



**INTERNATIONAL FEDERATION  
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**Agenda Item**

**4**

**Committee** International Ethics Standards Board for Accountants

**Meeting Location:** AICPA, New York, USA

**Meeting Date:** February 17-18, 2010

**Independence - Adoption**

**Objectives of Agenda Item**

1. To discuss the IESBA position regarding extra-territorial application of the Code.

**Background**

In its discussions on convergence, the IESBA has recognized that there is much work to be done on furthering the IESBA's objective of convergence. The IESBA has also considered whether a short to medium term objective should be to encourage use of the Code for the purposes of assessing the independence regimes in foreign jurisdictions.

**Discussion**

The revised Code was issued in July 2009, with an effective date of January 1, 2011, with early adoption permitted. Discussions at both the National Standard Setters meeting and the October IESBA meeting would indicate that some jurisdictions maintain some existing additional requirements, for example additional restrictions on the provision of non-assurance services.

IFAC Statement of Membership Obligations provide that a member body of IFAC "should not apply less stringent standards than those stated" in the Code. Member bodies may, however, decide to maintain some existing requirements that are more restrictive than the Code. In some cases these more restrictive requirements may have extra-territorial effect – that is the more stringent requirements apply not only to the auditors in that jurisdiction, but also to auditors of the foreign subsidiaries of those entities.

One jurisdiction, the APB in the UK, has explicitly addressed this matter in Ethical Standard 1 Integrity, Objectivity and Independence (Revised April 2008). The Appendix to this paper contains the relevant extract of the standard. The standard requires the group auditor to be satisfied that the auditors (whether a network firm or another firm) involved in the audit of the group financial statements, who are not subject to APB Ethical

Standards, are objective and document the rationale for that conclusion, and have complied with the Code.

IESBA could explore encouraging others to take a similar approach of recognizing the Code for extra territorial application. A first step in exploring this could be a discussion with the Ethics National Standard Setters. The second meeting of the Ethics National Standard Setters is scheduled for April 28, 2010.

For the information of the IESBA, Agenda Paper 4-A contains and IAASB Policy Position “A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find it Necessary to Make Limited Modifications”. While the subject matter is different, the paper is provided as an example of a mechanism that could be used to promote the IESBA’s views on this subject.

**Action requested**

IEBSA members are asked to consider whether they are of the view that IESBA should consider encouraging others who are adopting or implementing the Code

**Material Presented**

Agenda Paper 4

This Agenda Paper

Agenda Paper 4 A

IAASB Policy Position – A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find it Necessary to Make Limited Modifications

**Action Requested**

1. IESBA members are asked to consider the question posed.

## **Appendix**

### **Extract from APB Ethical Standard 1**

#### *Other Auditors Involved in the Audit of Group Financial Statements*

- 51 The group audit engagement partner shall be satisfied that other auditors (whether a network firm or another firm) involved in the audit of the group financial statements, who are not subject to APB Ethical Standard, are objective and document the rationale for that conclusion.
- 52 The group audit engagement partner obtains appropriate evidence<sup>1</sup> that the other auditors have a sufficient understanding of and have complied with the current Code of Ethics for professional accountants including the independence requirements.<sup>2</sup>
- 53 In the case of a listed company, the group audit engagement partner establishes that the company has communicated its policy<sup>3</sup> on the engagement of the external auditor to supply non-audit services to its affiliates and obtains confirmation that the other auditors will comply with this policy.

#### *Network Firms Not Involved in the Audit*

- 54 The audit firm shall establish that network firms which are not involved in the audit are required to comply with global policies and procedures that are designed to meet the requirements of the current IFAC Code.
- 55 The IFAC Code requires all network firms to be independent of the entities audited by other network firms. International audit network commonly meet this requirement through global independence policies and procedures designed to comply with the current IFAC Code which are supported by appropriate monitoring and compliance processes within the network.

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<sup>1</sup> ISA (UK and Ireland) 600 *Using the Work of Another Auditor* states that “The principal auditor should perform procedures to obtain sufficient appropriate audit evidence, that the work of the other auditor is adequate for the principal auditor’s purpose, in the context of the specific assignment.”

<sup>2</sup> The International Federation of Accountants (IFAC) Code of Ethics for Professional Accountants (the IFAC Code) establishes a conceptual framework for applying the fundamental principles of professional ethics for professional accountants. Section 290 of the IFAC Code illustrates the application of the conceptual framework to independence requirements for audit engagements and represents the international standard on which national standard should be based. No Member Body of IFAC is allowed to apply less stringent standards than those stated in that section. In addition, members of the IFAC Forum of Firms have agreed to apply ethical standards, which are at least as rigorous as those of the IFAC Code.

<sup>3</sup> The Combined Code on Corporate Governance requires audit committees to develop the company’s policy on the engagement of the external auditor to supply non-audit services.