



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item**

**3**

**Board** International Ethics Standards Board for Accountants  
**Meeting Location:** AICPA Boardroom, New York, United States  
**Meeting Date:** March 6-7, 2007

**Ethical Guidance for Accountants in Government**

**Objectives of Agenda Item**

1. To update the Board on the work of the Task Force addressing Ethical Guidance for Accountants in Government.

**Background**

The Code establishes ethical requirements for all professional accountants. Under the IFAC Statement of Membership Obligations member bodies of IFAC may not apply less stringent standards than those stated in the Code. 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 includes 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.

The preface to the internal standards on quality control, auditing, review and other assurance states that international standards are applicable to engagements in the private sector. For standards which were issued after December 2004, when additional guidance is appropriate for the public sector, such guidance is included within the body of an International Standard. Standards issued prior to this date provide any additional guidance by means of a public sector perspective which appears at the end of the international standard.

ISA 200 *Objectives and General Principles Governing and Audit of Financial Statements* states that the auditor should comply with relevant ethical requirements relating to audit engagements and further states that such ethical requirements ordinarily comprise Parts A and B of the Code together with national requirements that are more restrictive. The ISA contains a “public sector perspective” which states:

“Irrespective of whether an audit is being conducted in the private or public sector, the basic principles of auditing remain the same. What may differ for audits carried out in the public sector is the audit objective and scope. These

factors are often attributable to differences in the audit mandate and legal requirements or the firm of reporting (for example, public sector entities may be required to prepare additional financial reports).

When carrying out audits of public sector entities, the auditor will need to take into account the specific requirements of any other relevant regulations, ordinances or ministerial directives which affect the audit mandate and any special auditing requirements, including the need to have regard to issues of national security. Audit mandates may be more specific than those in the private sector, and often encompass a wider range of objectives and a broader scope than is ordinarily applicable for the audit of private sector financial statements. The mandates and requirements may also effect, for example, the extent of the auditor's discretion in establishing materiality, in reporting fraud and error, and in the form of the auditor's report. Differences in audit approach and style may also exist. However, these differences would not constitute a difference in the basic principles and essential procedures."

The IESBA, therefore, approved a project to develop independence guidance for professional accountants in government who perform assurance engagements and to develop any additional guidance, if needed, in Part C of the Code to address professional accountants in business working in the government.

A Task Force was formed to address this project. Because of the specialist nature of the topic the Task Force includes members with experience in government auditing. The Task Force comprises:

- Frank Attwood (chair)
- Jeannette Franzel - Director, Financial Management and Assurance, at the U.S. Government Accountability Office;
- Peter Gregory – former Deputy Auditor General of British Columbia, Canada
- Neil Lerner
- Tiina-Liisa Sexton – former IESBA technical adviser
- Wim Moleveld – former IESBA member
- Vernon Soare – Executive Director PSD Institute of Chartered Accountants of England and Wales

## **Discussion**

The Task Force has met five times to develop proposed changes to the Code to address guidance for accountants in government. The Task Force considered all parts of the Code to determine whether changes are necessary to make the Code more clearly applicable to all professional accountants in government. The Task Force is of the view that, as currently drafted, the Code is largely appropriate for professional accountants in government. It is of the view that there are a few specific areas where an addition would make the Code more inclusive and more directly relevant to professional accountants in government. The changes which will be proposed do not require different principles

rather they will suggest the expansion of some guidance to deal with the public sector application and context.

### Part A

Part A of the Code contains the general application of the Code and is, therefore, written from a general perspective. The Task Force is of the view that the current language is appropriately inclusive and is not, therefore, recommending any changes to Part A.

### Part B

The Task Force has reviewed Part B of the Code and is of the view that all of the sections are relevant to legislative auditors:

- Professional appointment
- Conflicts of Interest
- Second Opinions
- Fees and Other Types of Remuneration
- Marketing Professional Services
- Gifts and Hospitality
- Custody of Client Assets
- Objectivity – all Services
- Independence – Assurance Engagements

While the context in which legislative auditors practice might differ from firms that operate only in the private sector, the topics are equally relevant.

The Task Force considered whether Part B should contain one section containing guidance for legislative auditors or whether each section in Part B should contain additional guidance for such auditors. After consideration, the Task Force is of the view the latter approach is preferable because each section is relevant and it is only the different context which needs to be addressed. The Task Force notes that this is the same position taken by the IAASB which is eliminating the public sector perspectives contained at the end of each ISA.

### Part C

The Task Force has reviewed Part C and is of the view that is not necessary to add any additional sections related to accountants in government. The Task Force believes that it would be useful to reference the context in which such accountants operate. In addition, the Task force is of the view that it would be useful if the description of professional accountants in business contained in paragraph 300.3 specifically refer to accountants in government.

### **Next steps**

The Task Force intends to present the proposed changes at the June 2007 IESBA meeting.

**Material Presented**

Agenda Paper 3      This Agenda Paper

**Action Requested**

IESBA members are asked to consider the issues raised in this agenda paper.