



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

D

Committee: Ethics Consultative Advisory Group
Meeting Location: Crowne Plaza St James, London, United Kingdom
Meeting Date: September 13, 2010

Strategy and Work Plan

2010-2012

Objective of Agenda Item

To discuss comments received on the exposure draft of the IESBA Strategy and Work Plan 2010-2012

Background

At the March 2010 meeting, CAG members commented on a draft Strategy and Work plan for the IESBA covering the period 2010-2012. The IESBA met by conference call on March 23, 2010 to discuss comments from CAG members and changes that had been made to address those comments. The IESBA approved the exposure draft of the Plan and it was released in late March with a comment period that ended on June 15, 2010.

The Planning Committee has been discussing the comments received on exposure and will present a revised Strategy and Work Plan to the IESBA at its November 2010 meeting for approval that reflects the committee's recommendations based on the comments received.

Discussion

The Plan proposed the following standard setting activities:

- Conflicts of interest
- Responding to fraud and illegal acts
- Application of the related entity definition in audits of collective investment vehicles

The Plan also included the rationale why other projects that had been considered would not be started during the period covered by the plan.

The Plan stated that the IESBA would continue to assess what additional materials or activities would be useful to support those who are adopting or implementing the Code.

With respect to convergence, the plan indicated that the Board would be seeking input on: (a) use of the Code for foreign auditors in a group audit situation and (b) the types of improvements to the Code that standard setters and regulators believe should be made for the Code to gain acceptance and recognition in their jurisdictions.

Overview of Responses

37 comments have been received with a distribution as follows:

Respondent Category	Number
Regulators	2
Individuals and Others	3
IFAC Boards and Committee	1
Member Bodies of IFAC	20
Firms	8
Other Professional Organizations	3
Total	37

Period of Stability: 10 respondents explicitly welcomed the board's intent to provide period of stability during which no new independence standards would be issued and take effect. Three respondents expressed the view that the period of stability should extend to all ethics projects as opposed to only independence.

Standard setting projects: Respondents were generally supportive of the projects addressing fraud and illegal acts and conflicts of interest. Respondents were mixed, however, on the independence project relating to the application of the related entity definition in the audit of collective investment vehicles. Some respondents indicated that the two projects the IESBA does not have on its work plan should have a higher priority (ethical guidance for accountants performing non-assurance services to non-assurance clients, and independence requirements for professional accountants who are not in public practice performing assurance services).

Convergence: Respondents were supportive of the emphasis on convergence with some commenting that they would like to see more specificity in the plan regarding the steps the Board plans to take to further convergence.

Communication: Those respondents that commented on this matter were supportive of the discussion contained in the plan.

Specific Comments on Standard Setting Activities

Fraud and Illegal Acts

The majority of respondents were supportive of this project. Some respondents commented that while they supported the project, it should result in practical guidance and should not produce any additional requirements. Two respondents expressed concern with the project, noting that local laws often control the accountant's behavior in this area

and it may be difficult to develop additional meaningful global guidance. The project Task Force will consider the comments on this project as it proceeds with its work.

Conflicts of Interest

The majority of respondents were supportive of this project. Some respondents commented that while they supported the project, it should result in practical guidance and should not produce any additional requirements. The project Task Force will consider the comments on this project as it proceeds with its work.

Collective Investment Vehicles

Eight respondents expressed concern with the priority of this project. Some respondents noted that the way such vehicles are structured differs significantly between jurisdictions and, therefore, a global standard would be difficult to develop and complex to apply. Some respondents expressed support for the project, with two respondents stating that it should start as soon as possible.

The Planning Committee has considered the comments on this project and, in light of the arguments put forward, will be recommending to the IESBA that this project be deleted from the IESBA's work plan.

Other Comments

Three respondents expressed the view that the plan should address the two projects that were noted as not the top priority – namely (a) ethical guidance for professional accountants performing non-assurance services for non-assurance clients and (b) independence requirements for professional accountants who are not in public practice who perform assurance engagements. One respondent felt that the IESBA should commence a project to consider how the whole Code should apply to firms. One respondent felt the code should address requirements for compilation engagements. One respondent felt that greater emphasis should be given to professional accountants in business.

The Planning Committee has considered these comments and will be considering the types of matters that might be addressed in a project providing ethical guidance for professional accountants providing non-assurance services to non-assurance clients. The Planning Committee is of the view that this additional consideration is necessary for it to form an opinion as to whether it should recommend to the IESBA that such a project be added to the IESBA's next work plan.

One respondent's comments suggested that the plan should give more attention to non-assurance services in audits of listed entities. As part of its broader convergence efforts, and as discussed below, the IESBA has already begun to focus on the independence provisions of the Code that apply when a firm audits a public interest entity. Those provisions include situations when the firm renders a non-assurance service to the audit client.

Adoption and Implementation

Respondents were of the view that this should be an important priority of IESBA, some stating that it should take first priority over everything else, and some suggestions were provided for additional activities the IESBA might undertake. Some respondents expressed the view that there should be a mechanism for member bodies to ask questions.

A staff letter to member bodies has been posted on the IFAC membership intranet. The letter reminds readers of the upcoming effective date of the Code and the adoption and implementation support material which is already available on the website. It also indicates that the Board will continue to assess what additional materials would be useful to support those who are adopting and implementing the Code. Some staff questions and answers concerning various provisions in the Code are being developed. The questions and answers, which will not be authoritative and would not amend or override the Code, will be issued next month.

Convergence

Respondents expressed support for the IESBA's long-term objective of convergence of national ethics and auditor independence standards. The Planning Committee is developing a series of convergence initiatives which it will incorporate into the strategic plan.

The IESBA will continue to seek input on the types of improvements to the Code that national standard setters and regulators believe should be made in order for the Code to gain acceptance and recognition in their jurisdiction. The Planning Committee has considered comments received regarding the provisions in the Code addressing an inadvertent violation. After considering those Code provisions, the Planning Committee intends to recommend at the November IESBA meeting that the IESBA commence a project to address this area (see Agenda Item F).

The IESBA will continue its work on isolating the independence provisions in the Code that apply to the audit of a public interest entity. Once it has isolated those provisions, which it is currently doing in a standalone document, it will compare them to the provisions that apply in other jurisdictions. Differences identified will be used to facilitate the IESBA's determination of whether it should take action to re-address a provision in the Code for the purposes of reducing or eliminating a difference. The Planning Committee will recommend changes to the plan that more clearly explain the proposed process.

Material Presented

Agenda Paper D	This Agenda Paper
Agenda Paper D-1	Strategy and Work Program 2010-2012 Exposure Draft
Agenda Paper D-2	IESBA Strategy and Work Plan, 2010-2012 Exposure Draft Comments

Action Requested

1. CAG members are asked to consider the comments receive on the Strategy and Work Plan and provide input on the Planning Committee's proposals