

Agenda Item 5



Meeting Location: Conrad Ballroom, Conrad Hotel, Dublin, Ireland

Meeting Date: February 20-22, 2012

IESBA Staff Documents

Objectives

1. To consider and approve a process for developing and issuing staff publications
2. To commission a staff publication

Background

Under its terms of reference, IESBA is required to be transparent in its activities and, in developing the Code and its interpretations, to adhere to due process approved by the PIOB. The Due Process and Working Procedures, approved by the PIOB requires, among other matters:

- A project proposal to start a new project, which is circulated to other IFAC Boards and Committees, and approved by IESBA in a meeting open to the public;
- Public exposure of no less than 90 days;
- Interaction with the IESBA Consultative Advisory Group on proposals to start new projects, significant issues relating to the development of a change to the Code, and significant issue raised in comments letters on exposure drafts and the PIAC's related response;
- Approval of the final changes to the Code, in a meeting open to the public and a determination as to whether re-exposure if necessary; and
- The changes to be released only after the PIOB has confirmed that due process was followed effectively with proper regard for the public interest.

This process takes time and is not ideal if there is an urgent and/or emerging issue that warrants a timely response. It is proposed that a new model is needed which allows IESBA to respond to such matters on a timely basis. This model is through an IESBA Staff Ethics Alert.

Matters for Discussion

Proposed Mechanism

The IAASB has established a formal process for the issuance of staff documents which clarifies the respective involvement of IAASB members and staff. The IAASB have

issued staff alerts and staff questions and answers. Agenda Paper 5-A contains an example of a staff alert. IESBA staff recommends that IESBA adopt a similar process for developing and issuing a staff publication as described below.

In December 2010, the IESBA staff issued some Questions and Answers on implementing the Code. While the IESBA did not, at that time, have a formal process for the development of such a document, the process followed was substantially the same as proposed below. Although a small group of IESBA members was not officially appointed to advise staff on the development, staff did consult closely with a few members and technical advisors.

1. The IESBA is responsible for commissioning a staff publication.
2. In commissioning a staff publication, the IESBA advises staff on matters relevant to the development of the publication. This may include instructing staff on matters which would not be appropriate for inclusion in the publication.
3. For each publication, the IESBA Chair and IESBA Deputy Director, appoints a small group of IESBA members, and others as appropriate, to advise staff on the development of the publication. This advisory group provides input on technical and drafting matters, and reviews the general quality of the draft publication.
4. Before a staff publication is issued, all IESBA members are provided an opportunity to consider and comment on whether it is consistent with, and does not extend beyond, the authoritative pronouncement to which it relates.
5. Staff, in consultation with the appointed advisory group, is responsible for addressing any substantive concern raised by IESBA members. All IESBA members are then provided an opportunity to consider and comment on how these concerns have been addressed by staff.
6. The IESBA Deputy Director, in consultation with the IESBA Chair, is responsible for approving release of a staff publication. Staff publications are made available only on the IESBA's website.

It is proposed that IESBA staff alerts would be "Staff Ethics Alert".

It is proposed that each staff alert contain the following disclaimer (which is modeled on the language contained in the December 2010 Question and Answer:

This publication has been prepared by the IESBA staff. It does not amend or override the Code, the text of which alone is authoritative. Reading this document is not a substitute for reading the Code. This document is not meant to be exhaustive and references to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

Action Requested

IESBA members are asked to consider and approve the proposed process for developing a staff publication.

First IESBA Staff Alert

Assuming that IESBA members are in agreement with the need to establish a process to develop a Staff Ethics Alert IESBA members are asked to commission an alert addressing the implications of a downward pressure on fees.

In the past year, regulators from the USA, UK, Australia, Canada, the International Forum of Independent Audit Regulators and others have expressed concern that downward pressure on audit fees in the current economic environment could lead to audit quality being compromised. Regulators have indicated that they will be paying particular attention to this matter.

The Code contains a section on fees and other types of remuneration. Paragraph 240.1 states:

When entering into negotiations regarding professional services, a professional accountant in public practice may quote whatever fee is deemed appropriate. The fact that one professional accountant in public practice may quote a fee lower than another is not in itself unethical. Nevertheless, there may be threats to compliance with the fundamental principles arising from the level of fees quoted. For example, a self-interest threat to professional competence and due care is created if the fee quoted is so low that it may be difficult to perform the engagement in accordance with applicable technical and professional standards for that price.

The IESBA staff is of the view that it would be useful to issue a Staff Ethics Alert that highlighted the concern expressed and reminded accountants of the guidance contained in the Code, including examples of safeguards that might be appropriate in the circumstances.

Action Requested

IESBA members are asked to consider the issue and commission the staff publication.

Material Presented

Agenda Paper 5
Agenda Paper 5-A
Agenda Paper 5-B

This Agenda Paper
IAASB Staff Alert on External Confirmations
IESBA Staff Questions and Answers December 2010

Actions Requested

1. IESBA members are asked to address the questions raised in the paper.