

**Matters for Consideration – Survey for 2014-2016 Strategy and Work Plan****Background**

1. In accordance with IFAC's due process and working procedures for its Public Interest Activity Committees (PIACs), a PIAC's strategy review involves a formal survey of its key stakeholders to obtain views about issues that they believe should be addressed by the PIAC in the immediate future. The development of the PIAC's strategy and work program includes the issue of a consultation paper for public comment, placed on the IFAC website where it can be accessed free of charge by the general public, for ordinarily no less than 60 days. The PIAC considers the results of the public consultation in formulating, as necessary, a revised strategy and work program.
2. For reference, the IESBA's *Strategy and Work Plan 2011-2012*, issued in May 2011, is attached as Agenda Item 6-B.
3. At its February 2012 meeting, the IESBA undertook a review of its current strategy in the light of developments in a number of major jurisdictions regarding measures to strengthen auditor independence in the aftermath of the global financial crisis. During the discussion, the IESBA noted, among other matters, the following:
  - Including current developments as a recurring item on the IESBA's agenda would be helpful.
  - The need for the IESBA to take the lead in assessing the ethical implications of recent corporate accounting irregularities in order to determine whether the Code could be strengthened to promote greater protection of the public interest by professional accountants in business (PAIBs).
  - The need to understand barriers to convergence could be included within the strategy review.
  - The importance of responding quickly to issues may be a factor in maintaining the IESBA's relevance. However, while due process can slow progress, it should not be compromised.
4. As a result of the February 2012 strategy review, the IESBA decided to add four new work streams to its strategy and work plan for 2012, thereby extending it into 2013. The four new work streams are detailed in Agenda Item 6-C.
5. With respect to two of the four new work streams, i.e., Rotation and Non-Assurance Services (NAS), the Board is being asked to consider and approve project proposals at this meeting (see Agenda Items 7 and 8, respectively).
6. The two other new work streams are discussed below.

**Scope of, and Approach to, Next Strategy Survey**

7. The approach to the survey for the 2010-2012 strategy and work plan was generally open-ended. The survey sought:
  - (a) Stakeholder views on the prioritization of a number of specific projects or initiatives that had already been identified as possible items to include in the work plan; and
  - (b) Suggestions for other matters that stakeholders believed the IESBA should address.

8. The survey was published in mid-2009 and 101 responses were received. The survey is attached for reference as Agenda Item 6-D.

**Matter for Consideration**

1. Does the IESBA support adopting a similar approach for the next strategy survey?

*Topics Identified as a Result of February 2012 Strategy Review*

9. In relation to standard setting, the survey could seek stakeholder views on the relative prioritization of the two other work streams arising from the February 2012 Board strategy review:

(a) *Code Reformat.* While this new work stream has been added to the 2012 strategy, it currently is at an exploratory stage. The topic was discussed at the June 2012 IESBA meeting, at which the Board expressed support for exploring a reformatted Code. Among other matters, it was recommended that the Board:

- (i) Consider a forum and other outreach opportunities, including an electronic survey and discussions with the CAG, PIOB, and Monitoring Group, to obtain feedback on the idea of a reformatted Code; and
- (ii) Develop an action plan to ensure the support of key stakeholders.

The Board agreed that the Planning Committee should consider the input received from Board members and determine whether a complete reformatting exercise should be done now or possibly smaller steps taken to improve the Code, with additional steps taken at a later date. It was agreed that the Planning Committee would take this project under consideration and report its recommendations to the Board in due course.

The CAG considered the topic at its September 2012 meeting. While acknowledging the challenges in undertaking a reformatting exercise, the CAG generally recognized the benefit of a clearer and more accessible Code. The CAG supported further Planning Committee work in exploring the available options.

(b) *Part C Work Stream.* At the February 2012 meeting, the Board determined that as part of informing the development of its next strategy and work plan, it should examine whether recent accounting irregularities reveal ethical implications for PAIBs and whether Part C of the Code should be strengthened to provide more guidance and support for PAIBs. In this regard, the Part C Working Group has developed recommendations for the Board's consideration at this meeting (see Agenda Item 5).

*Topics Carried Over from the Previous Strategy Consultation*

10. In finalizing its 2011-2012 strategy and work plan, the Board had signaled that it would reconsider as part of its next strategy cycle the following two projects that a number of respondents had ranked as high priority but which the Board did not plan to address within the period due to capacity issues:
- Whether guidance is needed on how the independence requirements in Sections 290 and 291 of the Code should apply to professional accountants not in public practice who perform assurance engagements, for example, accountants in government and internal auditors.

- Whether additional ethics guidance is needed for professional accountants in public practice who provide NAS such as financial advisory services, taxation services, and actuarial services to non-assurance clients.

*Other Possible Standard-Setting Topics*

11. Other standard-setting topics that could be added to the Board's next strategy and work plan, and on which stakeholder views as to relative priority could be sought, include the following:
  - Whether the Code should address the notion of "public interest" more explicitly in the Code, particularly whether that concept should be regarded as an additional fundamental ethics principle, and the related implications of doing so. This is a matter that has been raised recently by IOSCO in the context of the Conflicts of Interest project. This topic will be further discussed at the Board meeting under Agenda Item 9.
  - Whether guidance could be provided to assist in the application of the "reasonable and informed third party" test. This test appears in several places in the Code, e.g., paragraphs 100.7, 150.1, 200.10, 260.2 and 290.6. Several respondents to the Conflicts of Interest exposure draft have, in particular, questioned whether there is sufficient guidance in the Code with respect to the application of this test.
  - What it means to be objective when independence is not required. This is a question that has been raised by some European audit regulators, particularly in the context of external auditors' use of internal auditors to provide direct assistance on the external audit. The issue has also arisen in the context of compilation engagements. If the topic were to be included in the survey, reference will be made to the Code's various existing provisions on objectivity so that respondents are able to make an informed assessment of the matter.
12. Separately, during the first part of this session, IESBA members will be asked to share information and views about emerging issues or developments at the national or international level that may be of relevance to, or impact, the Board's current or future strategy. In addition, the Board will receive at the same meeting presentations on the PCAOB and Canadian initiatives in the area of auditor independence and audit firm rotation. These discussions or presentations may lead the Board to identify specific topics that may merit priority attention.

**Matters for Consideration**

2. Given the need to prioritize the IESBA's limited resources, does the Board agree that the survey should ask for stakeholders' views on the relative priorities of the above topics for the current and next strategy cycle?
3. Are there other standard-setting topics that should be included in the survey and on which respondents should be asked for views on prioritization?

*Other Key Matters to Cover in Survey*

**Adoption and Implementation**

13. The 2011-2012 Strategy and Work Plan includes several activities in the area of adoption and implementation. These include the implementation of an IFAC-wide model for impact analysis and the development of implementation support materials. (See Appendix 1 of Agenda Item 6-B).

14. Most of these activities appear to be of continuing relevance for the next strategy cycle. Accordingly, there would be benefit in flagging them for comment in the strategy survey.

#### Convergence

15. In the area of convergence, the 2011-2012 Strategy and Work Plan described three interrelated convergence activities that the IESBA would undertake, i.e.,:
- Seeking input on the types of improvements to the Code that regulators and national standard setters (NSS) believe should be made for the Code to gain acceptance and recognition in their jurisdictions;
  - Analyzing the code for purposes of comparing its key provisions (particularly regarding independence) to the standards and regulations of select jurisdictions; and
  - Continuing to expand the IESBA's outreach activities to engage various regulators and NSS in dialogue to facilitate its convergence efforts.
16. In relation to the comparison of the Code's key provisions against standards and regulations of select jurisdictions, the IESBA has already undertaken a benchmarking exercise, the findings of which were considered at the June 2011 IESBA meeting. Consideration should be given to whether an update to this exercise should be undertaken as part of the next strategy cycle and whether the scope of the exercise should be broadened, or whether this update could be undertaken as part of the NAS project (see Agenda Item 8).
17. The other two activity streams appear to be of continuing, if not of increased importance, for the next strategy cycle.
18. In addition to the above, the Planning Committee has also suggested considering the following two additional activities under convergence, which may require coordination with the International Auditing and Assurance Standards Board (IAASB):
- In its June 2012 Invitation to Comment on its project to develop a future auditor's report,<sup>1</sup> the IAASB has suggested that auditors include in their reports a statement of compliance with relevant ethical requirements applicable to financial statement audits, including independence requirements. Given differences in independence requirements across jurisdictions, consideration should be given to the implications of including such a statement in the standard auditor's report. This is a matter that has been raised by some European audit regulators.
  - For purposes of furthering convergence, whether the linkage between ISAs and the Code should be further investigated with respect to:
    - Whether a statement of compliance with the ISAs can be made by auditors in their reports without the auditors having also complied with relevant ethical requirements (including those pertaining to independence) that are not less stringent than those stated in the Code; and

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<sup>1</sup> See <http://www.ifac.org/publications-resources/improving-auditor-s-report>

- If so, whether this linkage should be better clarified.<sup>2</sup>

(For audits performed in accordance with ISAs, auditors are currently required to state in their reports that they have conducted their audits in accordance with ISAs and that those standards require that the auditor comply with ethical requirements.<sup>3</sup> However, auditors are not required to explicitly state in their reports that they have complied with relevant ethical requirements, including those pertaining to independence. As noted under the first item in paragraph 18 above, in its current project on a future auditor's report the IAASB has suggested an improvement to the auditor's report in this regard.)

#### **Matters for Consideration**

4. Does the IESBA support seeking stakeholders' views as to the relevance and appropriateness of the above activities in the areas of adoption and implementation, and convergence (in addition to seeking stakeholders' input on other activities that they believe would be of priority in these areas)?
5. Should benchmarking continue to be flagged as a priority activity stream?
6. Are there other activities that should be flagged in those two areas as possible priorities in the next strategy?
7. Are there any other key matters that should be covered in the survey?

#### *Target Audience*

19. An online version of the survey for the 2011-2012 strategy and work plan was posted on the IFAC website and publicized in the IFAC e-News. In addition, the survey was distributed directly to the following interested parties:
  - Current and former IESBA members and technical advisors
  - Representatives of the IESBA CAG
  - Members and technical advisors of other IFAC PIACs
  - NSS
  - IFAC member bodies
  - Regulatory and oversight bodies
  - Firms
  - Respondents to recent IESBA exposure drafts
20. The table below provides an indication of the level of actual participation in the survey based on the category of respondents.

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<sup>2</sup> Some have suggested a perceived ambiguity arising from the guidance in paragraph A14 of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, which states: "The auditor is subject to relevant ethical requirements, [which] ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive."

<sup>3</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraph 30

Category	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%
<b>Total</b>	<b>101</b>	<b>100%</b>

21. While the groups that were targeted in the previous survey should continue to be invited, others that could be directly targeted include:
- Members and technical advisors of IFAC's PAIB Committee and Small and Medium Practices (SMP) Committee
  - Audit committee members
  - Investors
  - Academics
  - Professional accountants in government
22. In this regard, IESBA members and technical advisors would be encouraged to identify specific groups or individuals within the latter four categories in their jurisdictions who could be targeted.

**Matters for Consideration**

8. Do IESBA members support targeting the additional stakeholder groups listed above? If so, are there any specific suggestions regarding organizations or individuals who could be targeted?
9. Are there other stakeholder groups or specific stakeholders who could be directly targeted to ensure the broadest possible input into the formulation of the Board's next strategy?

### Anticipated Timing

23. Subject to the December 2012 Board discussion, the anticipated timeline for the development of the strategy is as follows:

Milestone	Expected Timing
Approval of scope of, and approach to, survey	December 2012
Publication of survey	Early January 2013
Close of survey	End March 2013
Discussion with NSS	April 2013
Approval of draft strategy and work plan for consultation	June 2013
CAG and IAASB consideration of revised draft strategy and work plan	September 2013
Final IESBA approval	December 2013
PIOB consideration of due process	February 2014
Release of Strategy and Work Program 2014-2016	March 2014

### Matter for Consideration

10. The IESBA is asked to indicate if there are any concerns with this proposed timeline.