



**INTERNATIONAL FEDERATION
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Agenda Item

8

Committee International Ethics Standards Board for Accountants

Meeting Location: JICPA, Tokyo, Japan

Meeting Date: October 19-20, 2009

Strategic Planning

Objectives of Agenda Item

1. To discuss and approve the IESBA's Strategic Plan for the period 2010-2012.

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 approved the changes resulting from the drafting conventions project at its April meeting and, after PIOB consideration of due process, the revised Code was issued in early July 2009. The IESBA is, therefore, 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 Strategic Plan is exposed for public comment for a period of no less than 60 days. The IESBA considers the comments received on exposure as it revises and finalizes the plan. Consistent with other documents, the input of the CAG is sought at key stages and the final plan is issued after PIOB consideration and approval of due process.

Discussion

2008-2009 Strategic and Operational Plan

In addition to convergence and implementation support, the 2008-2009 Strategic and Operational Plan identified three projects for the period:

- Ethical Responsibilities of Accountants when Encountering Fraud and Illegal Acts
- Conflicts of Interest
- Accountants in Government

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 and Operational Plan and provided some views on project priorities. CAG members were generally supportive that the proposed projects were the next ones which should be addressed.

The Planning Committee has developed projects proposals for the projects *Conflicts of Interest* and *Responding to Fraud and Illegal Acts* which are presented in Agenda Papers 2 and 3, respectively. The project proposal on Conflicts of Interest was discussed with the CAG at its meeting in September 2009, the project proposal on Responding to Fraud and Illegal Acts will be discussed at its March 2010 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.

CAG members made the following comments on this project at the March 2009 meeting:

- 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.

The National Standard Setters did not express a view on the priority of this project but noted that internal auditors also conduct assurance engagements. It was noted that one jurisdiction had developed an additional section in its Code of Ethics addressing independence requirements for professional accountants than are not in public practice that perform assurance engagements.

The IESBA discussed this project at its April 2009 meeting and made the following comments:

- Changes made to the Code as a result of the Independence I and II projects may have addressed some of the issues to be considered by the project.
- Since 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), the project may be of a lower priority compared to other projects the IESBA is considering.
- Liaison with the International Organization of Supreme Audit Institutions is important in the context of this project.

Survey of Stakeholders

The Planning Committee considered a survey of stakeholders which was then released in mid-June 2009 with a requested response date of the end of July. The survey was widely released including to all PIACs, PIAC CAGs, Forum of Firms members, IESBA-NSS Members, respondents to previous exposure drafts and IFIAR. The survey was also placed on the IESBA website.

The survey stated that the Fraud and Illegal Acts and Conflicts of Interest were priorities of the Board and asked respondents to confirm the priority of these two projects. The survey also identified other possible projects (which had either been suggested by the National Standard Setters or by respondents to IESBA strategic review in 2007) and requested input on the priority of these projects and contained some opened ended questions to allow respondents to identify other possible projects.

Results of Survey

The survey response date was the end of July 2009 but the survey was held open until August 5, 2009 to allow for late responses. Agenda Paper 8-A provides an analysis of the comments received.

The following responses to the survey were received:

Response	Count	Percent
Professional Accountant in Public Practice	28	27.7%
Professional Accountant in Business	4	4.0%
User of Financial Statements (e.g., Investor, Customer, Creditor / Supplier, Lender, Analyst)	1	1.0%
Standard Setter	2	2.0%
Regulator	8	8.0%
IFAC Member Body	41	40.5%
Other	35	16.8%
Total	101	100%

Survey respondents were informed that individual responses would not be on the public record but would be summarized for discussion purposes. It was noted that the summary would not identify the names of organizations or respondents.

The Planning Committee had an initial review of the comments received at its meeting in July 2009 and on a conference call in August 2009. The CAG considered the initial reactions of the Planning Committee at its meeting in September 2009. The Planning Committee met after the CAG meeting to consider the CAG comments and determine the projects that should be included in the proposed strategic plan.

Overall comments

While the number of responses from professional accountants in business and users was low and the absence of responses from some stakeholders was disappointing, the responses were strongly supportive of the identified projects priorities and support an emphasis on convergence of international and national standards.

Comments by Section

Part 2: Implementation Support

Many respondents either stated that no additional material was necessary or expressed the view that the items noted should be sufficient to support implementation of the Code. Some respondents expressed the view that case studies and or examples of application of the Code would be useful support materials. Some respondents stated that the IESBA should develop material to provide assistance for application and implementation of the Code in an SMP environment.

The Planning Committee has considered these comments and its view is that, given the limited resources of the Board, the development of case studies is not a high priority. It is of the view that a short paper outlining the implications of the Code in an SMP environment would be useful and, therefore, recommends that this be developed and added to the implementation support tool-kit.

Part 3: IESBA Possible Future Projects

3.1 Conflicts of Interest

92% of respondents expressed the view that this project was either very important or important. The Planning Committee has developed a project proposal for this project which is included as Agenda Paper 2.

3.2 Fraud and Illegal Acts

91% of respondents expressed the view that a project to develop ethical guidance for professional accountants who encounter fraud or illegal acts was either very important or important. The Planning Committee has developed a project proposal for this project which is included as Agenda Paper 3.

3.3 Independence Requirements for Accountants not in Public Practice who Perform Assurance Engagements

The project would address independence requirements for other professional accountants that perform assurance engagements such as accountants in government and internal auditors.

54% of respondents expressed the view that this project was either very important or important. CAG members discussed this project and the following comments were noted:

- While such guidance would be important it is a lower priority than the projects addressing conflicts of interest and responding to fraud and illegal acts;

- There may not be many members of member bodies of IFAC who are in such a role, therefore the project should be a lower priority

The Planning Committee has considered the matter and, in light of the survey responses and the comments from CAG members, recommends that this project is not included on the work plan for 2010-2012.

3.4 Ethical Guidance for Professional Accountants in Public Practice Providing Non-Assurance Services

The project would address additional ethical guidance for professional accountants in public practice that provide non-assurance services such as financial advisory services, taxation services and actuarial advisory services.

65% of respondents expressed the view that this project was either very important or important. CAG members discussed this project and the following comments were noted:

- Inherently this is a very difficult project because the boundary of services provided by accountants is very broad;
- A professional accountant has to comply with the Code of Ethics, which provides the appropriate level of guidance; and
- With the recent global financial crisis a view was expressed that it is surprising that respondents did not give this a higher priority.

After a wide ranging discussion, CAG members expressed the view that if this was an area that the IESBA wished to explore it would be useful to develop more detailed questions to determine if additional guidance was needed and, if so, the areas that should be targeted. A suggestion was made that the CAG might give further thought to this matter at its March 2010 meeting.

The Planning Committee has considered the matter and, in light of the survey responses and the comments from CAG members, recommends that this project is not included on the work plan for 2010-2012.

3.5 Independence – Collective Investment Vehicles Including Mutual Funds

This project would develop guidance in the Code on the application of the related entity definition in the audits of collective investment vehicles including mutual funds. 48% of respondents expressed the view that this project was either very important or important.

CAG members did not comment on this project.

The Planning Committee has considered this project. It notes that the definition of related entities in Section 290 is based on control and significant influence. This construct does not work well with collective investment vehicles, including mutual funds. For example, while the fund manager may determine the types of instruments in which the collective investment vehicle invests, the manager does not “control” the vehicle in the same way that, for example, a 51% owner of a corporation controls that corporation. The Planning

Committee recognizes that there are large number of collective investment vehicles that are subject to audit. Some jurisdictions have recognized that the application of the related entity concept requires special consideration for collective investment vehicles and have, therefore, issued additional guidance in this area. Recognizing the need for guidance and the complexity of the issue, the Planning Committee recommends that the IESBA commence a project to address this issue and determine the appropriate scope of the application of the related entity concept to collective investment vehicles. In light of the desire to maintain a period of stability for independence requirements, the Planning Committee recommends that a project proposal to address this issue be approved in Q1 2011.

3.6 Other Projects for Part B of the Code

Respondents to the survey were asked whether in light of the IESBA's identified priorities and possible other projects described in survey, there were any other matters that should be addressed in Part B of the Code. While several respondents suggested additional topics for Part B, there was no consensus on which topics should be addressed. In addition, many respondents expressed the view that there should be a period of stability before any further independence standards were issued to allow time for adoption and implementation.

CAG members did not raise any additional matters that should be addressed in Part B of the Code.

The Planning Committee has considered the matter and, in light of the survey responses and the comments from CAG members, recommends that, absent any urgent issues, there should be a period of stability to allow time for adoption and implementation of the Part B.

3.7 Other Projects for Part C of the Code

Respondents to the survey were asked whether in light of the IESBA's identified priorities and possible other projects described in survey, there were any other matters that should be addressed in Part C of the Code. Several respondents stated that the IESBA should review Part C of the Code. While these respondents did not suggest any specific projects there was recognition that Part C of the Code had not been reviewed or updated for some time.

CAG members did not raise any additional matters that should be addressed in Part C of the Code.

The Planning Committee has considered the comments from survey respondents and from CAG members and its view is that sections of Part C will be updated through the Conflicts and Fraud and Illegal Acts projects. Respondents did not identify any specific sections of Part C that needed to be addressed; consequently, the Planning Committee does not recommend any additional projects for Part C of the Code.

3.8 Any other projects

Respondents were asked whether there were any other matters that should be addressed in the Code. Some respondents suggested that IESBA consider whether the structure of the Code might be a barrier to convergence. These comments are discussed under Part 5 below.

CAG members did not raise any additional matters that should be address in the Code.

The Planning Committee has considered the comments from survey respondents and from CAG members and its view is that there are no other projects that should be addressed in the period of the strategic plan.

4.0 Other IESBA Initiatives

Respondents were asked whether there were other matters that should be a priority for the IESBA. The survey noted that the IESBA's objective, as established in its Terms of Reference, includes the promotion of good ethical practices and fostering international debate on ethical issues faced by professional accountants thus assisting in furthering IFAC's strategic objective of speaking out on public interest issues relating to ethics. In light of this objective, respondents were asked whether the IESBA should undertake any initiatives in this area such as, for example, developing thought pieces on matters such as integrity.

Several respondents stated that it would be useful for the IESBA to issue a thought piece on integrity and noted that ICAEW and FEE had issued material in this area which could be useful to the discussion. Other respondents, however, stated that IESBA should not issue such thought pieces.

CAG members discussed this matter and the following comments were noted:

- The matter of integrity is important and is linked to the issue of reputational risk to the firm. While the Code applies to professional accountants there are individuals within the firm who are not professional accountants and their behaviour can impact the reputation of a firm and, therefore the profession; and
- While it is the cornerstone of the profession, it was difficult to see whether a thought piece issued by IESBA would be effective in a global environment.

The Planning Committee has considered these comments and its view its recommendation is that while issuing a thought piece on integrity might not be a priority for IESBA, the issue of factors that lead to the reputational risk of the firm was a matter that might be worth exploring further. A suggestion was made that the CAG might give further thought to this matter at its March 2010 meeting.

5.0 Finalizing the Survey

Respondents were asked whether there were other issues that the IESBA should consider as it develops the 2010-2012 Strategic Plan.

Several respondents emphasized the need for a pause in new standards on independence to provide firms and member bodies time to implement the revised Code.

Several respondents emphasized the need for the IESBA to consider the implications of the Code in an SME/SMP environment and one suggested that the IESBA consider the merits of the EC's "think small first" proposals and how they might work for Ethics.

Several respondents stated that IESBA should focus on promoting the Code and furthering its objective of international convergence. These respondents suggested various actions the IESBA should take in furthering this objective including:

- Engaging with regulators and NSS in the 10-15 most strategically important jurisdictions and understand the barriers that exist to the adoption in these jurisdictions of the Code as promulgated; and
- Working closely with the IFAC Compliance Advisory Panel to seek comprehensive and timely adoption of the revised Code by all member bodies.

CAG members considered the matter and made the following comments:

- Convergence should be a priority of the IESBA but there are considerable challenges especially with respect to independence;
- There are also challenges because member bodies need time to implement the revised Code;
- While this is a priority it may be that it is more of an issue for the 2012 plan and onwards; and
- The challenges with respect to convergence may be more significant for the SMP/SME constituents.

The Planning Committee considered these comments and recommends that, with respect to the issue of SMP/SME a short paper outlining the implications of the Code in an SMP environment be developed and added to the implementation support tool-kit.

Convergence is discussed under Agenda Item 9.

Material Presented

Agenda Paper 8	This agenda paper
Agenda Paper 8-A	Results of survey of key stakeholders
Agenda Paper 8-B	Draft Strategic Plan 2010-2012

Action Requested

1. IESBA members are asked to consider the results of the survey of stakeholders, comments from the CAG and approve the Strategic Plan for exposure.