

**Extracts from IOB's 8th Public Report—¹
Matters Pertaining to IESBA****A. Matters Subject to Ongoing or Future Consideration**

The following are extracts from the IOB's 8th Public Report pertaining to matters relevant to the IESBA that are subject to ongoing or future consideration (emphasis in bold added):

1. The consultation process² also produced several suggestions on oversight that the IOB intends to implement in 2013: to consult with the chairs of the standard-setting boards on **how they can expand the content and use of feedback statements** in order to enhance the transparency of due process; to observe selected PIAC task force meetings; to consult IFAC and the CAP on ways to encourage wider adoption of International Standards on Auditing (ISAs), International Education Standards (IESs), and the **IESBA Code of Ethics**; and to work with IFAC to explore better ways to explain the nomination process.
2. Meeting with IFAC leadership allowed the IOB to discuss IFAC's preliminary decision to discontinue the project to revise the current definition of "professional accountant." The IOB expressed concern with this decision **because the project aimed to reach a definition that could be used throughout IFAC's independent standard-setting boards** and the CAP. A common definition would facilitate greater understanding of the term by the general public, the accountancy profession, and others. **The "professional accountant" is the primary audience for the IAASB, IESBA, and IAESB standards and the IESBA Code of Ethics**, as well as a basic term for most IFAC committees, insofar as it defines the scope of their work and outreach activities. IFAC reconsidered its decision and will continue with the project.
3. The IOB expressed concern for the time taken by PIACs³ to develop or revise standards. IOB observers at several PIAC meetings highlighted this issue and **stressed the need for the PIACs to be time-efficient, handling drafting and editorial changes at the task force level, not the board level**. This would contribute to more efficient discussions, timelier issuance of standards, and a focus on standard setting.
4. **The IOB highlighted the fact that the IESBA is the only global body to set ethics standards. The IOB stressed the importance of the role of the IESBA chair and encouraged the chair to develop an ambitious agenda. The IOB also stressed that the current structure of the Code of Ethics is difficult to follow, that some of the issues are not clear, and that this ambiguity should be addressed. Finally, the IOB pointed to ethics as a core element of the credibility of the profession.**
 - **The IESBA chair concurred with the IOB assessment and agreed that the IESBA should produce a strong Code of Ethics. The IESBA chair committed to focus on**

¹ The full IOB public report can be accessed at: http://www.ipiob.org/media/files/attach/annual_report2012.pdf

² In 2012, the IOB launched a consultation process on the IOB Work Program 2012 and Beyond, which asked stakeholders questions about the nature of IOB oversight and public interest protection, among others.

³ Public Interest Activity Committees of IFAC

making the code more reader-friendly. A project to reformat the Code is likely to be part of the new strategy.

5. Regarding the PIACs, **the PIOB is focusing on (i) overseeing the IESBA, under its new independent chair, as it works to improve the Code of Ethics as a global benchmark for adoption; (ii) overseeing the development of the IESBA's 2014–16 strategy**, which is expected to be submitted for PIOB's approval in 2013.
6. **Also of significant importance is the ongoing work on suspected illegal acts, a proposal developed by the IESBA.** The attention paid to this controversial subject testifies to the board's awareness of its role as a standard setter in the public interest. The public interest has motivated the standard-setting process and is the object of special attention of the PIOB.

B. Matters of a Retrospective Nature

The following are extracts from the PIOB's 8th Public Report pertaining to matters relevant to the IESBA that are of a retrospective nature:

7. The IESBA finalized two of its top-priority projects during 2012: "Breaches of a Requirement in the Code" and "Conflicts of Interest," which it submitted for the PIOB's approval in 2013. Its third major project, "Responding to a Suspected Illegal Act," will be pursued during 2013.
8. The IESBA is aware of the challenges involved in efforts to enhance the credibility of the international Code of Ethics as a benchmark for professional ethics for global adoption. During 2012, the IESBA continued its dialogue with various regulators and national standard setters to obtain input on the types of improvements they believe should be made for the Code to gain acceptance and recognition in their jurisdictions.
9. PIOB observers at IESBA meetings challenged the board with several concerns on different projects regarding how some issues were addressed by the Board in preparing exposure drafts. These concerns were expressed at the relevant IESBA meetings and discussed with the IESBA and IESBA CAG chairs at PIOB quarterly meetings. They related to lack of differentiation between grave and less grave suspected illegal acts; the need to require a suspected illegal act to be reported to the parent entity; the need to require that a serious breach of a requirement in the code be reported to an external authority or regulator, including the content of such report and the recommendation to place documentation in a safe place; and the importance of internal processes for dealing with suspected illegal acts.
10. The issues raised by the PIOB contributed to the debate. The inputs provided to the IESBA by its CAG, including several issues raised by a member of the MG, were subject to specific monitoring by the PIOB. In 2012, the IESBA almost finalized its review of the definition of "engagement team" in the Code to make it consistent with the related IAASB's revision of ISA 610 regarding the use by external auditors of direct assistance provided by internal auditors. The IAASB's project was pending final approval until the IESBA finalized its engagement team project. Comments on the exposure draft of the proposed change to the definition reflected concerns on the part of various stakeholders with direct assistance. These concerns extended the debate at both the IESBA and the IAASB, as the task forces had to consider and decide how to address them in their final standards. The debate allowed to dispel the idea that direct assistance would be allowed when it is not compatible with national legislation.

11. The IESBA also started work on a few additional work streams during 2012, namely (i) changing the definition of “those charged with governance” to align the definition in the code with that in ISA 260, “Communicating with Those Charged with Governance”; (ii) considering whether a restructuring of the Code would make it more understandable and better adapted to the day-to-day needs of practitioners; and (iii) reviewing part C of the Code (Professional Accountants in Business) to include ethical consequences when accountants in business encounter accounting irregularities or are subject to pressures from superiors to prepare or present financial information that is not fair or to violate laws or ethical standards. The board also started discussing a project to consider whether further restrictions on the provision of non-assurance services by auditors are needed in the Code and a project to address concerns regarding long association of senior audit personnel (usually referred to as “partner rotation”) with an audit client.
12. In May 2012, the IESBA published its first annual report, becoming the second PIAC (after the IAASB) to produce this type of document. The IESBA intends to make this a regular feature.

Suspected Illegal Acts (SIA)

13. The PIOB observer recommended a solid process for dealing with the “exceptional circumstances” under which the professional accountant would not be required to disclose a SIA. This process should require that these situations be extensively documented, stating the reasons for nondisclosure. Otherwise “exceptional circumstances” could be invoked too easily, which might weaken the relevance of the standard.
14. Other issues were raised with the IESBA: (i) grave SIAs should be distinguished from less serious SIAs, as the failure to differentiate between them could make it difficult to control the reporting system; (ii) in the case of group audits, SIAs should be reported at the parent level; (iii) all SIAs should be reported to an external authority; and (iv) the actions taken to address SIAs should be documented, including when “exceptional circumstances” are invoked.
15. The IESBA is still working on this project. The “exceptional circumstances” have been discussed extensively, including in March 2013. Many respondents to the exposure draft thought that the circumstances as described lacked clarity or were too limited.
16. No decision has been arrived at yet.

Breaches of a requirement in the Code of Ethics other than independence

17. The PIOB asked the IESBA to consider breaches of provisions in the Code of Ethics other than those related to independence.
18. The PIOB observer advised on the need to rebalance the provisions in the Code and clarify that a breach may also relate to provisions other than independence. He also expressed concern that serious violations of the code could violate the public interest. He recommended that significant breaches should be reported to a regulator or to a body external to the entity.
19. The IESBA agreed that a separate provision would deal with breaches of the Code other than relating to independence, which was added to paragraph 100.10 in the Code. Provisions in the Code remain focused on breaches of independence.

20. IESBA did not agree to include the requirement to report significant breaches (independence related or not) to a regulator, as it considered that this requirement should be established by each jurisdiction, not by a Code of Ethics directed at multiple jurisdictions.

Independence of the IESBA chair

21. The PIOB stressed the importance of an “independence” requirement in the IESBA Terms of Reference applicable to the IESBA chair, especially in view of the upcoming selection of the new IESBA chair.
22. IFAC agreed with the PIOB recommendation and added an independence requirement to the final Terms of Reference for the IESBA chair. The new IESBA chair was appointed in 2012 in accordance with this requirement and was approved by the PIOB.