

## International Ethics Standards Board for Accountants Meeting Summary June 18-20, 2012

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This meeting summary of the International Ethics Standards Board for Accountants (IESBA) has been prepared for information purposes only. Except for approval of documents for public exposure and issuance of final pronouncements, decisions reported are tentative and reflect only the current status of discussions on projects, which might change after further deliberation by the IESBA.

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### Responding to a Suspected Illegal Act

The IESBA approved an exposure draft. The exposure draft proposes that:

- A professional accountant in public practice providing professional services to an audit client be required to disclose, where the client has not done so, to an appropriate authority suspected illegal acts that affect financial reporting or fall within the expertise of the professional accountant, and that are of such consequence that reporting would be in the public interest.
- An accountant performing a non-assurance service for a client that is not an audit client and an accountant in business be required to disclose suspected illegal acts to the entity's external auditor, if any, where the accountant is unable to escalate the matter or the client/employing organization respectively has failed to take appropriate action and the matter is of such consequence that the professional accountant determines that disclosure would be in the public interest. If the response to the matter is not appropriate the professional accountant will have a right to disclose certain suspected illegal acts to an appropriate authority. An accountant performing a non-assurance service for a client that is not an audit client would have a right to disclose a suspected illegal act that related to the subject matter of the of the professional service being provided. A professional accountant in business would have a right to disclose a suspected illegal act that affects the financial reporting of the employing organization. The accountant would be expected to exercise the right to disclose.
- In exceptional circumstances a reasonable and informed third party might conclude that the consequences to the professional accountant or others of disclosure are so severe as to justify not complying with the requirement to disclose, for example, where there would be threats to the physical safety of the professional accountant or other individuals. Consequences that are of a commercial nature, such as the loss of a client or income, would not constitute exceptional circumstances.
- Terminating the professional relationship or resigning from the employing organization is not a substitute for disclosure to an appropriate authority.

The IESBA anticipates issuing the exposure draft in July.

### Revision to Definition of Those Charged with Governance

The IESBA approved an exposure draft to revise the definition of the term “Those Charged with Governance” to more closely align with the definition in ISA 260, Communication with Those Charged with Governance. The exposure draft also recognizes that, consistent with ISA 260, communication may be to a subgroup of those charged with governance.

### Review of Part C of the Code

The IESBA discussed the preliminary recommendations of a Working Group formed to review Part C of the Code and identify areas where further development might be appropriate. The Working Group recommended two issues for consideration in the IESBA's next Strategy and Work Plan. The recommendation was to provide additional guidance on

- The responsibility of Professional Accountants in Business (PAIB) to produce financial reports that are faithful representations of the economics of transactions and not to be associated with misleading information and reports; and
- Situations in which PAIBs are pressured by superiors to violate laws or ethical standards.

The IESBA agreed that the review be extended to identify any other related issues that the Board may wish to address in its Strategic Plan for 2014/15.

### Breach of a Requirement of the Code

The IESBA discussed revised wording for its proposal, reflecting the board's discussions in February and CAG members' comments in March. It also benefitted from feedback provided in response to a recent survey of those charged with governance. The IESBA tentatively concluded:

- The firm shall discuss all breaches and the action it has taken, or proposes to take, with those charged with governance. The communication shall be as soon as possible, unless those charged with governance have specified an alternative timing for less significant breaches,
- The firm shall communicate the breach in writing to those charged with governance.
- In addition to complying with any legal or regulatory requirements, the firm shall report a breach to a member body, relevant regulator, or oversight authority when such reporting is common practice or encouraged in the particular jurisdiction by the member body, regulator, or oversight authority.

The IESBA anticipates publishing the final standard in December with an effective date of January 1, 2014.

### Reformatting of the Code

The IESBA reviewed a possible alternative approach to formatting the Code to raise the visibility of its requirements and prohibitions. The IESBA found the possible alternative helpful and requested the proposals be developed further and consideration be given to the views of regulators and those who implement the Code.

### Strengthening Safeguards against Familiarity Threats

The IESBA received a report to assist it in determining its position on mandatory firm rotation and other possible safeguards as a means of reducing to an acceptable level the familiarity and self-interest threats that can be created as a result of an auditor's long association with an audit client. The IESBA noted that

mandatory firm rotation and mandatory tendering were challenging issues. It did not form an opinion on these matters and determined that it would continue to monitor developments and the debate in this area.

The IESBA agreed that it was appropriate to review the provisions in the Code that address partner rotation, and requested that a project proposal be prepared to initiate this. The project should address the period that a partner can serve as a key audit partner, the time-out period required, the individuals who should be subject to rotation, and other safeguards that could address the threats created by long association with an audit client.

### **Conflicts of Interest**

The IESBA discussed the following exposure draft responses:

- Respondents were generally supportive of the application of the reasonable and informed third party test and the basis on which threats arising from network firm interests and relationships are addressed in the exposure draft.
- Respondents were supportive of proposals to deal with situations when consent cannot be obtained because it would breach confidentiality.
- Respondents were supportive of the proposed requirements for professional accountants in business.

The IESBA reached tentative conclusions on the following matters:

- that the description of a conflict of interest should be redrafted to provide a linkage between the professional activity and the matters that are in conflict, thus making it clear that a conflict of interest is not created merely because the interests of two clients are in conflict.
- that the guidance on managing conflicts of interest, and obtaining and documenting consent, could be clarified by addressing disclosure and consent separately and providing additional guidance on the types of consent - general, explicit, and implied.

The IESBA will consider revised wording at a future meeting.

### **Other Matters**

The IESBA noted that the IFAC Board had approved a policy position paper setting out guidance on the “public interest”. The IESBA also noted that in its response to the exposure draft addressing Conflicts of Interest, IOSCO had encouraged the IESBA to consider the concept of the public interest as outlined in the Code and whether it should be a fundamental principle. The IESBA agreed that it would consider both of these matters at its December 2012 meeting.

The IESBA has been trial testing an approach to assessing the impact of its proposals and to date has received comments from respondents on three different approaches to developing its impact assessment. The IESBA agreed that it would consider its experience with impact assessment, and the experience of other Public Interest Activity Committees of IFAC at its December 2012 meeting with a view to considering whether there is a favored model to use for future IESBA impact assessments.

**Next Meeting**

The IESBA plans to next meet by conference call in October. The next physical meeting of the IESBA is scheduled to be held on December 10-12, 2012 in New York, USA.