

*International Ethics Standards Board for Accountants*

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**Strategic and Operational Plan,  
2008-2009**



**International Federation  
of Accountants**

## REQUEST FOR COMMENTS

The International Ethics Standards Board for Accountants (IESBA), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the release of this exposure draft of the IESBA's Strategic and Operational Plan for the period 2008-2009 on June 25, 2007. The IESBA's proposed Strategic and Operational Plan may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by email, so that they will be received by **August 31, 2007**. All comments will be considered a matter of public record. Comments should be addressed to:

Senior Technical Manager  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

Email responses should be sent to: [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Copies of this exposure draft may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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## **EXPLANATORY MEMORANDUM**

### **Introduction**

This memorandum provides some background to, and an explanation of, the exposure draft of the IESBA's proposed Strategic and Operational Plan for the period 2008-2009, released for public comment in July 2007.

The IESBA's current Strategic and Operating Plan, drafted in 2005 was approved in February 2006, set the direction and priorities for the activities of the IESBA to December 2007. The IESBA has developed a new Strategic and Operational Plan and seeks comments on its proposed strategic direction and intended projects and activities for the period 2008-2009. The IESBA will consider comments received at its meeting in October 2007.

### **Background**

The International Federation of Accountants (IFAC) is the worldwide organization for the accountancy profession. IFAC's mission, as set out in its constitution, is "to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of international economies by establishing and promoting adherence to high quality professional standards, furthering international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant."

In pursuing this mission, the IFAC Board has established the IESBA to function as an independent standard-setting body under the auspices of IFAC and subject to the oversight of the Public Interest Oversight Board (PIOB). The IESBA develops and issues, in the public interest and under its own authority, high quality ethical standards and other pronouncements for professional accountants for use around the world.

In addition, the IESBA promotes good ethical practices and fosters international debate on ethical issues faced by professional accountants.

### **Content of Proposed Strategic and Operational Plan**

The proposed Strategic and Operational Plan outlines how the IESBA's mission and objectives align with IFAC's strategic priorities, and also explains how the IESBA works to achieve its objective as set out in its Terms of Reference, which is to serve the public interest by setting high quality ethical standards for professional accountant and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants throughout the world and strengthening public confidence in the global accounting profession.

### **Current Work Program**

In meeting this strategy, the IESBA intends to complete three projects that it already has in progress. These are:

- i) Revisions to the independence requirements contained in the Code as proposed in the exposure draft issued in December 2006 proposing revisions to existing Section 290

Independence – Audit and Review Engagements and proposing new Section 291  
Independence – Other Assurance Engagements;

- ii) Additional revisions to independence requirements as appropriate after consideration of the existing guidance related to the provision of internal audit services to audit client, economic dependence on an assurance client and independence implication of contingent fees; and
- iii) Clarification of how the guidance in Parts A, B and C applies to accountants in government.

In addition the IESBA will consider the implications on the Code of the new drafting conventions adopted by the Clarity Project by the International Auditing and Assurance Standards Board.

As can be seen from the draft Work Program contained in Appendix 1 of the proposed Strategic and Operational Plan, the first two projects noted above are scheduled to be completed at in 2008.

### **Proposed Future Work Program**

In considering new projects and activities, the IESBA sought the views of interested parties on matters which should be considered by IESBA in the next few years. The IESBA has considered this input in prioritizing future projects. The proposed work plan is contain in Appendix 1.

### **Guide for Commentators**

The IESBA would like to receive comments on all matters related to its proposed Strategic and Operational Plan for the period 2008-2009. Anyone offering comments should refer to specific sections of the proposed Strategic and Operational Plan, include the reasons for the comments, and, where appropriate, make explicit suggestions for proposed changes to the plan. The IESBA would also like to hear from respondents agreeing with this exposure draft.

# **INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

## **DRAFT STRATEGIC AND OPERATIONAL PLAN 2008-2009**

The purpose of this plan is to set the direction and priorities for activities of the International Standards Board for Accountants (IESBA)<sup>1</sup> for the two year period from January 2008 to December 2009.

### **1. BACKGROUND**

#### **International Federation of Accountants (IFAC)**

IFAC<sup>2</sup> is the worldwide organization for the accountancy profession. IFAC's mission, as set out in its constitution, is "to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of international economies by establishing and promoting adherence to high quality professional standards, furthering international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant."

IFAC's strategic plan identifies desired outcomes that IFAC aims to influence or have a direct impact on through the delivery of its services. These are:

- Improved audit practices;
- Improved financial management practices;
- Strong professional accountancy institutions around the globe;
- Strong ethical culture within individual professional accountants;
- Convergence to high quality international standards; and
- Confidence in international standards.

In pursuit of these outcomes, the IFAC Board has established the IESBA to function as an independent standard-setting body under the auspices of IFAC and subject to the oversight of the Public Interest Oversight Board (PIOB)<sup>3</sup>.

#### **International Ethics Standards Board for Accountants (IESBA)**

As an independent standard setting body under the auspices of IFAC, the IESBA develops and issues, in the public interest and under its own authority, high quality ethical standards and other pronouncements for professional accountants for use around the world.

In addition, the IESBA promotes good ethical practices and fosters international debate on ethical issues faced by professional accountants.

The IESBA's Consultative Advisory Group (CAG)<sup>4</sup> provides input to and assists the IESBA in the achievement of its objectives by providing advice on the IESBA's agenda, priorities and projects.

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<sup>1</sup> More information on the IESBA is available at [www.ifac.org/ethics](http://www.ifac.org/ethics)

<sup>2</sup> More information on IFAC is available at [www.ifac.org](http://www.ifac.org)

<sup>3</sup> More information on the PIOB can be found at [www.ipiob.org](http://www.ipiob.org)

<sup>4</sup> More information on the CAG is available at [www.ifac.org/Ethics/About.php#ConsultativeAdvisoryGroup](http://www.ifac.org/Ethics/About.php#ConsultativeAdvisoryGroup)

## **2. IESBA OBJECTIVE**

The IESBA has established its Terms of Reference, approved by the IFAC Board and the PIOB. The objective of the IESBA is

*“To serve the public interest by setting high quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants.”*

The IESBA also promotes good ethical practices and fosters 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.

The IESBA’s objectives are aligned with IFAC’s desired outcomes as illustrated in Table 1 below:

**Table 1: Alignment of IFAC and IESBA Strategy**

IFAC Desired Outcome	IESBA Objective		
	Establish standards and other statements	Facilitating convergence of international and national ethical standards	Promoting good ethical practices and fostering international debate
Improved audit practices	Direct impact	Direct impact	Influence
Improved financial management practices	Direct impact	Direct impact	Influence
Strong professional accountancy institutions around the globe	Direct impact	Direct impact	Influence
Strong ethical culture within individual professional accountants	Direct impact	Direct impact	Influence
Convergence to high quality international standards	Influence	Direct impact	Influence
Confidence in international standards	Direct impact	Direct impact	Influence

In fulfilling the above objective, the IESBA develops and issues the following:

- a) *The Code of Ethics for Professional Accountants* which establishes a principles-based standard of professional ethics for professional accountants and provides a conceptual framework for applying these principles. No member body of IFAC or firm issuing reports in accordance with International Auditing and Assurance Standards is allowed to apply less stringent standards than those stated in the Code. However, if a member body or firm is prohibited by law or regulation from complying with certain parts of the Code they should comply with all other parts of the Code;
- b) *Code of Ethics Interpretations* which assist in the application of the Code;
- c) The IESBA also publishes other pronouncements on ethics related matters, thereby advancing public understanding of the ethical requirements of professional accountants.

The last two revisions to *The Code of Ethics for Professional Accountants* were:



- In July 2005 the Code was revised to establish a conceptual framework for all accountants to ensure compliance with five fundamental principles of professional ethics: integrity, objectivity, professional competence and due care, confidentiality and professional behavior Under the framework, all professional accountants are required to identify threats to these fundamental principles and, if there are threats, apply safeguards to ensure that the principles are not compromised. The framework applies to all professional accountants, those in public practice and those in business and industry; and
- In July 2006 the IESBA revised the definition of network firm contained in the Code.

### **3. DEVELOPMENT OF IESBA PRONOUNCEMENTS**

In developing its pronouncements, the IESBA consults with its CAG and obtains advice on the IESBA's agenda, work plan, including project priorities and technical advice on projects. The IESBA also consults, when appropriate, with other IFAC Boards and Committees.

Meeting agenda papers are published on the IFAC website and draft minutes are published after each meeting. All IESBA meetings are open to the public.

Draft proposed changes to the Code are exposed for public comment for a minimum of 90 days. Each exposure draft is accompanied by an explanatory memorandum which provide background to, and an explanation of, proposed changes contained in the exposure draft and specific areas on which the IESBA is seeking comment. The IESBA deliberates significant matters raised in the comment letters received before approving final changes to the Code for publication<sup>5</sup>. With each change to the Code, the IESBA issues a separate document containing the basis for conclusion with respect to comments received on the exposure draft.

### **4. COMMUNICATION**

In addition to reporting periodically to the PIOB and to the CAG, the IESBA reports publicly on its work program, activities and progress made in achieving its objectives each year. This report will be made available on the IFAC website, and is normally included as part of the IFAC annual report.

Communications with regulators, standard setters, leaders of the accountancy organizations, members of the profession and other stakeholders is essential to enabling the IESBA's objective of facilitating the convergence of international and national ethical standards.

The IESBA will undertake specific communication activities, in order to better achieve its objectives in the period 2008-2009, including:

- A communications plan for IESBA pronouncements; and
- Issuing consultation papers in order to solicit views on matters under consideration; and
- Holding a public forum or roundtable as appropriate in four different geographic regions.

In 2008, the IESBA intends to issue revisions to the Code of Ethics for Professional Accountants. These revisions will reflect modifications to independence requirements for assurance

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<sup>5</sup> More information on the due process followed by the IESBA in the development of IESBA pronouncements is available at [www.ifac.org/Ethics/About.php#PublicInterest](http://www.ifac.org/Ethics/About.php#PublicInterest).

engagements and the revised drafting conventions of the clarity project (See Appendix 1 for descriptions of these projects). The IESBA plans to undertake significant consultation, to gain an understanding of the steps which would be necessary to facilitate the convergence of international and national ethical standards and achieve greater global acceptance of the Code.

The IESBA held a forum in Brussels in October 2005 to seek feedback on implementation of the Code and to solicit input on the Board's project on independence. The Board found this forum very useful and the feedback received was carefully considered in the development of the Board's independence project. The Board therefore, starting in the third quarter of 2008 intends to hold four additional forums or roundtables, as appropriate, in each of the Americas, Europe, Africa and Asia/Pacific regions to promote the revised Code and seek input on the steps which would be necessary to facilitate the convergence of international and national ethical standards and achieve greater global acceptance of the Code.

## **5. OPERATIONAL PLAN AND WORK PROGRAM**

The IESBA intends to complete three projects that it already has in progress. These are:

- i) Revisions to the independence requirements contained in the Code as proposed in the exposure draft issued in December 2006 proposing revisions to existing Section 290 Independence – Audit and Review Engagements and proposing new Section 291 Independence – Other Assurance Engagements;
- ii) Additional revisions to independence requirements as appropriate after consideration of the existing guidance related to the provision of internal audit services to audit client, economic dependence on an assurance client and independence implications of contingent fees; and
- iii) Clarification on how the guidance in Parts A, B and C applies to accountants in government.

In addition, the IESBA will consider the implications on the Code of the new drafting conventions adopted by the Clarity Project by the International Auditing and Assurance Standards Board.

As can be seen from the draft Work Program contained in Appendix 1 of the proposed Strategic and Operational Plan, these three projects are scheduled to be completed at various dates in 2008.

In March 2007, the IESBA sought the views of interested parties on matters which should be considered by the IESBA in developing this proposed Strategic and Operational Plan. The IESBA has considered this input in determining which four projects it should next address as a high priority. These are:

- i) Fraud and illegal acts – Providing practical guidance related to ethical issues faced by professional accountants in business and professional practice when encountering fraud or illegal acts;
- ii) Conflicts of interest – Providing additional guidance related to conflicts of interest which might be faced by a professional accountant;

- iii) Independence – Considering whether to supplement independence guidance contained in the Code on matters such as:
- independence implications of legal protection clauses such as auditor indemnification and limitations on auditor liability;
  - application of the independence requirements to audit clients that are mutual funds or other collective investment vehicles;
  - additional guidance on the communication of independence matters to those charged with governance;
  - independence considerations related to providing actuarial services to an audit client;
  - guidance related to the standards against which independence would be judged in engagements to perform agreed-upon procedures and engagements to compile financial statements; and
  - independence considerations of trustee holdings of financial interests in an audit client by the firm or members of the firm; and
- iv) Implementation support – Developing material to facilitate implementation of the Code including Section 290 for small and medium size practices.

Several respondents to the survey stated that convergence should be a high priority of the IESBA. The IESBA will be consulting on this matter through the period covered by the Strategic and Operational Plan, including through the regional forums mentioned under “Communication” above.

### **Key Factors**

In developing and issuing revisions to and interpretations of the Code the IESBA follows rigorous and robust due process and working procedures which includes consultation with stakeholders around the world.

- The IESBA meets for 2-3 days, 3-4 times per year (generally for a total of 6-10 days per year);
- The amount of meeting time needed to discuss a project varies significantly depending upon the scope of the project and the stage of its development. For example, the proposed revisions to independence requirements issued in December 2006 were extensive and necessitated the majority of IESBA meeting time during 2006. Conversely, the revisions to the definition of network firm were less extensive and required 1 to 5 hours of meeting time at each meeting it was discussed.;
- Time is needed between meetings for Task Forces to develop material for consideration by the full IESBA;
- Under the IESBA due process the exposure period for proposed revisions to the Code is a minimum of 90 days. In the case of a major revision, the IESBA considers whether a longer period is appropriate. The IESBA is also mindful of the need of some jurisdictions to translate an ED before providing input from that particular jurisdiction.

- Total lapsed time required for completion of a project ranges from 12-26 months, not including any period for re-exposure that might be necessary, and depends on the status of the complexity and scope of the project and whether it is a standard or an interpretation.

These factors have been taken into consideration in developing the Draft Work Program contained in Appendix 1.

## APPENDIX 1

### INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS DRAFT WORK PROGRAM, 2007-2009

The following is a draft work program/outline project timetable for the IESBA for the period 2007-2009. The work plan assumes that there will be no need to re-expose any of the projects.

The IESBA has considered the relative priorities and importance of its potential projects and other activities, as outlined in the draft strategic plan for the period 2007-2009, to determine which specific projects and activities will form part of its proposed work program for the period.

CURRENT PROJECTS <sup>6</sup>	STATUS	MAR 2007	JUNE 2007	OCT 2007	JAN 2008	APR 2008	JUNE 2008	OCT 2008	FEB 2009	JUN 2009	OCT 2009
Strategic Plan	Current		Approve ED	Approve Final		Discuss 2009 Work Program		Approve 2009 Work Program			
Independence 1	Current		Consider ED comments	Consider ED comments	First read of final	Approve final					
Independence 2	Current	Discuss issues /principles	Approve ED		Consider ED comments and first read of final	Approve final					
Drafting Conventions	Current		Discuss issues /principles	Approve ED		Approve final					
Accountants in Government	Current						Discuss		Consider feedback		Discuss

<sup>6</sup> A description of each project is contained on the next page.

#### Independence 1

The IESBA issued an exposure draft in December 2006 proposing changes to enhance the independence, and therefore the objectivity, of professional accountants performing assurance engagements. The exposure comment period ended on April 30, 2007.

#### Independence 2

The IESBA approved an exposure draft at its June 2007 meeting proposing amendments to address three further independence issues: provision of internal audit services to audit clients; guidance related to the relative size of total fees received from an audit client and guidance related to contingent fees. The exposure comment period ends on September 15, 2007.

#### Drafting Conventions

The IESBA will consider the implications for the Code of the new drafting conventions adopted under the Clarity Project by the International Auditing and Assurance Standards Board.

#### Accountants in Government

The IESBA will, in consultation with interested parties, clarify how the guidance contained in Parts A, B and C of the Code applies to professional accountant in government.

FUTURE PROJECTS	STATUS	MAR 2007	JUNE 2007	OCT 2007	JAN 2008	APR 2008	JUNE 2008	OCT 2008	FEB 2009	JUN 2009	OCT 2009
Fraud and illegal acts	Proposed						Approval of project proposal	Discussion	Discussion	First read	Approve ED
Conflicts of interest	Proposed						Approval of project proposal	Discuss issues /principles	Discuss issues /principles	First read	Approve ED
Independence	Proposed							Approval of project proposal	Discuss issues /principles	Discussion	First read
Implementation support	Proposed						Discussion		Discussion	Discussion	
To be determined											

Fraud and illegal acts

Providing practical guidance related to ethical issues faced by professional accountants in business and professional practice when encountering fraud or illegal acts.

Conflicts of interest

Providing additional guidance related to conflicts of interest which might be faced by a professional accountant.

Independence

Considering whether to supplement independence guidance contained in the Code on matters such as:

- independence implications of legal protection clauses such as auditor indemnification and limitations on auditor liability;
- application of the independence requirements to audit clients that are mutual funds or other collective investment vehicles;

- additional guidance on the communication of independence matters to those charged with governance;
- independence considerations related to providing actuarial services to an audit client;
- guidance related to the standards against which independence would be judged in engagements to perform agreed-upon procedures and engagements to compile financial statements; and
- independence considerations of trustee holdings of financial interests in an audit client by the firm or members of the firm.

#### Implementation Support

Developing material to facilitate implementation of the Code including Section 290 for small and medium size practices





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