

**DATE: SEPTEMBER 25, 2006**  
**TO: COUNCIL**  
**FROM: RICHARD GEORGE,**  
**CHAIR, INTERNATIONAL ETHICS STANDARDS BOARD FOR**  
**ACCOUNTANTS**  
**SUBJECT: REPORT FROM THE IESBA**

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### **Section 1 – Introduction**

- 1.1 This report summarizes the activities of the International Ethics Standards Board for Accountants for the past year. The initiatives that are described herein are directly relevant to each of IFAC's strategic priorities in relation to standard-setting.

### **Section 2 – Strategy and Objectives**

- 2.1 The IESBA's objective 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 throughout the world and strengthening public confidence in the global accounting profession.

### **Section 3 – Key Highlights for 2006**

- 3.1 At its June 2006 meeting the IESBA approved a revised definition of network firms. The revised definition is aligned with the EU 8<sup>th</sup> directive and also contains explanatory material on the application of the definition. The revised definition is effective for assurance reports dated on or after December 31, 2008. The revised definition would classify firms as network firms if the firms belong to a larger structure that is aimed at cooperation and is clearly aimed at profit or cost sharing, or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name or a significant part of professional resources.

### **Section 4 – Services delivered during 2006**

- 4.1 The IESBA issued a revised definition of network firms.

### **Section 5 – Work in Progress**

#### **Independence**

- 5.1 The IESBA has continued its work on revising Section 290 Independence. The independence provisions in the Code were issued in November 2001 with an effective date for assurance reports issued on or after December 31, 2004. Since issuance, several failures have led to a loss in credibility in aspects of the financial reporting process and many jurisdictions have taken steps to restore credibility. Some of these steps have related to auditor independence requirements. Therefore, the IESBA started a project to determine which parts of the independence requirements should be revisited. A forum was held in October 2005 to obtain input on this project. The matter has been given the highest priority on the IESBA's agenda and it is anticipated that an exposure draft will be issued by December 2006.

### **Accountants in Government**

- 5.2 Section 290 applies only to professional accountants in public practice. The IESBA has commenced a project to consider the application of this section to assurance engagements in the public sector – many of which are conducted by accountants in government.
- 5.3 The project will also consider whether any additional guidance is necessary in Part C of the Code for professional accountants in government.

### **Guidance for Professional Accountants in Business when Encountering Fraud or Illegal Acts**

- 5.4 The IESBA has commenced a project to develop further guidance for professional accountants in business who encounter fraud or illegal acts. When the project was approved, the IESBA determined that the scope should be restricted to professional accountants in business. When the scope of the project was subsequently discussed with the CAG, concern was expressed that the project was not also dealing with professional accountants in public practice. The IESBA has amended the scope of the project and has asked the Task Force to consider whether the guidance in section 210 could be strengthened with respect to communications between the incoming and existing auditor and whether there are any situations where the auditor should communicate matters outside of the entity recognizing that confidentiality is key to audit quality because it is essential that there is full and frank discussion between management and the auditor. Due to the need to focus on independence, the work on this project has been delayed and it is anticipated that the Board will not discuss this item again until 2007.

### **Section 6 - Planned Activities 2007**

- 6.1 The IESBA plans in 2007 to:
- Continue with work on independence including considering comments received on the 2006 exposure;
  - Restart work on developing ethical guidance for accountants who encounter fraud or illegal acts; and
  - Hold a first meeting of national standard setters.

### **Section 7 - Conclusion**

I should like to express my appreciation to the valuable contributions of the volunteer members of the IESBA and technical advisors.