



International Federation of Accountants

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DATE: October 13, 2004

TO: IFAC BOARD

**FROM: Marilyn Pendergast
CHAIR – IFAC ETHICS COMMITTEE**

SUBJECT: ETHICS COMMITTEE SELF-ASSESSMENT

Introduction

This report outlines the results of the self-assessment process conducted by the Ethics Committee in accordance with the Terms of Reference received from the IFAC Board. The report presents areas identified by respondents that could be enhanced or improved, and proposals for action.

The Ethics Committee is working towards implementation of the reforms approved by the IFAC Council in November 2003. Therefore, the self-assessment process conducted was an internal review. The process included a questionnaire that was sent to all current Ethics Committee members and their technical advisors. 15 of the 16 Ethics Committee members and four of the nine technical advisors completed the questionnaire. It is anticipated that any future reviews would reach out to a broader group of people, including, for example, members of the Ethics CAG, after it has been established.

The Forum of Firms nominated Geoff Hopper to provide input to the self-review process. Geoff has considered the process followed, the results of the self-review and the recommendations and actions. Geoff believes that the process was appropriate and concurs with the recommendations and actions.

Overview

The Ethics Committee objectives, which are included in the Committee's Terms of Reference as approved by the IFAC Board, are as follows:

- To establish high quality ethical standards and other pronouncements for professional accountants that will protect the public interest and strengthen public confidence in the accounting profession.
- To promote good ethical practices to IFAC member bodies and to the public at large.

- To foster international debate on ethical issues faced by professional accountants.

These objectives are in line with IFAC's strategic plan.

The Ethics Committee is working towards implementation of the reforms approved by IFAC Council in November 2003. The Ethics Committee's first public meeting was in February 2004, and we are working on establishing a Consultative Advisory Group (CAG). The first meeting of the Ethics CAG will be in December 2004. Public members will be appointed to the Ethics Committee in 2005.

Survey results

Overall, the results of the survey are satisfactory, with the majority of respondents believing that the Committee's due process and working procedures either met or exceeded their expectations. In addition, many of the longer serving members and technical advisors noted improvement in operations in the past year or so.

However, some areas for enhancement and improvement were noted. These are discussed below and are followed by proposed recommendations and actions to address the issues.

A chart summarizing the responses to the questions is presented in the appendix to this report.

Ethics Committee Objectives

The majority of respondents agreed that the Ethics Committee objectives represent the public interest and are in line with current international and national ethical developments and are periodically reviewed with changes approved by the IFAC Board. It was noted that the terms of reference had recently been revised to implement the IFAC reforms.

While the majority of respondents agreed that the Ethics Committee is meeting its stated objectives, two respondents believed that while adequate this is an area that needs improvement because more should be done in the area of promoting good ethical practices to member bodies and the public at large and fostering international debate on ethical issues faced by professional accountants.

For the past four years the Ethics Committee resources have been focused primarily on two major projects. Firstly, establishing a conceptual framework for addressing independence and secondly re-writing the complete Code of Ethics to adopt such a framework approach. This second project is largely complete and as such in the future the Ethics Committee will be able to give greater emphasis to promoting good ethical practices and fostering international debate.

Committee Membership and Composition

While the majority of respondents believed that the committee member's background provides an appropriate combination of technical expertise and relevant practical experience, three respondents felt that while the composition of the Committee was adequate improvement was needed. The Committee is responsible for establishing a Code of Ethics for professional accountants in business and professional accountants in public practice. However, 14 of the 16

current members are accountants in public practice and of those, only four of the fourteen are not either from or recently retired from the big four accounting firms. The majority of respondents felt that the Committee members' background provides for the appropriate geographical spread but five respondents felt that while adequate this was also an area that needed improvement. In particular it was noted that there was no representation from Africa or South America. One respondent noted that contribution from Committee members was uneven and in order to ensure that the Committee has the best input the Chair should have the right to review each person's contribution annually and have the right to recommend a change to Committee membership or to counsel the individual.

All Committee members have signed a declaration that they will act in the public interest and with integrity in discharging their roles within IFAC. The majority of respondents believe that the Committee members act, and are seen to act, in the public interest. However, three respondents felt that while this was adequate improvement was needed. Two respondents felt that on occasion national interests were represented rather than the public interest. Also one respondent felt that in some circumstances it appeared that the self-interest of public practice overrides the public interest.

Given the volunteer nature of the members' participation, and subject to the comments noted above regarding the composition of the Committee, the members' participation and input to the Committee activities are appropriate. The majority of the members attend all Committee meetings for their full duration.

The majority of respondents were satisfied that the limitation of the number of years that a member is allowed to serve on the Committee and compulsory retirement of a specified number of members every year contributes to the effectiveness and efficiency of the Committee. However, two respondents felt that while adequate this needed improvement and two respondents felt that significant improvement was needed. It was noted that the learning curve was long and group dynamics complex and therefore mandatory rotation rules can be too rigid at times. Also the rotation of individuals with significant expertise that can add value does not contribute to the effectiveness of the Committee.

The majority of respondents who had participated in the orientation program were satisfied that it was appropriate. However, one respondent felt that this was an area where significant improvement was needed. It was also noted that that a history of projects in process might be helpful.

All respondents agreed the current arrangements of technical advisors sitting at the meeting table and participating in the discussions of the Ethics Committee is appropriate (as opposed to them sitting away from the meeting table with a right to speak only at the request of the members who they are advising). Respondents noted that technical advisors bring useful background to the table and the alternative of having technical advisors away from the table would be disruptive.

Due Process

The majority of respondents are satisfied that the Committee appropriately considers the needs of key stakeholders in particular when approving and prioritizing proposals for new projects. Two respondents, however, thought that while this was adequate improvement was needed. It was noted that the new Consultative Advisory Group will assist in this regard.

All proposed authoritative pronouncements are exposed for public comment. All respondents are satisfied that the Committee gives due consideration to comments received before a final pronouncement is made. It was noted that not only are all the comments distributed there is balanced effort to consider all the comments.

The Committee is in the process of further enhancing its due process. For example, a newly established Planning Committee first met in May 2004. The majority of respondents were satisfied that the Committee follows its due process with one respondent stating that while adequate it was an area that required improvement because it was not yet fully in place. All respondents believe that the new due process is sufficient, effective and efficient.

Operating Procedures

The majority of respondents are satisfied that the meetings are well organized, efficient and effective. Two respondents stated that while this was adequate improvement was needed. One respondent noted that occasionally the Committee will take a course of action at a meeting that was different to what was expected. Another respondent stated that it was important that the Committee be seen to be independent from any influence other than the Public Interest and as such, meetings should be at “neutral” locations and not in the offices of accounting firms, irrespective of budgetary implications.

The majority of respondents were satisfied that the meetings occur often enough and are of appropriate length to allow discussion of issues. Two respondents stated that while it was adequate improvement was needed. While the practical difficulties of moving from more than three meetings a year were recognized one respondent noted that there was not sufficient time to step back and consider the broader issues and another respondent favored moving to four meetings a year.

All respondents were satisfied that the Committee chair actively solicits views from all Committee members and ensures that there is an appropriate consensus of views at key stages of a project. The majority of respondents were satisfied that the agenda setting process was led by the Chair.

The majority of respondents were satisfied that the meeting material is received with enough lead-time to allow for meaningful preparation. Three respondents felt that while adequate this is an area for improvement. One respondent noted that the timing does not always provide for adequate communication with a member body organization prior to the meeting.

The majority of respondents were satisfied that the minutes and reports to the Committee, the IFAC Board and other key stakeholders reflect the significant activities, actions and

recommendations of the Committee. One respondent felt that while adequate this is an area for improvement. It was noted that while the decision summary of the meeting is a useful document, it would be helpful if draft minutes of a meeting were available shortly after the meeting, rather than being posted with the agenda material for the following meeting.

The majority of respondents were satisfied that the Committee Task forces have the appropriate mix of committee and other volunteer members. One respondent felt that while adequate this is an area for improvement. It was noted that it was difficult to access expertise from accountants in business and in small accounting firms.

While the majority of respondents were satisfied that when appropriate the Committee effectively and efficiently liaised with other IFAC Committees. However, seven respondents felt that while this was adequate improvement was needed. These respondents noted that this had been problematic in the past but new recently established liaison roles and processes would significantly improve the co-ordination.

All respondents were satisfied that Committee staff resources are sufficient and competent. Several respondents noted that while the resources are sufficient for the existing workload it may be necessary to increase resources if the work load increases.

The majority of respondents are satisfied that staff is assigned to activities of the Committee in a way that leads to an effective and efficient utilization of available staff resources.

Recommendations and Actions

The following recommendations and actions are proposed. In some cases the Committee is already working on these areas and in other cases the primary responsibility rests with the IFAC Board and the Nominating Committee.

Committee membership and composition

1. The IFAC Nominating Committee may wish to review the current composition of the Committee and in particular the number of members from industry and the geographical representation. The comments and observations made by respondents regarding experience, expertise and geographical background have been forwarded to the Nominating Committee for their consideration. The Nominating Committee may also wish, to consider whether the limitation on the number of years that a member is allowed to serve on the Committee contributes to the effectiveness and efficiency of the Committee.
2. Consider methods to re-enforce the importance of members acting in the public interest; for example, periodic re-enforcement by the Chair of the importance of acting in the public interest.
3. Continue with the orientation session held before the first meeting for new members and their technical advisors. Survey new members after their second meeting to ascertain whether any enhancements to the orientation session would be beneficial.

Due Process

1. Consider methods of obtaining key stakeholder input into the approval and prioritization of new projects. Consistent with its terms of reference the Ethics Planning Committee will consider this issue and present recommendations to the full Committee.

Operating Procedures

1. Where possible, all efforts will be made to have the majority of meeting materials available four weeks before the meeting date.
2. Draft minutes for a meeting will be posted within three weeks of the meeting.

Marilyn Pendergast
October 13, 2004