



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

4

Board International Ethics Standards Board for Accountants

Meeting Location: WpK, Berlin, Germany

Meeting Date: June 25-27, 2007

Operating and Strategic Plan

Objectives of Agenda Item

1. To approve for exposure the 2008-2009 Operating and Strategic Plan

Background

During 2005, the IESBA (the IFAC Ethics Committee as it was then) revised its strategic objectives to better reflect the overall IFAC mission and strategy. A strategic plan to guide the direction and priorities of the IESBA for the period ending December 31, 2007 was approved and put in place (Agenda Paper 4-A).

At the March 2007 meeting, the IESBA discussed the agreed IFAC process for the development of strategic plans of Public Interest Activity Committee. The process includes the following steps:

- Once every two years each PIAC shall perform a formal survey of its key stakeholders about issues that they believe should be addressed by the PIAC in the immediate future as part of its consideration of strategic priorities;
- A draft Strategic Plan and a twelve month work program shall be developed based on the results of the survey;
- The PIAC shall expose the draft Strategic Plan and work program for public comment for a period no less than 30 days;
- The PIAC shall consider the results of the exposure in formulating, as necessary, a revised Strategic Plan and twelve month work program; and
- In the first year of the two year Strategic Plan, the PIAC shall determine, in consultation with its CAG, its subsequent twelve month work program.

The IESBA discussed and approved the content of a survey of stakeholders designed to seek the views of interested parties on matters which should be considered by the IESBA

during the strategic review. The survey (Agenda Paper 4-B) was posted on the IFAC website, mentioned in the IFAC news and sent directly to the following interested parties:

- Existing and 2006 & 2005 IESBA members and TAs
- IESBA CAG members
- IAASB members and technical advisors
- IAESB (Education) members and technical advisors
- IFAC Developing Nations Committee members and technical advisors
- IFAC SMP Committee members and technical advisors
- Professional Accountants in Business Committee members and technical advisors
- Compliance Advisory Panel
- IFAC Board
- Current members of the Forum of Firm (and Transitional Audit Committee to the extent that they are not the same)
- All IFAC member bodies
- Regulatory and oversight organizational
- Attendees of the Brussels Forum
- Respondents to EDs issued in 2005 and 2006

The IESBA Planning Committee¹ has reviewed the results of the survey and after considering the input has prepared a draft strategic plan (Agenda Paper 4-C) for the consideration of the IESBA,

Results of Survey

Responses

The IESBA received 127 responses to the questionnaire. Many responses were from organizations, rather than from individuals. Respondents were asked to indicate the capacity in which they were responding to the questionnaire. They were able to indicate more than one category. Not all respondents answered this question and many respondents indicated more than one category.

¹ Richard George (chair), Frank Attwood, David Devlin, Richard Fleck, Geoff Hopper, Volker Röhricht and Jean Rothbarth.

The table below indicates the percentage of respondents that indicated a particular category. The total is greater than 100% because some respondents indicated that they were from more than one stakeholder group.

IESBA Member (current or former)	10.0
IESBA Technical Advisor	2.5
IESBA CAG Member Organization/Representative	3.8
Member or Technical Advisor of other IFAC Board or Committee	11.3
IFAC Member Body	50.0
Preparer of Financial Statements	3.8
Professional Accountant in Public Practice	17.5
Professional Accountants in Business	11.3
User of Financial Statements (e.g. Investor, Customer, Creditor/Supplier, Lender, Analyst, Researcher etc Other than Regulator)	5.0
Governmental or Legislative Body	1.3
Regulator	8.8
Audit Oversight Body	5.0
Standard setter	18.8
Academia	6.3
Private Sector	3.8
Public Sector	5.0
Small and Medium Sized Entity	3.8
Small and Medium Sized Practice	5.0
Other	18.8

Stakeholders

The survey identified the following groups that are affected by the IESBA's activities:

- Accountants in business
- Accountants in public practice
- Audit oversight bodies
- IFAC member bodies
- National ethical standard setters
- Preparers of financial statements
- Regional professional accounting organizations
- Securities and other regulators

- Users of financial statements (other than regulators)

The survey asked respondents whether there were any other groups which are stakeholders of IESBA. Several respondents indicated that there were other stakeholders. There were four additional stakeholder groups which were suggested by several respondents. The stakeholders are:

- The general public – in order to explain the profession's tasks and close the expectation gap
- Other IFAC Committees and Boards
- Academic Community
- Accountants in Government

Stakeholder Expectations

Survey respondents were asked what their particular stakeholder group expected from the IESBA. The common themes in the responses to this question were:

- Robust high quality ethical standards based on sound conceptual principles; and
- Standards which are clear and capable of adoption in different jurisdictions with minimal changes.

Other key points raised by several individuals, though not by enough to be seen as a theme were:

- Taking steps to facilitate convergence;
- Promotion of the principles-based approach;
- Greater focus on guidance for professional accountants in business; and
- Standards that are capable of implementation in the public sector.

Projects

The survey noted that the IESBA will complete the three projects it already has in progress:

- i) Revisions to the independence requirements contained in the Code as proposed in the exposure draft issued in December 2006 proposing revisions to existing Section 290 Independence – Audit and Review Engagements and proposing new Section 291 Independence – Other Assurance Engagements;
- ii) The following additional independence matters:
 - Whether it is appropriate to revise the existing guidance related to the provision of internal audit services to audit clients;

- Whether it is appropriate to include additional guidance related to economic dependence in the paragraphs dealing with fees in Section 290 (and proposed Section 291); and
 - Whether it is appropriate to revise the existing guidance relating to contingent fees.
- iii) Clarification as to how the guidance in Parts A, B and C applies to accountants in government.

The survey further noted that in addition, the IESBA will consider the implications on the Code of the new drafting conventions adopted by the Clarity Project by the International Auditing and Assurance Standards Board.

Respondents were asked to provide input on future projects which should be addressed in the next 3-4 years. A list of possible projects was presented and respondents were asked whether they believed any of these projects should be addressed in the time frame noted. They were also asked to suggest other projects which should be addressed.

A significant number of respondents stated that once the exposure draft on proposed revised Section 290 and proposed new Section 291 has been issued in final form there should be a period of stability to allow for implementation of the changes to the Code.

An analysis of the projects indicates that respondents were of the view that the top five projects which should be completed are:

Project	Ranking
Fraud and illegal Acts	1
Conflicts of interest	2
Independence – legal protection clauses	3
Independence – Compilation and agreed upon procedures	4
Independence – Mutual funds and other similar collective investment vehicles	5

Reasons for the rating these projects included:

- *Fraud and Illegal Acts* – There is a great deal of public concern in this area stemming from recent high profile cases Therefore it would be helpful to provide some practical guidance in this area. Some respondents felt that while this was an important matter to be addressed by IESBA it might best be achieved outside of the Code.
- *Conflicts of Interest* – This is an area commonly faced by professional accountants in public practice. While the Code contains some guidance in this area some respondents were of the view that it would be helpful if the Code contains additional guidance to assist accountants making sound ethical judgments when faced with conflicts.

- *Independence - legal protection clauses* – This is a topic which is under consideration in several jurisdictions and while the Code contains overall principles which can be used to reason through this topic it would be useful to have some international thought leadership in this area.
- *Independence – Compilation and agreed upon procedures* – The Code contains little guidance in this area. Accountants in public practice would benefit from guidance in this area.
- *Independence – Mutual funds and other collective investment vehicles* – There are a wide range of such vehicles and without some specific guidance in this area there may be wide interpretation of how the Code applies to such vehicles.

The above projects are all from the list of possible projects that were outlined in the exposure draft. Respondents were invited to include any other projects that they felt should be addressed by the IESBA. While the majority of respondents did not suggest any further projects the following projects were suggested:

- Streamlining the Code including making it more principles-based;
- Communications between incoming and outgoing auditors;
- Valuation services when not an auditor;
- Assignment of specific responsibilities for action;
- Guidance on joint audit situations;
- Independence – investment circulars; and
- Independence – Business relationships.

The Planning Committee is of the view that the top five projects noted above are not inconsistent with the view that there should be a period of stability once the current work program has been completed. The proposed projects would not result in a wholesale re-write of the Code.

Facilitating Convergence

Survey respondents were asked to suggest one of more specific initiatives to be undertaken by the IESBA to facilitate convergence. The following points were noted:

- Increased dialogue with other standard setters and regulators;
- Holding a forums to discuss issues;
- Promotion of a principles-based approach;
- Benchmarking to a broader range of existing Codes or rules in other jurisdictions and publishing these comparisons; and
- Implementation guidance to facilitate adoption of the Code.

Respondents noted that a multiplicity of standards was not desirable and that this was a difficult area.

Communications

Survey respondents were asked to suggest one or more specific initiatives to be undertaken by the IESBA to facilitate its objective regarding communications. The following points were noted:

- Increased outreach including, for example, meeting with regional accountancy bodies; holding regional forums;
- Implementation guidance to facilitate adoption of the Code;
- Focused effort on promoting the revised Code (i.e. after the independence revisions) when issued;
- Developing materials to support member bodies and small and medium sized firms in the implementation of the Code.

Other

Survey respondents were asked whether there were any other matters which the IESBA should consider when it conducts its strategic review. Respondents were, in particular, asked for comments and suggestions as to how the IESBA can best ensure that it serves the public interest. The following points were noted:

- Impact assessment –an impact assessment of the Code and, in particular, the impact of the proposed revisions to the independence provisions should be performed;
- Public interest –an understanding of the definition of “the public interest” should be discussed and agreed with. It was suggested that what is in the public interest may vary from jurisdiction to jurisdiction;
- Implementation guidance to facilitate adoption of the Code;
- Working with other IFAC Boards to improve the consistency and interrelationships of standards issued by Boards of IFAC.

Strategic Plan

Current Projects

Independence

The Board issued an exposure draft in December 2006 proposing changes to Section 290 and a new Section 291. The Board plans to issue an exposure draft addressing three additional independence issues at its June 2007 meeting. It is anticipated that finalizing these projects will take most of the Board time at the final meeting in 2007 and the first two meetings in 2008.

Clarity

The Board determined that it was appropriate to consider the implications for the Code of the new drafting conventions adopted under the Clarity projects by the International Auditing and Assurance Standards Board. The Task Force working on this area will present their findings to the IESBA at the June meeting. After considering the Task Force's findings and recommendations the Board will determine the appropriate next steps and timing for completion of the project.

Accountants in Government

The priority of the Board during 2007 and early 2008 are the revisions related to independence and clarity of the Code. The work on the Accountants in Government project should, therefore, be deferred until the Board has completed the work in these areas.

New Projects

Fraud and Illegal Acts

Providing practical guidance related to ethical issues faced by professional accountants in business and professional practice when encountering fraud or illegal acts.

Conflicts of Interest

Providing additional guidance related to conflicts of interest which might be faced by a professional accountant.

Independence – legal protection clauses

Providing some thought leadership in this area..

Facilitating implementation of the Code

Developing materials which will facilitate implementation of the Code and in particular Section 290 for small and medium sized practices.

Action Requested

Members are asked to consider the Strategic and Operational Plan.

Material Presented

Agenda Paper 4	This Agenda Paper
Agenda Paper 4-A	IESBA Strategic Plan to December 2007
Agenda Paper 4-B	IESBA Survey of Key Stakeholders
Agenda Paper 4-C	IESBA Draft Strategic and Operational Plan 2008-2009

Action Requested

1. IESBA members are asked to approve the content of the strategic plan for exposure.