



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: +1 (212) 286-9344
Fax: +1 (212) 856-9420

Agenda Item

5

Board International Ethics Standards Board for Accountants

Meeting Location: Millennium Hotel, New York, USA

Meeting Date: April 27-28, 2009

Strategic Planning

Objectives of Agenda Item

1. To consider the process for developing the next IESBA Strategic and Operational Plan.
2. To confirm the next projects to be started by IESBA.

Background

In March 2008, the IESBA issued a Strategic and Operational Plan for 2008-2009. To date, for the period covered by the plan, the IESBA's work effort has focused on the two independence projects and drafting conventions. The IESBA plans to approve the changes resulting from the drafting conventions project at its April meeting and, therefore, will be in the position to start new projects.

The IESBA's terms of reference and due process require the strategic review to include a formal survey of key stakeholders to obtain views about issues that they believe should be addressed in the immediate future. The Plan is exposed for public comment for a period of no less than 30 days. The IESBA considers the comments received on exposure as it revises and finalizes the plan. Consistent with other documents, the Plan is issued after PIOB consideration and approval of due process.

The first IESBA-National Standard Setters (IESBA-NSS) meeting will be held on April 22, 2009. The IESBA Strategy for 2010-2012 is an item on the agenda. The meeting will include a discussion on the identified project priorities contained in the current Strategic Plan, significant issues and developments at the national level and solicit views on future project priorities. A report on the IESBA-NSS will be presented at the IESBA New York meeting.

Discussion

Next Projects

In addition to convergence and implementation support, the current plan identifies three projects for the period:

- Accountants in Government
- Fraud and Illegal Acts
- Conflicts of Interest

Work on these projects was delayed, or deferred, due to the need to focus on completing the revisions to the Code resulting from the Independence I and II and Drafting Conventions projects. At its meeting in March 2009, CAG members discussed the 2008-2009 Strategic Plan and provided some views on project priorities. These views are noted below. In light of the time that has passed since the current Strategic Plan was developed, the IESBA is asked to confirm the priority of these projects. If priorities are confirmed the Planning Committee will then develop detailed project proposals which will be presented for discussion at the October 2009 IESBA meeting.

Accountants in Government

Part B of the Code applies to professional accountants in public practice, who are defined as professional accountants in a “firm”. Part C of the Code applies to professional accountants in business, who are defined as including professional accountants in the public sector. The independence requirements for assurance engagements are contained in Part B. Professional accountants in the public sector perform assurance engagements and it is, therefore, unclear how the guidance and principles in Part B apply (or should apply) to assurance engagements performed by accountants in the public sector.

A project to consider this matter was commenced in 2005 and work on it was deferred at the beginning of 2007 in order to focus on independence and then drafting conventions. Given the length of time that has passed since the project was commenced it is proposed that IESBA liaise with INTOSAI (International Organization of Supreme Audit Institutions) to obtain their views on the project.

CAG members made the following comments on this project:

- Many accountants in the public sector are not professional accountants as defined by the Code (i.e. they are not members of member bodies of IFAC); and
- The differing legal environments and structures will complicate this project.

Fraud and Illegal Acts

Professional accountants in public practice and business may encounter situations including:

- The professional accountant discovers a suspected fraudulent or illegal act;
- The professional accountant has reported an alleged fraudulent or illegal act but no action has been taken, or the action is inadequate; and
- Another individual within the organization has informed the professional accountant about the existence of a suspected fraudulent or illegal act.

The Code, in Section 140, contains general guidance for all professional accountants regarding disclosure of confidential information. The Code provides for three circumstances where professional accountants are required, or may be required, to disclose confidential information:

- Disclosure is permitted by law and is authorized by the client or the employer;
- Disclosure is required by law; and
- There is a professional duty or right to disclosure when not prohibited by law.

The project will involve preparation of a detailed project proposal outlining which parts of the subject matter should be addressed in a global Code of Ethics. The project timetable will indicate whether it is appropriate to develop any guidance for professional accountants in practice at the same time as developing guidance for professional accountants in business or whether, because of the differing legal and other issues, it is more efficient to address separately professional accountants in practice and professional accountants in business.

CAG members made the following comments on this project:

- The project will be a complex and difficult one;
- From the perspective of users of financial statements, the project is critical to help to restore confidence;
- The project will be challenging in light of differing legislative requirements;
- Given the different constraints and issues it might be prudent to split the project and have two streams of work – with one addressing professional accountants in practice and the other addressing professional accountants in business;
- Accountants in business generally have less of an infra-structure on which they can rely and obtain support when they encounter a fraud or illegal act; and
- There are situations where confidentiality should be set aside to address the public interest and it is important that there is a framework to address this.

Conflicts of Interests

The Code, in Section 220, contains general guidance for professional accountants in practice who face conflicts of interest. The Code provides that the professional accountant should take reasonable steps to identify circumstances that could pose a conflict of interest, evaluate the significance of the threat and apply safeguards to address the threat. The Code provides examples of safeguards the professional accountant should ordinarily apply and others that should be considered.

The project will consider whether additional ethical guidance can be provided for professional accountants in public practice who face conflicts of interest. The project will involve preparation of a detailed project proposal addressing the scope and timetable of the project. The project proposal will consider such matters as:

- Providing additional guidance on the types of conflicts that could be encountered;
- Providing additional guidance on the institutional mechanisms that can safeguard confidential information and assist in managing conflicts of interest; and

- Developing a process which accountants in practice could follow to identify and address conflicts of interest or potential conflicts of interest.

CAG members made the following comments on this project:

- Given the number of conflicts that can occur, it would be useful for the Code to contain additional guidance on conflicts of interest.

CAG members did not identify any projects that they thought should be given a higher priority than the projects on *Fraud and Illegal Acts* and *Conflicts of Interest*.

Action Requested

IESBA Members are asked to consider the comments above and confirm the proposed priority to be given to these projects. Members are also asked to consider whether they agree that the Fraud and Illegal Acts project should be split into two streams.

Strategic Planning Process

The planning process will include a survey of stakeholders to solicit views on future project priorities. The survey that was used in 2007 is included as Agenda Paper 5-B.

The subject is on the IESBA-NSS agenda and any views from that meeting will be reported at the April IESBA meeting.

At the CAG meeting, when discussing the Strategic Plan CAG members discussed integrity. It was noted that the FEE Ethics Committee currently has a project addressing integrity. It was also noted that the ICAEW has issued *Reporting with Integrity*.

After discussing the proposed revisions to the Code resulting from the Drafting Conventions project, CAG members provided the following views on topics that should be addressed sometime in the future:

- Differentiation of responsibility – the Code does not, in all cases, indicate who has the responsibility for a particular requirement;
- At some stage the IESBA should conduct a review of the effectiveness of the Code;
- A “fresh look” at Part C of the Code;
- Safeguards – the Code relies on a threats and safeguards approach and should, therefore, define the term safeguard. The Code does not adequately distinguish between a safeguard that specifically mitigates an identified threat and safeguards that are equivalent to general quality control or best practices;
- Inadvertent violations – greater guidance should be given on how the inadvertent violation provisions would be applied; and
- The distinction and linkage between objectivity and integrity is not as clear as it could be.

It is proposed that the IESBA develop a Strategic Plan for the 2010-2012 period according to the following process and timetable:

Quarter	Activity
2009 Q2	IESBA discuss process Planning Committee develop survey based on input from IESBA and IESBA-NSS Survey key stakeholders
2009 Q3	Planning Committee develop draft Strategic Plan CAG consulted on draft plan
2009 Q4	IESBA discuss and approve Strategic Plan Exposure period
2010 Q1	IESBA approve revised Strategic Plan
2010 Q2	IESBA Strategic Plan issued after PIOB consideration and approval of due process

Action Requested

IESBA Members are asked to consider the above and provide direction to the Planning Committee.

Material Presented

Agenda Paper 5	This Agenda Paper
Agenda Paper 5-A	IESBA Strategic and Operational Plan 2008-2009
Agenda Paper 5-B	2007 IESBA Strategic review Questionnaire

Action Requested

1. IESBA members are asked to consider the questions contained in the agenda paper.