



24 July 2007

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

**INVITATION TO COMMENT ON IFAC'S INTERNATIONAL
ETHICS STANDARDS BOARD FOR ACCOUNTANTS (IESBA)
EXPOSURE DRAFTS ON STRATEGIC PLAN AND AUDITOR
INDEPENDENCE REQUIREMENTS**

Part A

- Proposed Strategic and Operational Plan for 2008-2009

Comments to be received by 17 August 2007

Part B

**- Proposed Additional Requirements on Auditor
Independence**

Comments to be received by 28 September 2007

The Hong Kong Institute of Certified Public Accountants' (Institute) Ethics Committee is seeking comments on the IFAC's IESBA Exposure Drafts which have been posted on the Institute's website at:

www.hkicpa.org.hk/professionaltechnical/ethics/exposedraft/

The Explanatory Memorandum to the Exposure Drafts provides background information and explanation of the proposals.

In summary, the significant proposals include:

Part A – Proposed Strategic and Operational Plan for 2008-2009

The IESBA proposes to complete the following three projects that it already has in progress:

- Revisions to the independence requirements contained in the IFAC Code of Ethics for Professional Accountants (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*;
- Additional revisions to independence requirements as appropriate after consideration of the existing guidance related to the provisions of internal audit services to audit client, economic dependence on an assurance client and independence implication of contingent fees; and

- 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 under the Clarity Project by the International Auditing and Assurance Standards Board.

The IESBA proposes to start on the following four new projects:

- 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; and
- Implementation support – Developing material to facilitate implementation of the Code including Section 290 for small and medium size practices.

Part B – Proposed additional requirements on Auditor Independence

The IESBA proposes to strengthen the following three components of the independence requirements contained in the Code:

- Provision of internal audit services to an audit client;
- Independence implications related to the relative size of fees received from one assurance client; and
- Contingent fees for services provide to assurance clients.

Convergence Due Process

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party and the Institute would like to hear from both those who do agree and those who do not agree with the proposals contained in the IFAC's IESBA Exposure Drafts.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IFAC Exposure Drafts to be considered, comments on the Exposure Drafts of:

- Part A - Proposed Strategic and Operational Plan for 2008-2009 are requested to be received by the Institute on or before **17 August 2007**.
- Part B – Proposed additional requirements on Auditor Independence are requested to be received by the Institute on or before **28 September 2007**.

Comments may be sent by mail, fax or e-mail to:

Patricia McBride
Executive Director
Hong Kong Institute of Certified Public Accountants
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213 Queen's Road East
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Fax number (+852) 2865 6776
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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

July 2007
Exposure Drafts

PART A

Response Due Date
17 August 2007

ED of Proposed Strategic Plan

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

Response Due Date
28 September 2007

PART B

ED of Sections 290 and 291 of the Code of Ethics

**Section 290 – Independence – Audit and
Review Engagements**

**Section 291 – Independence – Other
Assurance Engagements**



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Part A

ED of Proposed Strategic and Operational Plan for 2008-2009

Part B

ED of Section 290 of the Code on Independence – Audit and Review Engagements and Section 291 of the Code on Independence – Independence Other Assurance Engagements

IAASB Press releases

This Exposure Draft may be filed in the “Exposure Drafts, Invitations to Comment” section of Volume I of the Institute Members’ Handbook.

The Exposure Draft can also be found on the Institute’s website at:

www.hkicpa.org.hk/professionaltechnical/ethics/exposedraft/.

International Ethics Standards Board for Accountants

**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

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)¹ for the two year period from January 2008 to December 2009.

1. BACKGROUND

International Federation of Accountants (IFAC)

IFAC² 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)³.

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)⁴ provides input to and assists the IESBA in the achievement of its objectives by providing advice on the IESBA's agenda, priorities and projects.

¹ More information on the IESBA is available at www.ifac.org/ethics

² More information on IFAC is available at www.ifac.org

³ More information on the PIOB can be found at www.ipiob.org

⁴ More information on the CAG is available at 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 publication⁵. 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

⁵ 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.

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 ⁶	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

⁶ 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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Section 290 of the Code of Ethics

**Independence – Audit and
Review Engagements**

Section 291 of the Code of Ethics

**Independence – Other Assurance
Engagements**



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, *Code of Ethics for Professional Accountants* on June 25, 2007. These proposed revisions to the Code 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 **October 15, 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
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New York, New York 10017 USA

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to, and an explanation of, the proposed changes to the *Code of Ethics for Professional Accountants* (the Code), approved for exposure by the International Ethics Standards Board for Accountants (IESBA or the Board) in June 2007.

The IESBA welcomes comments on these proposed revisions to Section 290 and the Section 291. Comments should be received by October 15, 2007.

Background

In December 2006 the IESBA issued an exposure draft proposing revisions to existing Section 290 and a new Section 291. The comment period ended on April 30, 2007. The comment period on that exposure draft has ended and the IESBA has commenced its deliberation of the comment received. All comments received have been posted on the IFAC website.

In the December 2006 exposure draft the IESBA indicated that there were three additional areas that would be considered. This exposure draft proposes changes to address these three areas. The IESBA is now requesting comments on the changes proposed in this exposure draft.

Significant Proposals

Internal Audit

Existing Section 290 states that a self-review threat may be created when a firm provides internal audit services to an audit client. It also states that a firm should not provide any internal audit services to an audit client unless the client takes certain specified actions and the findings and recommendations resulting from the internal audit activities are reported appropriately to those charged with governance.

The IESBA proposes amending the guidance of internal audit services to clarify the wide range of services that comprise internal audit services. The IESBA is of the view that depending on the nature of the services a threat to independence may be created if the services involve the firm performing management functions or are such that it would review its own work.

The IESBA is also of the view that assisting an audit client in the performance of a significant part of the client's internal audit activities increases the risk that firm personnel providing the service may perform a management function. The proposed changes, therefore, state that before accepting such an engagement the firm should be satisfied that the client has designated appropriate resources to the activity.

Certain services, such as the outsourcing of all or a portion of the internal audit function whereby the firm is responsible for determining the scope of the work and the recommendations that should be implemented and performing procedures that firm parts of the internal controls of the audit client, involve management functions. The IESBA is of the view that a firm should not provide such services.

The IESBA is of the view that, to ensure the firm does not perform management functions, the firm should only provide assistance to an audit client's internal audit function if specified conditions are in place including that the findings and recommendations resulting from the internal audit activities are reported appropriately to those charged with governance.

The proposed revisions require a firm, prior to accepting an engagement to provide internal audit services to an audit client, to consider the scope and objective of the proposed engagement and whether the assignment is expected to create a self-review threat because it is likely to be relied upon in the making of significant audit judgments related to a matter that is material to the financial statements.

The IESBA considered whether there should be a more restrictive requirement for an audit client that is an entity of significant public interest. The IESBA concluded that procedures performed as part of internal audit services and procedures performed during an audit conducted in accordance with International Standards on Auditing can be similar and that prohibiting procedures simply because they are done as part of an internal audit service is unnecessary as long as the procedures do not entail the performance by the firm of management functions. Accordingly, the IESBA is of the view that internal audit services can be provided as long as the firm does not perform management functions and eliminates or reduces to an acceptable level any remaining threat that is not clearly insignificant. Therefore, the IESBA is of the view that it is not appropriate to have a more restrictive requirement for audit clients that are entities of significant public interest.

Fees – Relative Size

The proposed revisions to Section 290 provide additional guidance with respect to the relative size of fees from an audit client that is an entity of significant public interest. The IESBA is of the view that when, for two consecutive years, the total fees from such a client represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client the self-interest threat created would be too significant unless disclosure is made to those charged with governance of the client and one of the following safeguards is applied:

- After the audit opinion has been issued a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs a review that is equivalent to an engagement quality control review (“a post issuance review”); or
- Prior to the issuance of the audit opinion a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs an engagement quality control review.

In subsequent years, in determining which of these safeguards should be applied, and the frequency of their application, consideration should be given to the significance of the relative size of the fee. The IESBA is of the view that at a minimum a post-issuance review should be performed not less than once every three years to reduce the threat to an acceptable level.

The IESBA is of the view that the professional accountant who performs the engagement quality control review (or equivalent) may be a member of a network firm.

The IESBA considered whether there should be a threshold of relative size which, if exceeded, would indicate that the threat created was so significant that no safeguard could adequately address the threat and therefore the firm should either not act as auditor for the client or take

steps to reduce the relative size of the fee below the threshold. The IESBA is of the view that such an absolute threshold is not appropriate in a global code.

Contingent Fees

The proposed revisions to Sections 290 and 291 provide additional guidance with respect to contingent fees. Under the proposed revisions a firm should not perform a non-assurance service for an audit client if either the fee is material, or expected to be material, to the firm or the fee is dependent upon the outcome of a future or contemporary judgment related to the audit of a material amount in the financial statements. In the case of a non-assurance service provided to an assurance client that is not an audit client a firm should not provide a non-assurance service for a contingent fee if the amount of the fee is dependent on the result of the assurance engagement.

Guide for Commentators

The IESBA welcomes comments on the proposed revisions. Comments are most helpful when they refer to specific paragraphs, include the reason for the comments and, where appropriate, make specific suggestions for any proposed changes to wording to enable the IESBA to fully appreciate the respondent's position. Where a respondent agrees with proposals in the exposure draft (especially those calling for a change in current practice), it will be helpful for the IESBA to be made aware of this view.

Request for Specific Comments

The proposals state that in the case of audit clients that are entities of significant public interest if the total fees from that client exceed a specified percentage of the total fees of the firm one of two alternative safeguards should be applied. Is it appropriate to establish such a threshold, and if so is 15% the appropriate threshold?

When such a threshold is exceeded:

- Is it appropriate to require disclosure to those charged with governance?
- Are the alternative mandatory safeguards of a pre-issuance or a post issuance review appropriate and practical?
- If not are there any other alternative safeguards that would adequately address the threat to independence?

Comments on Other Matters

Recognizing that the proposed revised Code will apply to all professional accountants in public practice that perform assurance engagements, the IESBA is also interested in comments on matters set out below.

Special Considerations on Application in Audit of Small Entities

Respondents are asked to comment on whether, in their opinion, considerations regarding the audit of small entities have been dealt with appropriately in the proposed revisions to the Code. Reasons should be provided if not in agreement, as well as suggestions for alternative or additional guidance.

Developing Nations

The IESBA welcomes comments on any foreseeable difficulties in applying the proposed provisions in a developing nation environment. Reasons should be provided, as well as suggestions for alternative or additional guidance.

Translations

The IESBA welcomes comments from respondents on potential translation issues noted in reviewing this exposure draft.

The following revisions are proposed to the exposure draft that was issued by the IESBA in December 2006 (“the December ED”).

REVISION OF SECTION 290

INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS

Paragraphs 290.1-290.185 of the December ED will be unchanged and paragraphs 290.186-191 will be deleted and replaced with the following paragraphs.

Internal Audit Services

290.186 Internal audit functions comprise a wide range of activities, for example:

- (a) reviewing and testing of internal controls over financial reporting;
- (b) performing procedures that form part of the internal controls;
- (c) conducting operational internal audit activities unrelated to internal controls over financial reporting; and
- (d) performing fraud investigations.

290.187 Depending on the nature of the service, the provision of internal audit services to an audit client may create a threat to independence if such services involve the firm performing management functions or reviewing its own work in the course of a subsequent audit.

290.188 Assisting an audit client in the performance of a significant part of the client’s internal audit function increases the risk that firm personnel providing the internal audit service will become part of the client’s internal controls or will take management decisions. Accordingly, before accepting an engagement to perform a significant part of an audit client’s internal audit functions, the firm should be satisfied that the client has designated appropriate resources to the activity to take responsibility for the matters detailed in paragraph 290.190.

290.189 If a firm performs management functions for an audit client, no safeguards could reduce the threats to an acceptable level. Accordingly, a firm should ensure that it does not perform management functions when providing internal audit services to an audit client. Examples of internal audit services that entail the performance of management functions include:

- (a) performing outsourced internal audit services, comprising all or a portion of the internal audit function, whereby the firm is responsible for determining the scope of the work and which recommendations should be implemented;
- (b) performing procedures that form part of the internal controls, such as reviewing and approving changes to employee data access privileges.

290.190 To ensure that performing internal audit services does not threaten independence the firm should only provide internal audit services to an audit client if all of the following conditions are met:

- (a) The client is responsible for internal audit activities and acknowledges its responsibility for establishing, maintaining and monitoring the internal controls;
- (b) The client designates a competent employee, preferably within senior management, to be responsible for internal audit activities;
- (c) The client or those charged with governance approve the scope, risk and frequency of internal audit work;
- (d) The client is responsible for evaluating and determining which recommendations of the firm to implement;
- (e) The client evaluates the adequacy of the internal audit procedures and the findings resulting from their performance by, among other things, obtaining and acting on reports from the firm; and
- (f) The findings and recommendations resulting from the internal audit activities are reported appropriately to those charged with governance.

290.191 Before the firm accepts an engagement to provide internal audit services to an audit client, consideration should be given to the scope and objective of the proposed engagement and whether the work to be undertaken is expected to create a self-review threat because it is likely to be relied upon in the making of a significant audit judgment related to a matter that is material to the financial statements. If the self-review threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Using professionals who are not members of the audit team to perform the internal audit services; and
- Having an additional professional accountant review the work or otherwise advise as necessary.

Paragraphs 290.192-290.212 of the December ED will be unchanged and paragraphs 290.213-290.219 will be deleted and replaced with the following paragraphs:

Fees

Fees – Relative Size

290.213 When the total fees from an audit client represent a large proportion of the total fees of the firm expressing the audit opinion, the dependence on that client and concern about losing the client may create a self-interest threat. The significance of the threat will depend on factors such as:

- The operating structure of the firm;
- Whether the firm is well established or new; and
- The significance of the client qualitatively and/or quantitatively to the firm.

The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- External quality control reviews; or
- Consulting a third party, such as a professional regulatory body or another professional accountant, on key audit judgments.

290.214 A self-interest threat may also be created when the fees generated from an audit client represent a large proportion of the revenue from an individual partner’s clients. The significance of the threat should be evaluated and, if the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include having an additional professional accountant review the work or otherwise advise as necessary.

Audit Clients that are Entities of Significant Public Interest

290.215 In the case of an audit client that is an entity of significant public interest when, for two consecutive years, the total fees from the client and its related entities (subject to the considerations in paragraph 290.24) represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the self-interest threat would be too significant unless the firm discloses to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm and one of the following safeguards are applied to the following year’s audit:

- After the audit opinion has been issued a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs a review that is equivalent to an engagement quality control review (“a post-issuance review”); or
- Prior to the issuance of the audit opinion a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs an engagement quality control review

Thereafter, in determining which of these safeguards should be applied and the frequency of their application, consideration should be given to the extent to which the relative size of the fees from the audit client in relation to the firm’s total fees is greater than 15%. At a minimum a post-issuance review should be performed not less than once every three years commencing with year 3.

Fees – Overdue

290.216 A self-interest threat may be created if fees due from an audit client remain unpaid for a long time, especially if a significant part is not paid before the issue of the audit report for the following year. Generally the firm should require payment of such fees before the audit report is issued. If the fee remains unpaid after the report has been issued, the significance of the threat should be evaluated. If the threat is not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include having an additional professional accountant who did not take part in the audit engagement, provide advice, or review the work performed. The firm should also consider whether the overdue fees

might be regarded as being equivalent to a loan to the client and whether, because of the significance of the overdue fees, it is appropriate for the firm to be re-appointed.

Contingent Fees

290.217 **Contingent fees*** are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them or is required to approve them.

290.218 A contingent fee charged by a firm in respect of an audit engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguard. Accordingly, a firm should not enter into any such fee arrangement.

290.219 A contingent fee charged by a firm in respect of a non-assurance service provided to an audit client may also create self-interest and advocacy threats. No safeguards can reduce the threats to an acceptable level if the amount of the fee is either: (a) material or expected to be material to the firm expressing the opinion on the financial statements; or (b) dependent upon the outcome of a future or contemporary judgment related to the audit of a material amount in the financial statements. Accordingly, such arrangements should not be accepted.

290.220 For other types of contingent fee arrangements charged by a firm for a non-assurance service to an audit client, the significance of the threats will depend on factors such as:

- The range of possible fee amounts;
- The nature of the service; and
- The effect of the event or transaction on the financial statements.

The significance of the threats should be evaluated and, if the threats are not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threats or reduce them to an acceptable level. Such safeguards might include:

- Review or determination of the final fee by an unrelated third party; or
- Quality control policies and procedures for the non-assurance service.

Paragraphs 290.220-290.223 of the December ED will be unchanged and will be renumbered 290.221-290.224 respectively.

* See Definitions.

REVISION OF SECTION 291

INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

Paragraphs 291.1-291.150 of the December ED will be unchanged and paragraphs 290.151-154 will be deleted and replaced with the following paragraphs.

Contingent Fees

291.151 Contingent fees are fees calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work. For the purposes of this section, fees are not regarded as being contingent if a court or other public authority has established them or is required to approve them.

291.152 A contingent fee charged by a firm in respect of an assurance engagement creates self-interest and advocacy threats that cannot be reduced to an acceptable level by applying any safeguard. Accordingly, a firm should not enter into any such fee arrangement.

291.153 A contingent fee charged by a firm in respect of a non-assurance service provided to an assurance client may also create self-interest and advocacy threats. If the amount of the fee for a non-assurance engagement is dependent on the result of the assurance engagement no safeguards can reduce the threat to an acceptable level. Accordingly, such arrangements should not be accepted.

291.154 For other types of contingent fee arrangements charged by a firm for a non-assurance service to an assurance client, the significance of the threats will depend on factors such as:

- The range of possible fee amounts;
- The nature of the service; and
- The effect of the event or transaction on the financial statements.

The significance of the threats should be evaluated and, if the threats are not clearly insignificant, safeguards should be considered and applied when necessary to eliminate the threats or reduce them to an acceptable level. Such safeguards might include:

- Review or determination of the final fee by an unrelated third party; or
- Quality control policies and procedures for the non-assurance service.

Paragraphs 291.155-156 of the December ED will be unchanged.

Definitions

The definition of contingent fee in the December ED will be deleted and replaced with the following definition:

Contingent fee A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established or required to be approved by a court or other public authority is not a contingent fee.



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IFAC's International Ethics Standards Board for Accountants Invites Comments on Proposed Strategic Plan

(New York/July 13, 2007) - The International Ethics Standards Board for Accountants (IESBA), an independent standard-setting board within the International Federation of Accountants (IFAC), is seeking comment from IFAC member bodies, regulators, national ethical standard setters, accountants in professional practice and accountants in business and other interested parties on an exposure draft of its [Strategic and Operational Plan](#) for the period 2008-2009.

The objective of the IESBA is to serve the public interest by setting high quality ethical standards for professional accountants and by facilitating

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the convergence of international and national ethical standards, thereby enhancing the quality and consistency of services provided by professional accountants. In considering which new projects and activities should be undertaken, the IESBA conducted a survey of interested parties, including accountants in public practice (from large and small firms), accountants in business, regulators, IFAC members and associates, ethical standard setters and academics, to solicit views on matters that the IESBA should consider in the next few years to achieve its objective.

"In addition to suggestions for specific projects, there was a strong message from the approximately 120 survey respondents that the IESBA should place more emphasis on our convergence objective," states Richard George, IESBA Chair. "The IESBA, therefore, plans to hold four regional forums, starting in late 2008, with the objective of gaining a better understanding of the steps necessary to facilitate convergence of international and national ethical standards and achieve greater global acceptance of the Code."

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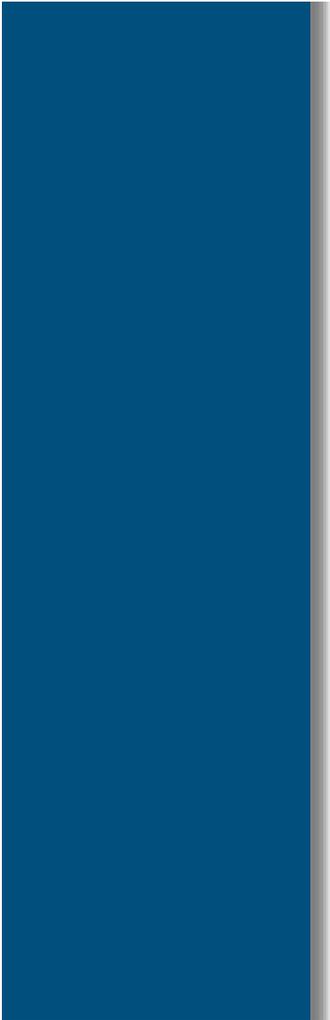
Comments on the exposure draft are requested by August 31, 2007. The exposure draft may be viewed by going to <http://www.ifac.org/EDs>.

Comments may be submitted by email to edcomments@ifac.org. They can also be faxed to the attention of the IESBA Senior Technical Manager at +1 (212) 286-9570 or mailed to IFAC, 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted on IFAC's website.

About the IESBA and IFAC

The IESBA develops ethical standards and guidance for use by professional accountants. It encourages member bodies of IFAC to adopt high standards of ethics for their members and promotes good ethical practices globally. The Public Interest Oversight Board oversees the activities of the IESBA and, as one element of that oversight, establishes the criteria for its due process and working procedures.

Founded in 1977, IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 155 members



and associates in 118 countries, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce. Through its independent standard-setting boards, IFAC sets ethics, auditing and assurance, education, and public sector accounting standards. It also issues guidance to encourage high quality performance by professional accountants in business.

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Additional Proposals for Auditor Independence Issued by IFAC's International Ethics Standards Board for Accountants

(New York/July 13, 2007) - The International Ethics Standards Board for Accountants (IESBA), an independent standard-setting board within the International Federation of Accountants (IFAC), has issued an [exposure draft](#) proposing to strengthen three components of the independence requirements contained in the IFAC [Code of Ethics for Professional Accountants](#) (the Code).

In December 2006, as a result of a comprehensive review, the IESBA issued an exposure draft proposing revisions to the existing independence

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requirements contained in the Code. In that exposure draft, the IESBA indicated that there were three areas that the IESBA would revise in a future exposure draft:

- Provision of internal audit services to an audit client;
- Independence implications related to the relative size of fees received from one assurance client; and
- Contingent fees for services provided to assurance clients.

The IESBA is now seeking comment from interested parties on these three matters.

"This second exposure draft addresses the three additional elements that the IESBA considers are appropriate to protect the public interest," states Richard George, IESBA Chair. "The IESBA intends to issue the revisions from this exposure draft in mid 2008 simultaneously with the revisions to the matters that were exposed in December 2006."

How to Comment

Comments on the exposure draft are requested by October 15, 2007. The exposure draft may be viewed by going to <http://www.ifac.org/EDs>.

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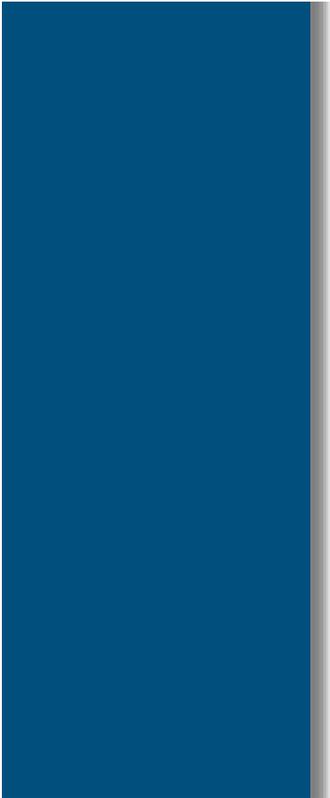
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and commerce. Through its independent standard-setting boards, IFAC sets ethics, auditing and assurance, education, and public sector accounting standards. It also issues guidance to encourage high quality performance by professional accountants in business.

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