



International Ethics Standards Board for Accountants

Meeting Summary February 6-8, 2011

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This meeting summary of the International Ethics Standards Board for Accountants (IESBA) is for information purposes only. Except for approval of documents for public exposure and issuance of final pronouncements, all decisions are tentative and reflect only the current status of discussions on projects, which might change after further deliberation by the IESBA.

Strategy and Work Plan

The IESBA approved its work plan for the period 2011-2012, which sets the direction and priorities for the IESBA. During this period the IESBA intends to build on the strong base established by the revised Code of Ethics for Professional Accountants issued in July 2009. The plan comprises three activities:

- Development of standards—additional guidance on conflicts of interest; guidance on responding to suspected fraud and illegal acts; review of the inadvertent violation provisions
- Supporting adoption and implementation of the Code—issuance of additional staff Q&As as needed; understanding compliance issues faced by SMPs/SMEs
- Efforts to facilitate convergence of the Code with the standards of other jurisdictions

Conflicts of Interest

The IESBA reached the following tentative decisions:

- A description of a conflict of interest, rather than a definition, would be included in the Code.
- Guidance would be structured in the following order—description, examples, reasonable and informed third party test, identifying/evaluating significance, and safeguards.
- The project scope should be expanded to include guidance on ethical behavior in Section 320.
- May be appropriate to require disclosure and consent in all cases, as opposed to being one of several safeguards; Task Force will consider.
- Interest/relationship of network firms should be considered if a firm has reason to believe it creates a conflict.
- The guidance will apply to firms as well as individuals. Since the term "professional accountant" includes "the firm," it is not necessary to specifically refer to the "firm" in the guidance.

The IESBA will consider a draft of the proposals at its June 2011 meeting.

Responding to Suspected Fraud and or Acts

The IESBA reached the following tentative decisions:

- Process for responding will vary depending on whether the accountant is in public practice or in business.
- Breaching confidentiality is a significant act and should not occur based on a highly subjective judgment of what is unethical/improper; Definitions of "fraud" and "non-compliance" in ISA 240 and 250, respectively, are appropriate for guiding the scope of the project with respect to what might get disclosed outside of the client or employing organization.
- Disclosure outside of the client or employing organization should be required if it is in the public interest to do so and not contrary to local law. Factors to consider could include the significance to financial reporting, extent to which external parties are affected, and likelihood of recurrence.
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- Not all illegal acts should fall within the scope of the guidance, but focusing only on those that have a direct/indirect effect on financial reporting might be too limiting and that focus should be extended to matters that are within the expertise of the professional accountant.
- Consideration may need to be given to whether protection is afforded the accountant under the law (e.g. whistle-blowing legislation) and there is an appropriate authority to disclose information to.

The IESBA will consider a draft of the proposals at its June 2011 meeting.

Inadvertent Violation

The IESBA reached the following tentative decisions:

- Guidance to deal with violations is needed that focuses on addressing the impact of a violation, regardless of whether it was inadvertent.
- Guidance should address only independence violations.
- Consideration will be given to reducing the risk that the guidance would promote willful violations.
- Guidance should require discussion with those charged with governance. May be appropriate to require that all violations be reported, even insignificant violations. The Task Force will consider.
- Specific documentation requirements should apply.

The IESBA will consider a draft of the proposals for approval as an exposure draft at its June 2011 meeting.

SME/SMP Working Group

The IESBA approved the terms of reference of an IESBA SME/SMP Working Group. The Working Group's objective will be to determine what unique and challenging issues SMEs and SMPs face in complying with the Code, particularly with respect to SMPs serving SMEs. The Working Group

will recommend to the IESBA ways in which the board might address the issues.

Definition of Professional Accountant

The IESBA discussed a paper prepared by IFAC staff addressing the definition of a professional accountant which is defined as “an individual who is a member of an IFAC member body.” IFAC staff have developed a proposed new definition to address concerns raised that the existing definition does not recognize that professional accountants may not necessarily be members of IFAC member bodies. The IESBA agreed to form a small working group to consider the implications of the proposed definition on the Code.

IFAC Exposure Draft Public Interest Framework

The IESBA discussed the IFAC exposure draft containing a policy position paper “A Public Interest Framework for the Accountancy Profession.” The IESBA agreed that it would provide a verbal response to the Exposure Draft.

EU Green Paper

The IESBA received an overview of the responses to the EU Green Paper *Audit Policy: Lessons from the Crisis*. The IESBA agreed that it would closely monitor developments with the view to better informing the IESBA of issues it may wish to address as a result of comments to the Green Paper.

Internal Audit

The IESBA discussed comments received by the International Auditing and Assurance Standards Board on its exposure draft ISA 610 Using the Work of Internal Auditors regarding the interaction of the definition of engagement team and the provision of direct assistance by internal auditors. The IESBA agreed to consider the matter further, including whether a revision to the definition would be appropriate, at its June 2011 meeting.

Next Meeting

The next meeting of the IESBA is scheduled to be held on June 15-17, 2011 in Warsaw, Poland.