our stakeholders and the public of the strategies and activities of the board.”



a further strategic commitment of the board for 2011-2012. This is one of the most challenging projects the board has ever undertaken. Many people believe there is a need for a robust system for professional accountants to deal with suspected illegal acts, but clearly there are challenges around liability exposure and potential adverse consequences for accountants who blow the whistle. In one respect, this is a ground-breaking project as this is the first time I believe there has been an attempt to establish appropriate ethics standards for how professional accountants, including auditors, should deal with a suspected illegal act. Already, the Exposure Draft has generated significant comments from, and debate among, stakeholders, with many expressing their concerns about the proposals. The board is carefully analyzing all the responses, and will evaluate stakeholders' views and arguments, and thoroughly deliberate the way forward. Ultimately, the debate is about what is appropriate to ask of auditors and other accountants within their role in the public interest.

To further facilitate effective implementation of the Code, I am pleased to also report that in November, the board's staff issued a further set of [questions and answers \(Q&As\)](#) on implementing the Code. This can be accessed free of charge on the board's website at [www.ethicsboard.org](http://www.ethicsboard.org). The website also includes other implementation support materials developed by the staff, and I encourage IFAC member bodies, professional accountants, and others interested in the Code to use them. Facilitating implementation of the Code is an integral part of the board's remit, and it will continue to dedicate strategic attention to doing so within its existing resources.

Further details about the above and other projects and initiatives are set out in the "[Report of the Technical Director](#)."

The board has continued to devote attention to the needs of professional accountants in small- and medium-sized entities (SMEs) and small- and medium-sized practices (SMPs) when complying with the Code, recognizing the particular issues they face. In this regard, the board held further discussions during the year in relation to the October 2011 report of the board's SME/SMP Working Group, particularly how best to address the recommendation that the board consider further guidance on the preparation of accounting records and financial statements, a service commonly provided by SMPs to their SME clients in many jurisdictions. I expect further discussion on this and other matters raised in the SME/SMP Working Group report, and close interaction with the leadership of the IFAC SMP Committee, in the coming year.

Board members and staff have actively engaged in various outreach activities over the past year, participating in meetings, conferences, and seminars with regulators, national standard setters, international organizations, IFAC member bodies, and firms, among others. In particular, the board has benefitted from advice received through its consultations with the International Organization of Securities Commissions and the European Audit Inspection Group during the year. The board greatly values these opportunities to interact with stakeholders as they enable it not only to obtain feedback on its projects as they progress but also to inform stakeholders about its activities and encourage them to actively participate in the standard-setting process. Further details of the board's outreach activities over the year are set out in "[Report of the Technical Director](#)."

## Looking Ahead

Following a strategic review early in 2012, the board decided to add four new work streams to its Strategy and Work Plan for 2012, as outlined in a [staff update](#) issued in mid-2012. As a result, I expect the board to have a full agenda for the year ahead.

The first of these new work streams will entail a review of the provisions in the Code addressing long association of senior personnel (including partner rotation) with an audit client. The board considered during the year an analysis of the arguments for and against mandatory firm rotation, a matter that has been, or is being actively, debated at the highest political levels in Europe, the US, and a number of other major jurisdictions. The board acknowledged that there are merits to the arguments on both sides but it concluded that there was insufficient evidence at this time to establish a formal view on mandatory firm rotation. The board, however, turned its attention to a related topic and agreed to review the long association provisions in the Code, particularly those dealing with partner rotation, 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. I am pleased that in December the board approved a project in that regard.



Given the measures also being considered in Europe, the US, and other major jurisdictions to strengthen auditor independence in relation to the provision of non-assurance services to audit clients, the board also agreed to consider whether the Code should include additional restrictions on auditors providing non-assurance services to their audit clients. I am pleased that in December the board approved in principle a project on this topic, subject to better circumscribing its scope.

The third new work stream concerns a review of Part C of the Code. In this regard, the board formed a working group during the year to help it determine whether recent accounting irregularities reveal ethics implications for professional accountants in business (PAIBs) that should be addressed via additional guidance in Part C of the Code. Given the working group's findings and recommendations, and calls from stakeholders for the Code to provide enhanced guidance to PAIBs, the board has decided to accelerate this work stream, and accordingly approved a project in March 2013 in this regard. I am pleased that the board will be dedicating time and resources to this important part of the Code, and thus rebalancing the board's work toward the needs of PAIBs, as over the past decade the board has been focusing much of its attention on audit-related matters, especially in relation to audits of public interest entities. In addition, the board will be working to enhance its cooperation with the IFAC PAIB Committee. Already, it has agreed to a member of the PAIB Committee joining the Part C Task Force and have met with the Committee in the first quarter of 2013.

The final new work stream will address a review of the structure of the Code, including how to increase the visibility of the requirements and prohibitions in the Code, and potentially to clarify who is responsible for meeting them. The board is very conscious of the burdens and costs of dealing with changes to the Code at the national level for those who adopt the Code. Accordingly, it is important to make clear that this work stream is not intended to lead to changes to the Code in the short term. Nevertheless, this will be a key initiative as it will seek to identify ways to enhance the usability and accessibility of the Code. It will, in particular, respond to feedback from various users of the Code that improvements to the structure and format of the Code are needed. The board will be undertaking careful research and extensive consultation with stakeholders before it puts out any formal proposals for comment.



The board has also initiated work in connection with the development of its next strategy and work plan, and in early January 2013, released a survey seeking the views of stakeholders on what its key priorities should be for the next strategy period. I expect healthy discussion within the board on its strategic priorities and the approval of a formal consultation paper in this regard by the end of 2013. Further details regarding the above can be found in the "[Report of the Technical Director](#)."

Finally, I come back to the board's dialogue and engagement with stakeholders. I intend for the board to explore in the year ahead whether it is currently engaging with a sufficiently wide range of stakeholders. In many cases, this engagement would benefit from being a team effort. I will therefore be looking for the active support of my fellow board members as the board seeks to maximize the reach and impact of its outreach efforts. In addition, I intend to invite external speakers to come and discuss with the board their concerns and perspectives relating to the strategy and work program of the board, which I believe will serve to enrich the board's deliberative processes.

## Acknowledgements

I would like to thank my fellow members on the board and their technical advisors for their dedication and hard work in advancing the board's work over the past year. Without their collective efforts, all of which have been voluntary, the successes the board has achieved and the progress it has made would not have been possible. I should like, in particular, to recognize the contribution of the two retiring members: Brian Walsh, deputy chair, and Felicitas Irungu, member of the board.

I would like to thank the official observer from Japan, the Financial Services Agency (FSA), for its contributions to the board's deliberations. I have in particular appreciated its representatives' perspectives on the board's projects and initiatives, and their insights into the Japanese audit environment.

The board's continuing credibility and success in setting ethics standards that are globally recognized and accepted would not be possible without the significant support, encouragement, challenge, and advice it receives from the PIOB, the board's Consultative Advisory Group (CAG), its national standard setters liaison group, the IFAC Board, regulators, the Forum of Firms, and others, for which I am especially grateful. I should in particular like to recognize the significant contributions of Richard Fleck, who retired as chair of the CAG at the end of June 2013. Richard's expertise and breadth of experience, and his insights and advice on behalf of the CAG, have been greatly valued. I look forward to a close working relationship with his successor, Kristian Koktvedgaard.

I must also express my deep appreciation for Jim Sylph, IFAC Executive Director, Professional Standards and External Relations, for his counsel and wisdom, and for the Ethics Board staff who have worked tirelessly and to very high standards to support the board in all its activities. I should also thank the staff of the IFAC Communications Department and SMP Committee, and others within IFAC for their support and professionalism. In addition, I should like to thank Jan Munro, the board's former deputy director, for the significant support she provided to the board throughout her time on the staff up until she left in September 2012. I welcome the board's new technical director, Ken Siong, to the staff. He has already made many valuable contributions to the work of the board.

Finally, it has been a great privilege for me to work with my predecessor, Ken Dakkduk, who has shaped the board's agenda and played a large role in helping to develop the Code into the robust set of standards that it is. I would like to thank him for his unwavering commitment and service to the board, and his legacy of excellence on which the board can continue to build.

Jörgen Holmquist

Chair, IESBA

## Report of the Technical Director



The revised *Code of Ethics for Professional Accountants* (the Code) issued in July 2009 established a strong base for the board's Strategy and Work Plan for 2011-2012. The Ethics Board made significant progress in delivering on this strategy in 2012 through the development of new or improved ethics standards, support for implementation through the development of new implementation resources, and proactive engagement with stakeholders to support the board's convergence goal.

### Revised Standards

#### BREACH OF A REQUIREMENT OF THE CODE

In December, the board approved the final changes to the Code addressing a breach of a requirement of the Code. These changes respond to regulatory concerns that the current provisions addressing an inadvertent breach of the Code, including independence, could suggest that all inadvertent breaches can be corrected by applying safeguards. The changes reflect the board's view that any breach of the Code is a matter that must be treated very seriously.

The revisions to the Code establish, in particular, a robust framework for addressing a breach of an independence requirement of the Code. There are new requirements for firms with respect to taking action to address the cause of the breach, communicating the breach to appropriate personnel internally within the firm, evaluating the significance of the breach and determining whether action can be taken and is appropriate to satisfactorily address the consequences, communicating with those charged with governance, and documentation. The board believes the changes will result in greater consistency and transparency in how firms address breaches and maintain compliance



with independence requirements, and in the conclusions they reach in evaluating the impact of a breach on their objectivity and ability to issue audit reports.

The changes were released in March 2013 and will be effective on April 1, 2014.

#### CONFLICTS OF INTEREST

Also in December, the board finalized the changes to the Code that address conflicts of interest. The goal of the project was to provide additional guidance to professional accountants in business and in public practice on this important matter. Avoiding actual and evaluating potential conflicts of interest are central to an accountant's ability to remain objective when engaged in a professional activity. The development of this guidance is timely given the increasingly diverse range of areas in which professional accountants engage and provide services.



The changes establish more specific requirements and more comprehensive guidance to support professional accountants in identifying, evaluating, and managing conflicts of interest. In particular, there is now a more comprehensive description of a conflict of interest, as well as examples of situations in which conflicts of interest may arise. In addition, there are new requirements to better enable professional accountants to identify potential conflicts of interest early for timely action to be taken by the affected parties. Importantly, the changes introduce new requirements intended to stimulate professional accountants to think about whether they can remain objective in the circumstances and adhere to the other fundamental principles in the Code.

These changes were also released in March 2013 and will be effective on July 1, 2014.

## Exposure Drafts

### RESPONDING TO A SUSPECTED ILLEGAL ACT

In August, the board issued for public comment proposals on its key project on responding to a suspected illegal act. Among other matters, the proposals describe the circumstances in which a professional accountant would be required or expected to breach confidentiality, one of the five fundamental principles in the Code, and disclose the act to an appropriate authority. The Exposure Draft proposed adding two new sections addressing illegal acts to the Code—one each for professional accountants in public practice and professional accountants in business—and several revisions to other related sections. The new sections set out the expected course of action for a professional accountant if management or those charged with governance do not respond to the issue appropriately.

The project originally arose out of regulatory concerns about the need to rebalance auditors' duty of confidentiality to their audit clients vis-à-vis their duties in serving the public interest when, during the course of their audits, they encounter actual or suspected fraud at their clients. At its heart, it is about reconciling the fundamental tension between the principle of confidentiality and whistle-blowing in the public interest. As the project evolved, the board determined it necessary in the public interest to address more broadly the responsibilities of all professional accountants when they face suspected illegal acts at their clients or employers. As the Code currently does not contain any guidance on when there is a professional duty or right to disclose confidential information when not prohibited by law or regulation, the board is aiming to develop appropriate provisions in the Code that will guide professional accountants in responding in situations where they encounter such acts.

The proposals have generated media attention and significant debate in the board's outreach with stakeholders. At the end of the year, the board had received a high number of responses to the Exposure Draft, with a large majority of respondents expressing significant concern about the proposals. I expect thoughtful debate by the board over the coming year as it considers those responses and explores options for the way forward. This project will be a key priority of the board throughout 2013.



“The board closely monitors developments in the regulatory, business, and professional communities to assess whether and how those developments should influence its ongoing strategy and work plan.”

### CHANGE TO THE DEFINITION OF “ENGAGEMENT TEAM”

In July 2010, the International Auditing and Assurance Standards Board (IAASB) issued an Exposure Draft proposing changes to International Standard on Auditing (ISA) 610,<sup>1</sup> which addresses the use of the work of the internal audit function for purposes of the external audit. A number of respondents to this Exposure Draft commented on the apparent inconsistency between the use of internal auditors to perform procedures on the external audit (“direct assistance”) and the requirement under the Code for the engagement team to be independent of the audit client. After considering the issues and recommending a number of changes to the proposed ISA, the board concluded that a change to the definition of “engagement team” in the Code was also necessary to make clear that internal auditors providing direct assistance are not considered part of the engagement team. Accordingly, in February, the board released a proposed revised definition for exposure.

During 2012, the board liaised closely with the IAASB to consider relevant issues raised by respondents to the board’s consultation and, jointly with the IAASB, held discussions with representatives of certain regulatory respondents. In early 2013, the board finalized and released the revised definition. I should make clear that in changing this definition, the board is not advocating or promoting the use of direct assistance.

The revised definition is effective for audits of financial statements for periods ending on or after December 14, 2014.

<sup>1</sup> Proposed revised ISA 610, *Using the Work of Internal Auditors*

<sup>2</sup> ISA 260, *Communication with Those Charged with Governance*

### CHANGE TO THE DEFINITION OF “THOSE CHARGED WITH GOVERNANCE”

The board received a comment to its Exposure Draft on a breach of a requirement of the Code that pointed out that the Code’s definition of “those charged with governance” is not consistent with the definition in ISA 260.<sup>2</sup> The board considered the definition in ISA 260 and concluded that the communications required under the Code should be to the same group of people as the communications under ISA 260. The board therefore decided to align the Code’s definition more closely with the definition contained in the ISA. In July, the board issued for public comment a proposed revised definition together with related proposed changes to the Code.

In June 2013, the board finalized the revised definition, which will be effective on July 1, 2014 subject to Public Interest Oversight Board (PIOB) approval of due process.

## Ongoing Standard-Setting Activities and Related Initiatives

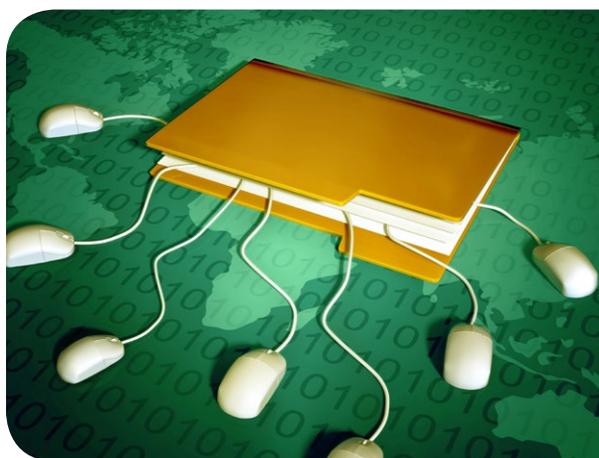
### REVISED STRATEGY AND WORK PLAN 2012

The board closely monitors developments in the regulatory, business, and professional communities to assess whether and how those developments should influence its ongoing strategy and work plan. Accordingly, the board’s strategy 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.

In response to developments in the environment, as mentioned in the chair’s message, the board agreed during the year to incorporate four additional work streams into its strategy and work plan for 2012, thereby extending the range of its current strategy to at least the following two years. These four additional work streams are reviewed below.

## LONG ASSOCIATION

The board has approved a project to review the provisions in the Code that deal with long association of senior personnel (including partner rotation) with an audit client. Among the issues this project will consider are the time on and cooling-off period for a key audit partner (KAP), the individuals who should be subject to rotation, the roles that a KAP can or cannot undertake in the cooling-off period, and other safeguards that could address the threats created by long association with an audit client. I should make clear that in undertaking this project, the board is not prejudging that changes to the Code will be required.



## NON-ASSURANCE SERVICES

The board has approved in principle, subject to confirmation of scope, a project to review the non-assurance services provisions in Section 290 of the Code to ensure that they continue to support a rigorous approach to independence for assurance services, particularly audits of financial statements. Among the matters this project will explore are whether the existing prohibitions or permissions in the Code relating to non-assurance services remain appropriate given current requirements and developments in major jurisdictions, and whether the use of materiality as the basis for prohibiting certain non-assurance services remains appropriate. As with the Long Association project, the board is not prejudging that changes to the Code will result from this project.

## REVIEW OF PART C OF THE CODE

Part C of the Code addresses how the conceptual framework of threats and safeguards in Part A of the Code applies to professional accountants in business in

certain situations. Pursuant to research undertaken by a working group formed to review Part C and identify areas where further development might be appropriate, the board agreed that priority attention be given to the following areas in a review of Part C:

- Pressure by superiors and others to engage in unethical or illegal acts;
- The responsibility of professional accountants in business to produce financial reports that are faithful representations of the economics of transactions, and associated matters; and
- Facilitation of payments and bribes.

The board agreed to fast-track this work stream and approved a project proposal in March 2013.

## STRUCTURE OF THE CODE

In June, the board reviewed a possible alternative approach to formatting the Code to raise the visibility of its requirements and prohibitions. As a result, the board supported further exploring a restructured Code and established a working group to research possible options for the way forward. The main aim of this initiative is to enhance the usability of the Code, thereby facilitating increased adoption and more effective implementation of the Code around the world. Among the key considerations will be whether to redraft the Code; whether it is necessary to clarify who should be complying with the requirements and prohibitions in the Code; how to most effectively package the Code including whether to move to an electronic Code; and the timing of possible future actions. The working group will undertake research and consultation with stakeholders prior to formulating its recommendations to the board in the first half of 2014. Already, there has been strong support from stakeholders for this initiative, including from regulators and small- and medium-sized practices (SMPs).

## AUDIT QUALITY

Throughout the year, the board has continued to contribute to the IAASB's Audit Quality project through the participation of an Ethics Board member on the IAASB task force. This project is seeking to develop a proposed framework to raise awareness of the key elements of audit quality, encourage stakeholders to explore ways to improve audit quality, and facilitate greater dialogue between key stakeholders on the topic. The project reached a milestone in early 2013 through the IAASB's issuance of a Consultation Paper, *A Framework for Audit Quality*. I expect the board's continued support, and collaboration with the IAASB, for this project in 2013.

## FUTURE STRATEGY AND WORK PLAN

In January 2013, the board launched a survey of stakeholders to facilitate the development of its next Strategy and Work Plan. The board has received over 100 responses to the survey. Given the extension of the board's strategy for 2012 into 2014 as a result of the addition of the four new work streams noted above, the board agreed to consider developing the next strategy and work plan to cover the 3-4 year period from 2015. Based on the survey input the board has received, I expect in-depth discussions at the board throughout 2013 on what its priorities should be for the next strategy cycle, as well as proactive consultation with stakeholders in 2013 and 2014.

## STAFF PUBLICATIONS

During the year, the staff issued the following two board-commissioned publications:

- Staff Questions and Answers (Q&A), Implementing the *Code of Ethics—Part II*; and
- *IESBA Code of Ethics High Level Summary of Prohibitions Applicable to Audits of Public Interest Entities*.

These publications do not constitute authoritative pronouncements of the board, nor do they amend or override the Code. The Q&A publication contains responses to a number of questions that the board had received or otherwise become aware of in relation to the implementation of the Code. It follows an earlier set of Q&As that the staff published in 2010. The high level summary of prohibitions is intended to be a resource to aid users in gaining a quick overview and understanding of the range of prohibitions imposed by the Code on professional accountants when they undertake audits of public interest entities. The summary demonstrates the robustness of the Code insofar as safeguarding auditor independence is concerned. Both publications are part of the board's efforts to facilitate the adoption and effective implementation of the Code by IFAC member bodies and others.

## Oversight and Advice

The board received the benefit of the PIOB's observations at all its meetings and those of its Consultative Advisory Group (CAG) throughout 2012. The board greatly values oversight of its standard-setting processes by the PIOB and has particularly appreciated the independent public interest perspectives that PIOB members have shared at these meetings during the year. The board believes that through the PIOB's oversight of due process, the PIOB



plays an integral role in ensuring that the Code achieves global recognition and acceptance. For this reason, the board will continue to work closely with the PIOB throughout 2013.

During 2012, the board also benefited from the leadership of the independent chair of the CAG and advice from the members of its advisory group on its various projects and initiatives. Further details on the CAG's activities during the year are set out in the "[Report of the Chair of the IESBA Consultative Advisory Group](#)."

## Engaging with Stakeholders

The board increased its engagement with the international regulatory community during the year, particularly through meetings with International Organization of Securities Commissions, the European Commission, the US Public Company Accounting Oversight Board, the Netherlands Authority for Financial Markets, and, for the first time, the European Audit Inspection Group. These meetings recognize the importance of the board engaging in dialogue with the regulatory community on key contemporaneous policy debates relating to ethics standards for the profession internationally. They also assist the board in obtaining public interest input on the most important projects on its current agenda and contribute to the board reaching balanced conclusions on its projects. I fully expect the board to continue this level of engagement with regulators and audit oversight bodies in 2013.



During the year, the board also met with national standard setters (NSS) from 12 countries that form part of its NSS liaison group. The meeting provided a valuable forum in which the NSS shared information on, and insights into, emerging ethics issues and developments in their jurisdictions that are of international relevance. At the same time, it provided opportunities for the board to benefit from input from the NSS on its various projects and initiatives, and for interactions among NSS on matters of mutual interest.

Throughout 2012, the board also devoted significant outreach effort to raising awareness of the Code and the board's work to diverse constituencies around the world, including other national standard setters, professional bodies, and the small- and medium-sized practice community. The board intends to continue this important outreach effort throughout the coming year, with a particular focus on the investor community.

Details of the board's outreach activities throughout 2012 are included in "[Communicating with Stakeholders](#)."

## IESBA Membership

In addition to former chair Ken Dakkduk, who completed his term at the end of August, two other members completed their terms on the board at the end of 2012: deputy chair Brian Walsh and Felicitas Irungu.

I join the chair in expressing my gratitude to them for their significant contributions to, and service on, the board during their terms.

We welcome the following new appointments and re-appointments to the board from January 1, 2013.

### *New appointments for two-year terms:*

Brian Caswell, United States<sup>3</sup>

Claire Ighodaro, United Kingdom

Reyaz Mihular, Sri Lanka

### *Re-Appointments for three-year terms:*

Jim Gaa, Canada

Caroline Gardner, United Kingdom

Peter Hughes, United Kingdom

Wui San Kwok, Singapore

Marisa Orbea, Australia

Kate Spargo, Australia

Don Thomson, Canada

We also welcome the appointment of Isabelle Sapet from France as deputy chair for 2013.

## Acknowledgements

I would like to thank Jörgen Holmquist for his leadership of the board, and to express my appreciation to all the board members, technical advisors, official observers, and all those who have contributed to the work of the board throughout 2012. I am also grateful to my staff team for their dedication and efforts in supporting the board in all its activities, enabling it to deliver on its commitments.

A handwritten signature in black ink, appearing to read 'Ken Siong', with a stylized flourish at the end.

Ken Siong

Technical Director, IESBA

<sup>3</sup> Replaced Ken Dakkduk on the board on a temporary basis from September to December

# International Ethics Standards Board For Accountants

(January 1, 2012 to December 31, 2012)

Board Members	Term Ending	Country	Technical Advisors
<b>Public Members</b>			
Jörgen Holmquist, Chair **	2015	Sweden	
James Gaa	2012	Canada	
Kate Spargo	2012	Australia	
<b>Non-Practitioners</b>			
Brian Walsh, Deputy Chair*	2012	United Kingdom	Tony Bromell
Helene Agélii	2014	Sweden	Tone Maren Sakshaug
Caroline Gardner	2012	United Kingdom	Tony Bromell
Gary Hannaford	2014	Canada	
Chishala Kateka	2014	Zambia	Patrick Wanjelani
Alice McCleary	2013	Australia	Eva Tsahuridu
<b>Practitioners</b>			
Brian Caswell*	2014	United States	Lisa Snyder
Ken Dakdduk, Chair**	2012	United States	Lisa Snyder
Robert Franchini*	2013	Italy	Sylvie Soulier
Peter Hughes	2012	United Kingdom	
Felicitas Therero Irungu	2012	Kenya	
Wui San Kwok	2012	Singapore	Andrew Pinkney
Stefano Marchese	2014	Italy	Elbano de Nuccio
Marisa Orbea	2012	Australia	Liesbet Haustermans
Isabelle Sapet*	2013	France	Jean-Luc Doyle
Donald Thomson	2012	Canada	Kim Gibson

## IESBA Staff

James M. Sylph, Executive Director, Professional Standards and External Relations  
 Ken Siong, Technical Director<sup>†</sup>  
 Jan Munro, Deputy Director<sup>†</sup>  
 Chris Jackson, Technical Manager  
 Karlene Mulraine, Technical Manager<sup>†</sup>  
 Stephenie Luciani, Executive Assistant<sup>†</sup>  
 Ye-Mei Ling, Administrative Assistant<sup>†</sup>

## Observers

Juan Maria Arteagoitia, European Commission, Belgium  
 Richard Fleck, IESBA CAG Chair, United Kingdom\*  
 Seiya Fukushima, Financial Services Agency, Japan<sup>†</sup>  
 Koichiro Kuramochi, Financial Services Agency, Japan<sup>†</sup>  
 Koichi Uzuka, Financial Services Agency, Japan<sup>†</sup>

\*member of the IESBA's Planning Committee

<sup>†</sup>partial year

# Communicating with Stakeholders

## Meetings, Conferences, and Events

### Accounting, Auditing, and Other Standard Setters

Meeting with representatives of the International Integrated Reporting Council (IIRC), London, UK

Meetings with representatives of the Public Company Accounting Oversight Board (PCAOB), Washington DC, US

### Regulators and Audit Oversight Bodies

Meetings with representatives of the International Organization of Securities Commissions (IOSCO), Washington DC, US

Meeting with representatives of the UK Financial Services Authority, London, UK

Meeting with representatives of the UK Financial Reporting Council, London, UK

Meetings with representatives of the International Forum of Independent Audit Regulators (IFIAR), London, UK, and Washington DC, US

Meeting with the European Audit Inspection Group (EAIG), Zurich, Switzerland

Meeting with the chair of the IFIAR Standards Coordination Working Group, Cape Town, South Africa

### Preparers, Investors, Governance Organizations, and Others

Meeting with representatives of the Organization for Economic Co-operation and Development (OECD) Anti-Bribery Working Group, Paris, France

Meeting with representatives of the European Federation of Accountants and Auditors (EFAA), Rome, Italy

Meeting with chair of the Monitoring Group, Washington DC, US

Meeting with representatives of the UK Investment Management Association (IMA) and Railpen, London, UK

### IFAC Member Bodies

Meetings with representatives of the Chartered Institute of Management Accountants (CIMA), London, UK

Meeting with representatives of FAR, Stockholm, Sweden

Meeting with representatives of the Chartered Institute of Public Finance and Accountancy (CIPFA), London, UK

Meeting with representatives of the Institute of Chartered Accountants in England and Wales (ICAEW), London, UK

Meeting with representatives of the Association of Chartered Certified Accountants (ACCA), London, UK

Meeting with representatives of the South African Institute of Chartered Accountants (SAICA), Cape Town, South Africa

Contabilidad y Responsabilidad para el Crecimiento Económico Regional (CReCER) 6th Annual Conference for Accounting and Accountability for Regional Economic Growth, Managua, Nicaragua

# Communicating with Stakeholders

## Meetings, Conferences, and Events (continued)

### Governments and Public Sector Organizations

Meeting with representatives of the European Commission, Brussels, Belgium

Meeting with representatives of the World Bank, Washington DC, US

Meetings with representatives of the Italian Ministry of Finance, Commissione Nazionale per le Società e la Borsa (CONSOB) and Banca d'Italia, Rome, Italy

### Accounting Firms

Meeting with representatives of the large firms, Stockholm, Sweden

Forum of Firms Symposium, New York, US

### Regional Organizations and Events

IFAC Small and Medium Practices (SMP) Forum, Singapore

Institute of Certified Public Accountants of Singapore's Corporate Ethics and Governance Seminar, Singapore

### Other Meetings, Conferences, and Events

Meeting with representatives of the Royal Institution of Chartered Surveyors (RICS), London, UK

Meeting with representatives of the IFAC Professional Accountants in Business (PAIB) Committee, London, UK

Dubai Financial Services Authority Regional Conference, Dubai, UAE

Chartered Accountants Regulatory Board (CARB) Workshop, Dublin, Ireland



# Report of Richard Fleck, Chair of the IESBA Consultative Advisory Group



## Objective and Scope of Activities

The Consultative Advisory Group (CAG) of the International Ethics Standards Board for Accountants (IESBA) provides technical advice on projects of the IESBA and advice on its agenda and priorities.

## Meetings and Membership

In 2012, the IESBA CAG met twice—in Brussels in March and in New York in September. In order to represent the views of CAG members, I attended the three IESBA meetings and two conference calls, and five IESBA Planning Committee meetings during the year.

## Key Highlights for 2012

During 2012, the CAG provided advice to the IESBA in relation to its key initiatives:

**Breach of a Requirement of the Code**—This project was the subject of a public consultation that closed in January 2012, following which the IESBA refined its proposals. The proposals were the subject of in depth dialogue between the IESBA and the CAG, which resulted in the IESBA's approval of final amendments to the Code of Ethics for Professional Accountants (the Code) at its meeting in December. In my view, this particular project has demonstrated the benefits that can flow from healthy debate between a standard setter and an advisory body such as the CAG.

**Conflicts of Interest**—This project progressed in 2012 following the release of the Exposure Draft in December 2011. The CAG had the opportunity to provide input to the approach to be adopted and the changes to the Code. The IESBA approved final amendments at its December 2012 meeting.



**Responding to a Suspected Illegal Act**—At each of its meetings, the CAG received a report on this difficult and complex project, which was aimed at addressing the circumstances in which a professional accountant would be required or permitted to override the fundamental principle of confidentiality and report an illegal act to an appropriate authority. This project is particularly challenging because expectations of professional accountants vary from jurisdiction to jurisdiction, as do the consequences of making such reports given the differing legal environments.

**Definition of Engagement Team**—Arising out of a project being undertaken by the International Auditing and Assurance Standards Board (IAASB), the IESBA was asked to reconsider the definition of the term “engagement team” in the Code. Following a public

“At a time when financial reporting and the role of the accountancy profession are subject to considerable governmental and public scrutiny, these projects are of particular importance to maintaining confidence in financial reporting and auditing, and to the reputation and standing of accountants.”



consultation on a revised definition and appropriate meetings of the board and CAG, the IESBA approved amendments to the definition in January 2013.

At a time when financial reporting and the role of the accountancy profession are subject to considerable governmental and public scrutiny, these projects are of particular importance to maintaining confidence in financial reporting and auditing, and to the reputation and standing of accountants—whether in practice or in business.

## Conclusion

The CAG has been very fortunate to have had the benefit of the experience and advice of many individuals since its inception. It has been a pleasure to work with them and I would like to record my personal appreciation of their contribution and support.

I would also like to extend my personal thanks to Ken Dakdduk, whose term as IESBA chair ended in September 2012, for his diligence and commitment to the objectives of the IESBA and his contribution to the operation and effectiveness of the CAG. I have greatly enjoyed working with Jörgen Holmquist, who became IESBA chair in September 2012, and I am confident that under his leadership, the IESBA will make significant and much-needed progress toward the achievement of its objectives.

The delivery of the IESBA's remit depends upon a constructive engagement between the IESBA, its task forces, and the CAG and upon the support provided by the IESBA staff—to all of whom I am very grateful. I also want to record my gratitude for the invaluable support that Jan Munro, and latterly Ken Siong, have provided during my time as chair of the IESBA CAG.

This will be my last report as chair of the IESBA CAG as I will retire in June 2013. It has been an enriching experience to chair the CAG, and it has enhanced my understanding of the complex and challenging issues of developing an ethics code for global adoption. I am confident that my successor, Kristian Kocktvedgaard, will contribute to the achievement of this objective diligently and effectively.

A handwritten signature in black ink, appearing to read "Richard Fleck". The signature is fluid and cursive, with a long, sweeping underline.

Richard Fleck  
Chair, IESBA Consultative Advisory Group

# Consultative Advisory Group Member Organizations

## Members

Asian Financial Executives Institutes

Basel Committee on Banking Supervision

BUSINESSEUROPE

CFA Institute

European Commission

European Federation of Accountants and Auditors  
for SMEs

European Federation of Financial Executives Institutes

Financial Reporting Council, United Kingdom

Fédération des Experts Comptables Européens

Gulf States Regulatory Authorities

Institute of Internal Auditors

International Association of Insurance Supervisors

International Organization of Securities Commissions

International Organization of Supreme Audit Institutions

National Association of State Boards of Accountancy

North American Financial Executives Institutes

Organisation for Economic Cooperation and  
Development

Sri Lanka Accounting and Auditing Standards  
Monitoring Board

World Bank

World Federation of Exchanges

## Observers

IFAC Small and Medium Practices Committee

Public Company Accounting Oversight Board,  
United States

---

The *Code of Ethics for Professional Accountants*, Exposure Drafts, Consultation Papers, and other IESBA publications are published by, and copyright of, IFAC.

The IESBA and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IESBA logo, 'International Ethics Standards Board for Accountants', 'IESBA', '*The Code of Ethics for Professional Accountants*', the IFAC logo, 'International Federation of Accountants', and 'IFAC' are trademarks and service marks of IFAC.

Copyright © August 2013 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document, except as permitted by law. Contact [permissions@ifac.org](mailto:permissions@ifac.org).

Published by:



For more information about the IESBA, please contact:  
Ken Siong  
Technical Director, IESBA  
[kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)  
[www.ethicsboard.org](http://www.ethicsboard.org)

**IESBA**<sup>TM</sup>