

Draft Exposure Draft

October 2009

Comments are requested by December 31, 2009

International Ethics Standards Board for Accountants

**Strategy and Work Plan, 2010-
2012**



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Ethics Standards Board for Accountants (IESBA), approved the release of this exposure draft of the IESBA's Strategy and Work Plan for the period 2010-2012 on October 20, 2009. The IESBA's proposed Strategic and Operational Plan may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **December 31, 2009**. All comments will be considered a matter of public record. Comments should be addressed to:

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International Ethics Standards Board for Accountants
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545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Email responses should be sent to: Edcomments@ifac.org

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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**EXPLANATORY MEMORANDUM ON THE
PROPOSED IESBA STRATEGY AND WORK PLAN 2010-2012
CONTENTS**

	Page
Introduction	3
Background	3
Content of Proposed Strategy and Work Plan	3
Completion of Current Work Plan	3
Proposed Future Work Plan	4
Guide for Commentators	4
Proposed IESBA Strategy and Work Plan, 2010-2012	5

EXPLANATORY MEMORANDUM

Introduction

This memorandum provides some background to, and an explanation of, the exposure draft of the IESBA's proposed Strategy and Work Plan for the period 2010-2012, released for public comment in October 2009.

The IESBA's current Strategic and Operating Plan, issued in March 2008, set the direction and priorities for the activities of the IESBA to December 2009. The IESBA has developed a new Strategy and Work Plan and seeks comments on its proposed strategic direction and intended projects and activities for the period 2010-2012. The IESBA will consider comments received at its meeting in February 2010.

Background

The International Federation of Accountants (IFAC) is the worldwide organization for the accountancy profession. IFAC's mission, as set out in its constitution, is "to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of international economies by establishing and promoting adherence to high quality professional standards, furthering international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant."

The IESBA develops ethical standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IESBA, and the IESBA Consultative Advisory Group, which provides public interest input into the development of the Code. In addition, the IESBA promotes good ethical practices and fosters international debate on ethical issues faced by professional accountants.

Content of Proposed Strategy and Work Plan

The proposed Strategy and Work Plan outlines how the IESBA works to achieve its objective as set out in its Terms of Reference, which is to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants throughout the world and strengthening public confidence in the global accounting profession.

Completion of Current Work Plan

In meeting this strategy, the IESBA intends to complete two projects that were indicated as a high priority in the previous plan. 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 and Drafting Conventions projects:

- *Conflicts of Interest* – The project will consider whether to expand the guidance in the Code on conflicts of interest; and

- *Responding to Fraud or Illegal Acts* – This project will provide guidance for professional accountants on how to respond in situations where they encounter a suspected fraud or illegal act.

In addition, throughout the period, the IESBA will continue to consider whether additional materials would assist in the adoption and implementation of the revised Code of Ethics for Professional Accountants (the Code) that was issued by the IESBA in July 2009.

Proposed Future Work Plan

In confirming the priority of its current work plan and in considering new projects and activities, the IESBA sought the views of interested parties on matters which should be considered by IESBA in the next few years. The IESBA issued a survey to key stakeholders, which was also posted on the web site, and consulted with members of the IESBA CAG. The IESBA has considered this input in prioritizing future projects. The proposed work plan is contain in appendix 2 to the Strategy and Work Plan.

Guide for Commentators

The IESBA would like to receive comments on all matters related to its proposed Strategy and Work Plan for the period 2010-2012. Anyone offering comments should refer to specific sections of the proposed Strategy and Work Plan, include the reasons for the comments, and, where appropriate, make explicit suggestions for proposed changes. The IESBA would also like to hear from respondents agreeing with this exposure draft.

**INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS
PROPOSED STRATEGY AND WORK PLAN 2010-2012
CONTENTS**

	Page
Chair's Statement	6
Strategy	8
Work Plan 2010-2012	11
Appendix 1 IESBA Projects and Activities 2010-2012	13
Appendix 2 IESBA Work Plan 2010-2012	15
Appendix 3 Alignment of IFAC and IESBA Strategy	17

CHAIR'S STATEMENT

I am pleased to present the proposed Strategy and Work Plan 2010-2012 of the International Ethics Standards Board for Accountants (IESBA).

Vision

The objective of the IESBA is to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants.

There are compelling reasons for convergence of the ethical standards, and in particular auditor independence requirements, with a robust, international appropriate and generally accepted code. High quality ethical standards are vital to building and sustaining trust in capital markets. Convergence to a single set of ethical standards in the accountancy profession will enhance the efficiency and transparency of the global capital markets.

Going forward, therefore, our strategy is to build on the strong base the IESBA established by issuing the revised Code of Ethics for Professional Accountants in July 2009, promote further the benefits of convergence to a single set of high quality ethical standards and engage in an active dialogue to understand and address barriers to convergence.

The Strategy and Work Plan set out in this document reflect the outcome of consultations that have contributed significantly to establishing the priorities of the IESBA over the next few years.

Strategy

In its 2008-2009 work plan, the IESBA devoted a significant amount of time and resources to clarifying the requirements of the Code and strengthening the independence requirements. These revisions included changes to improve the clarity of the Code and to develop a robust Code that meets the needs of stakeholders globally and protects the public interest.

The IESBA's stated objective as set out in its Terms of Reference¹ confirms that its primary role is that of a standard setter. Consultations, including through the survey of key stakeholders, have confirmed the IESBA's view that it should be active in providing adoption and implementation support materials and should actively further its objective of convergence.

Accordingly, the proposed Strategy and Work Plan 2010-2012 focuses on:

- Development of standards;
- Adoption and implementation; and
- Communications.

¹ The terms of Reference can be accessed at <http://www.ifac.org/Ethics/>.

Development of Standards

To maintain a robust Code that remains relevant, the IESBA plans some revisions to the Code. In particular, it plans to provide additional ethical guidance for professional accountants in the areas of conflicts of interest and responding to fraud and illegal acts. The IESBA also plans to address the scope of the application of the related entity definition in the audit of collective investment vehicles, including mutual funds.

Adoption and Implementation

The IESBA plans to identify and address barriers to further adoption and implementation of the Code, and to ensure that the content of the Code facilitates its global acceptance and adoption.

The IESBA believes that open and transparent sharing of information with its stakeholders, including national standard setters and regulators, and being receptive to their input and feedback are critical to gaining further acceptance and adoption of the Code. The IESBA's communication activities reflect this belief.

Communications

The IESBA will continue to communicate its activities and publications. During the period of this Strategy and Work Plan an increase focus of our communications initiatives will be directed at facilitating global acceptance and adoption of the Code.

Conclusion

On behalf of the IESBA, I would like to thank all those who contributed to the successful development of the revised Code that the IESBA released in July 2009. It is important that the Strategy and Work Plan 2010-2012 builds on strong base established by this Code and furthers its global acceptance and adoption.

I hope that the direction of our work will be seen as responding to the feedback that we have received, and to the public interest, which must be our overriding concern. Of course, events and circumstances may require us to amend our plan, and for this reason it will be kept under constant review.

Richard George, IESBA Chair

STRATEGY

The proposed Strategy and Work Plan sets the direction and priorities for activities of the International Standards Board for Accountants (IESBA)² for the three year period from 2010-2012. It considers the overall strategy of IFAC (see Appendix 3) and the IESBA's objective as established in the IESBA's Terms of Reference. It responds to the developments in the environment in which professional accountants provide services and in which standards for professional ethics are established. The projects and activities also assist the IESBA in facilitating convergence of international and national ethical standards. The proposed Strategy and Work Plan is underpinned by the IESBA's communication initiatives.

This section sets out the IESBA's strategic focus for 2010-2012. The next section contains the planned work plan to implement the IESBA's strategy.

Development of Standards

In 2009, the IESBA completed its revisions to the Code to clarify the requirements for all professional accountants. It also significantly strengthened the independence requirements for auditors. These revisions have created a robust Code that has been re-drafted in a manner to promote consistent application.

In the next few years, the IESBA intends to strengthen the Code further by providing additional ethical guidance for professional accountants in the areas of: conflicts of interest and responding to fraud and illegal acts. The IESBA also plans to address the scope of the application of the related entity definition in the audit of collective investment vehicles, including mutual funds.

Adoption and Implementation

Convergence of international and national ethical standards is an important strategic initiative of the IESBA. High quality ethical standards are vital to building and sustaining trust in capital markets. Convergence to a single set of ethical standards in the accountancy profession will enhance the efficiency and transparency of the global capital markets. During the period of this strategic plan the IESBA will place an increased focus on understanding barriers to adoption of the Code. It will also provide support for adoption and implementation of the Code, thus furthering its convergence objective.

The revised Code was issued in July 2009, with an effective date of January 1, 2011. To allow members bodies and firms with an appropriate period of time to adopt and implement the revisions, the IESBA plans to provide a period of stability during which no new independence requirements will take effect. The IESBA, therefore, plans to provide a period of at least two years after the effective date of the revised Code during which no new independence requirements will become effective, unless there is an urgent need to respond to new or unforeseen circumstances.

² More information on the IESBA is available at www.ifac.org/ethics.

The IESBA recognizes that the effective adoption and implementation of the Code is as important as its development. The issuance of the revised Code was, therefore, followed by the issuance of materials to support adoption and implementation of the Code³. These materials include: PowerPoint presentations that can be used to explain the content of the Code; comparisons with the existing Code; a template that assists individuals to understand how the provisions in a jurisdiction match up with the Code and an overview of the independence requirements in the Code. The IESBA will continue to assess what additional material or activities would be useful to support further the adoption and implementation of the Code.

Under the IFAC Statements of Membership Obligations, a member body of IFAC is required to apply no less rigorous standards than those stated in the Code unless prohibited by law or regulation from complying with certain parts of the Code, in which case it should comply with all other parts of the Code⁴. In addition, the members of the Forum of Firms agree to meet the Forum's membership obligations which include, with respect to transnational audits, policies and methodologies which conform to the Code⁵.

The IESBA intends to identify and understand any barriers to further adoption of the Code. In this regard, the IESBA plans to engage in active dialogue with national standard setters and regulators.

The IESBA will monitor the work of the International Auditing and Assurance Standards Board's project to develop a process for assessing the effectiveness of the implementation of new standards with the aim to develop a process that can be applied to the implementation of the Code. The intention is that this would become a standing part of the IESBA's process of continuous improvement of its standards.

The IESBA's activities with regard to adoption and implementation and convergence are highlighted in the work plan but, being ongoing in nature, are not allocated to specific time periods. The work plan provides for periodic reports to the IESBA in this regard.

Communications

The IESBA's communication initiatives are aimed at keeping stakeholders informed of its activities and to promote the adoption and implementation of the Code. They also enable the IESBA to be aware of recent developments in the environment in which professional accountants provide services, and to hear any concerns about the requirements in the Code and their implementation.

The IESBA issues press releases and eNews communications that report on its work plan, activities and progress in achieving its objectives. It further promotes its activities and publications through the IESBA website, <http://www.ifac.org/Ethics/>, and by way of presentations.

³ The adoption and implementation support materials, which are non-authoritative and issued for information purposes, are available at <http://www.ifac.org/Ethics/Resources.php#implementation-and-adoption>.

⁴ Statement of membership Obligations 4 paragraph 4.

⁵ Forum of Firms Constitution Part 2 paragraph 4d)iii).

The IESBA's activities with regard to communication are highlighted in the work plan but, being ongoing in nature, are not allocated to specific time periods. The work plan provides for periodic reports to the IESBA in this regard.

WORK PLAN 2010-2012

The IESBA has considered the relative priorities and importance of its activities for the period 2010-2012 and has determined a work plan for that period. In developing this work plan the IESBA conducted a formal survey of key stakeholders to obtain their views about issues that they believe should be addressed in the immediate future. The work plan is based on the IESBA's current working procedures, level of activity and resources.

The work plan is subject to periodic revision and changes by the IESBA. A new project is subject to the IESBA's approval of a project proposal that confirms that it is appropriate to commence the project, taking into account the effective and efficient utilization of resources, the likely output of the project and its timescale. In the future, this decision may also be informed by an assessment of the impact of a proposed revision to the Code.

The IESBA plans to continue work on the two projects that it commenced in late 2009:

- *Conflicts of Interest* – The project will consider whether to expand the guidance in the Code on conflicts of interest; and
- *Responding to Fraud or Illegal Acts* – This project will provide guidance for professional accountants on how to respond in situations where they encounter a suspected fraud or illegal act.

The IESBA also plans to commence a project:

- *Independence – Application of Related Entity Concept in Audits of Collective Investment Vehicles.*

Appendix 1, IESBA Projects and Activities 2010-2012, shows the projects and activities to be undertaken and the quarter in which each activity or project will commence. Appendix 2, IESBA Work Plan 2010-2012, provides a more detailed description of each project and reflects how the IESBA intends to advance work on its projects.

Key Assumptions

The following key assumptions have been made in developing the IESBA's work plan for the period 2010-2012:

- The IESBA meets for 2-3 days, 3-4 times per year (generally for a total of 6-10 days per year);
- The amount of meeting time needed to discuss a project varies significantly depending upon the scope of the project and the stage of its development;
- Time is needed between meetings for Task Forces to develop material for consideration by the full IESBA;

- The IESBA may hold a public forum or roundtable, or issue a consultation paper, in order to solicit views on a matter under consideration. The IESBA may also determine that it is appropriate to conduct a field test of the application of a proposal;
- Under the IESBA due process the exposure period for proposed revisions to the Code is a minimum of 90 days. In the case of a major or significant revision, the IESBA considers whether a longer period is appropriate. The IESBA is also mindful of the need of some jurisdictions to translate an exposure draft before providing input from that particular jurisdiction.
- Total lapsed time required for completion of a project ranges from 18-48 months, not including any period for re-exposure that might be necessary, and depends on the status of the complexity and scope of the project and the output of the project.

These factors have been taken into consideration in considering the projects that the IESBA will undertake in the period from 2010-2012 and in developing the Work Plan contained in the Appendix 2.

APPENDIX 1: IESBA PROJECTS AND ACTIVITIES 2010-2012

PROJECTS AND ACTIVITIES	COMMENCING
DEVELOPMENT OF STANDARDS	
Conflicts of Interest	Commenced Q4 2009
Responding to Fraud and Illegal Acts	Commenced Q4 2009
Independence – Application of the related entity concept in audits of collective investment vehicles	Q1 2011
ADOPTION AND IMPLEMENTATION GUIDANCE	
<ul style="list-style-type: none"> Determine how to implement any proposals that IFAC might adopt for the analysis of the impact of proposed revisions to the Code (impact analysis) 	Commenced Q4 2009
<ul style="list-style-type: none"> Active discussion with national standard setters and regulators to identify and address barriers to convergence of international and national ethical standards 	Ongoing
<ul style="list-style-type: none"> Liaise with IFAC Compliance Advisory Panel to gain understanding of extent of compliance by member bodies and gain understanding of any barriers to convergence 	Ongoing
<ul style="list-style-type: none"> Develop, as necessary, additional materials to support further the adoption and implementation of the Code 	Ongoing
<ul style="list-style-type: none"> Monitor the work of the International Auditing and Assurance Standards Board's project to develop a process for assessing the effectiveness of the implementation of new standards with the aim of developing a process that can be applied to the implementation of the Code 	Ongoing
<ul style="list-style-type: none"> Consult, as necessary, with the IFAC Small and Medium Practices Committee on issues of relevance to small and medium sized entities 	Ongoing
<ul style="list-style-type: none"> Consult, as necessary, with the IFAC Developing Nations Committee on issues of relevance to developing nations 	Ongoing

PROJECTS AND ACTIVITIES	COMMENCING
COMMUNICATION	
<ul style="list-style-type: none"> • Publish with each revision to the Code a short note of key changes introduced 	Ongoing
<ul style="list-style-type: none"> • Issue a press release, communicating the issue of each proposed or final revision to the Code and any other major activity of the IESBA; 	Ongoing
<ul style="list-style-type: none"> • Issue IESBA eNews communications 	Ongoing
<ul style="list-style-type: none"> • Promote activities of the IESBA through the IESBA website (this includes agenda material, meeting highlights and minutes, exposure drafts and related comment letter, final revisions to the Code and bases for conclusions) 	Ongoing

APPENDIX 2: IESBA WORK PLAN 2010-2012⁶

CURRENT PROJECTS⁷	STATUS	Q1 2010	Q2 2010	Q4 2010	Q1 2011	Q2 2011	Q4 2011	Q1 2012	Q2 2012	Q4 2012
Regular reports to the IESBA ⁸	On-going	✓	✓	✓	✓	✓	✓	✓	✓	✓
Strategic Plan	Current	Approve Final	Approve ED	Approve Final	Discuss 2012 Work Plan		Approve 2012 Work Plan		Issue ED for 2013-2104	Approve 2013-2104 Work Plan
Conflicts of Interest	Current	Issues Paper	Discussion	ED first read	Approve ED	Discussion	Consider ED comments and first read of final	Approve final		
Responding to Fraud and Illegal; Acts	Current	Discussion	Consultation paper first read	Consultation approval	Discussion	Review comments on consultation	Exposure draft first read	Exposure draft approval		Review ED comments
Independence – application of related entity concept in audits of collective investment vehicles	New				Approve project proposal	Discussion	Issues Paper	ED first read	Approve ED	Discussion

⁶ The work plan assumes that there will be no need to re-expose any of the projects.

⁷ A description of each project is contained on the next page.

⁸ These reports will cover progress and potential actions related to key matters on furthering adoption and implementation of the Code.

Conflicts of Interest	<p>The project will consider whether to expand the guidance in the Code on conflicts of interest and will address matters such as:</p> <ul style="list-style-type: none"> • 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 could follow to identify and address conflicts of interest or potential conflicts of interest.
Responding to Fraud and Illegal Acts	<p>A professional accountant in public practice or business may encounter situations including:</p> <ul style="list-style-type: none"> • 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. <p>Section 140 contains general guidance for all professional accountants regarding disclosure of confidential information. It identifies three circumstances where professional accountants are required, or may be required, to disclose confidential information:</p> <ul style="list-style-type: none"> • 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. <p>The Code does not contain any guidance on when there is a profession duty or right to disclose confidential information when not prohibited by law. The goal of the project is to provide guidance for professional accountants on how to respond in situations where they encounter a suspected fraud or illegal act</p>
Independence – Application of related entity concept in audits of collective investment vehicles	<p>The Code requires an auditor to be independent from certain related entities of an audit client. The definition of a related entity is based on control and significant influence (for example an entity is a related entity of an audit client if the client has control over than entity). This construct does not work well with collective investment vehicles, including mutual funds. For example, while a fund manger may determine the types of instruments in which the vehicle invests, the manager does not "control" the vehicle in the same way that an individual who own a majority of the equity of corporation controls that corporation. The project will consider the application of the related entity concept to such investment vehicles.</p>

APPENDIX 3: ALIGNMENT OF IFAC AND IESBA STRATEGY

The Strategic Plan⁹ of the International Federation of Accountants (IFAC) identifies four strategic themes reflecting the strategic direction of IFAC for the period 2009-2012.

Strategic Theme 1: Be recognized as the international standard setter in areas of auditing and assurance, education, ethics and governmental financial reporting

The IESBA's Strategy and Work Plan 2010-2012 will continue to focus on the development and maintenance of high quality ethical standards for professional accountants. By adhering to due process activities and ensuring widely held public consultation, the IESBA will have a direct impact on the confidence of the public in IFAC's standard setting activities.

Strategic Theme 2: Actively support the adoption of, and assist in the implementation of, international standards

The IESBA's Strategy and Work Plan 2010-2012 contains several activities that support the adoption of and implementation of the Code. Specifically the IESBA will actively discuss with national standard setters and regulators to identify and address barriers to convergence of international and national ethical standards.

Strategic Theme 3: Continually enhance the relevance of the profession

The IESBA's Strategy and Work Plan 2010-2012 contributes to the development of the global profession by seeking to further convergence to a single set of high quality ethical standards for professional accountants.

Strategic Theme 4: Be an influential voice for the global accountancy profession

The IESBA's Strategy and Work Plan 2010-2012 includes outreach activities with stakeholders including IFAC member bodies.

⁹ International Federation of Accountants Strategic Plan for the period 2009-2012, available at <http://www.ifac.org/About/StrategicPlan.php>.



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