

Ethics Committee Project Proposal

1. Subject

Ethical Guidance for Members in Government

2. Reasons the Subject Should Be Studied Now

The Code re-drafting project has developed a Code where Part A applies to all professional accountants, Part B applies to professional accountants in public practice and Part C applies to professional accountants in business (which include professional accountants in government). However, it is not clear how or whether Part B applies to professional accountants in government that perform assurance engagements. Also there is no specific guidance in Part C for professional accountants in government.

3. Scope of Project

(a) LIST THE MAJOR ISSUES THAT SHOULD BE ADDRESSED

Application of Independence Requirements

The independence requirements apply only to assurance engagement performed by professional accountants in public practice.

Assurance standards apply to audits of governments and other public sector entities. The Public Sector Perspective that is included at the end of the Assurance Framework states that:

“Whenever an audit opinion is to be expressed in financial statements, the same audit principles apply regardless of the nature of the entity, because users of audited financial statements are entitled to a uniform quality of audit performance. Since ISAs set out the basic audit principles ... they apply to audits of financial statements of governments and other public sector entities. However, the application of certain ISAs may need to be clarified or supplemented to accommodate the public sector circumstances and perspective of individual jurisdictions, particularly as they relate to the audits of governments and other non-business public sector entities. The nature of potential matters for clarification or supplementation is identified in the Public Sector Perspective (PSP) included at the end of each ISA... If no PSP is added at the end of an ISA, the ISA is applicable in all material respects to the audit of financial statements in the public sector.”

ISA 200 states that the auditor should comply with the Code of Ethics for professional Accountants – which includes requirements on independence. There is no PSP to ISA 200.

The project should develop independence guidance for public accountants in government who perform assurance engagements.

Specific guidance for Professional Accountants in Government

Section C of the Code does not contain any specific guidance for professional accountants in

government. The project will consider whether any additional guidance should be given.

(b) DESCRIBE IMPLICATIONS FOR ANY SPECIFIC PERSONS OR GROUPS

- INTOSAI

(c) CONSIDER WHETHER IT REQUIRES PARTICULAR CONSIDERATION

There are no specific IT considerations.

4. Indicate the Type of Material to Be Published and Timeline

Revision to Code of Ethics

Proposed timeline:

- Project proposal approval – September 30, 2004
- Discussion of issues – February 2005
- Discussion of issues – June 2005
- First read – September 2005
- Approve exposure draft – February 2006
- Consider responses – September 2006
- Approve final – February 2007

5. Resources Required

- An Ethics Committee task force, including a public member and representative from INTOSAI.
- One staff support.

6. List Important Sources of Information That Address the Matter Being Proposed

- Section 8 Implementation Questionnaire – question addressing guidance for members in government
- INTOSAI Independence of SAIs, Final task Force Report March 31, 2001
- INTOSAI Lima Declaration of Guidelines on Auditing Precepts
- INTOSAI
- GAO (US) Government Auditing Standards March 2003 Revision
- Association of Government Accountants 2003 AGA Ethics Handbook

7. Factors That May Add To Complexity or Length of Project

- None noted.

Prepared by Jan Munro Date July 28, 2004

Comments by Technical Managers/Committee Secretaries

The comments and sign-off of *each* Technical Manager are required before the Ethics Committee considers this Project Proposal.

IAASB

CLASSIFICATION *Class:* SUGGESTED PRIORITY

COMMENTS

Signed Date

Professional Accountants in Business

CLASSIFICATION *Class:* SUGGESTED PRIORITY

COMMENTS

Signed Date

Education Committee

CLASSIFICATION *Class:* SUGGESTED PRIORITY

COMMENTS

Signed Date

Compliance Committee

CLASSIFICATION *Class:* SUGGESTED PRIORITY

COMMENTS

Signed Date

Trans-National Auditors' Committee

CLASSIFICATION *Class:*

SUGGESTED PRIORITY

COMMENTS

Signed Date

SMP Committee

CLASSIFICATION *Class:*

SUGGESTED PRIORITY

COMMENTS

Signed Date

Public Sector Committee

CLASSIFICATION *Class:*

SUGGESTED PRIORITY

COMMENTS

Signed Date

Developing Nations Task Force

CLASSIFICATION *Class:*

SUGGESTED PRIORITY

COMMENTS

Signed Date

Project Classifications

All activities of IFAC have the same overall objectives. When a project involving more than one committee is approved, there must be close co-ordination to minimize schedule disruptions and to avoid inconsistent conclusions. The following procedures are designed to try to ensure the smooth co-ordination of joint projects.

Standards and Guidelines

A project is put forward for approval only when a Project Proposal has been completed; each Project Proposal includes space for the recommendation of each committee secretary on the proposed nature of a project under one of the following classifications:

Class A Project: entirely the responsibility of only one committee.

Class B Project: mainly the responsibility of one committee but with important implications to at least one other committee.

Class C Project: a joint project—the priority, work and conclusions are of importance to two or more committees.

Approval of the classification of a project lies with the responsible committee(s).

1. CLASS A PROJECTS

Full details of a Class A project will be sent only to the committee responsible for its development and approval but the committee secretaries of the other committees will be kept informed by the responsible committee secretary, at all significant points, of the project's progress by distribution of committee agenda papers.

2. CLASS B PROJECTS

Since the degree of “jointness” can vary substantially in a Class B project (from being almost a Class A to almost a Class C project), the Project Proposal form should indicate which of the two following routes is proposed for handling the project:

B1: The work will be handled entirely by a subcommittee of the “primary” committee but at significant points in the development of the project (statement of principles, exposure draft, final recommendations) the “primary” committee will ascertain from the other committee(s) whether the proposals would create significant difficulties for the other committee(s) before the “primary” committee approves the material.

B2: The subcommittee of the “primary” committee responsible for the project will have added to it one or two representatives of the other committee(s).

Whichever route is approved, comments by the other committee(s) will be considered by the “primary” subcommittee and the “primary” committee.

3. CLASS C PROJECTS

[Process under discussion]

4. SIGNIFICANT DIFFICULTY

To avoid the possibility of inconsistencies in Recommendations between standard-setting committees, on any project on which one of the standard-setting committees has indicated to another that the project would create a significant difficulty,* the difficulty must be resolved to the satisfaction of both committees before the project proceeds.

If an irreconcilable difference occurs between committees, the matter can be referred, by either or both of the committees concerned, to the Board for an opinion but in no case will amendments or additions be made to the IFAC Handbook or to other official pronouncements as long as there remains a significant difficulty between committees.

Discussion Papers and Other Information Documents

The same procedures as for Standards and Guidelines (including the classification of a project) will be followed in the preparation and approval of these publications.

* A significant difficulty is considered to have been created when a proposed Recommendation from one committee will, in the opinion of the other committee, undermine or contradict a Recommendation of another committee.