

## Agenda Item

# A1

**Meeting:** IESBA Consultative Advisory Group  
**Meeting Location:** New York, USA  
**Meeting Date:** September 9, 2019

**Draft Minutes of the Public Session of the Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS CONSULATIVE  
ADVISORY GROUP (CAG)**

**Held on March 9, 2019 in New York, USA**

**PRESENT**

**Member Organizations**

Kristian Koktvedgaard (Chair)	BusinessEurope
Noémi Robert	Accountancy Europe (AE)
Myles Thompson	AE
Vânia Borgerth	Associação Brasileira de Instituições Financeiras de Desenvolvimento
Nicolaas van der Ende	Basel Committee on Banking Supervision (Basel Committee)
Mohini Singh	CFA Institute
Prof. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Paul Sobel	Institute of Internal Auditors (IIA)
Daniel Sarmiento Pavas	Inter-American Accounting Association (IAA)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Nigel James	International Organization of Securities Commissions (IOSCO)
Takeshi Hirai	IOSCO
Huseyin Yurdakul	IOSCO
Jim Dalkin	International Organization of Supreme Audit Institutions (INTOSAI)
Dr. Conchita Manabat	International Association of Financial Executives Institutes
Dr. Bello Danbatta Lawal	Islamic Financial Services Board (IFSB)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)

Asha Mubarak Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

Henri Fortin World Bank (WB)

**Observer Organizations**

Dawn McGeachy-Colby IFAC Small and Medium Practices (SMP) Committee

Megan Ziestman U.S. Public Company Accounting Oversight Board

**IESBA Members and Staff**

Dr. Stavros Thomadakis IESBA Chairman

Richard Fleck IESBA Deputy Chair and Role and Mindset Task Force Chair

Liesbet Haustermans (via teleconference) IESBA Member and Part 4B-ISA 3000 Task Force Chair  
IESBA Member and Fees Task Force Chair

Ian McPhee (via teleconference)

Sylvie Soulier IESBA Member and International Auditing and Assurance Standards Board (IAASB) Coordination Liaison

James Gunn Managing Director, Professional Standards

Ken Siong Senior Technical Director

Diane Jules Deputy Director

Geoffrey Kwan Principal

Szilvia Sramko Manager, Standards Development and Technical Projects

Carla Vijian Manager, Standards Development and Technical Projects

**Public Interest Oversight Board (PIOB)** Maria Helena Pettersson

**APOLOGIES**

Sarah Ovuka

Obaid Saif Hamad Ali Al Zaabi

Anne Molyneux

Inanc Yazar

Wei Meng

Simon Bradbury

**Member Organizations**

Financial Executives International (FEI)

Gulf States Regulatory Authorities (GSRA)

International Corporate Governance Network (ICGN)

Organisation for Economic Cooperation and Development (OECD)

World Federation of Exchanges (WFE)

**Observer Organization**

International Monetary Fund

## **A. Opening Remarks**

Mr. Koktvedgaard welcomed all participants of the meeting. He welcomed, in particular, Ms. Maria Helena Pettersson as PIOB observer and the new Representatives Prof. Cela, for EFAA, Mr. Pavas, for IAA, and Ms. Mubarak for SLAASMB. Mr. Koktvedgaard also welcomed Ms. Zietsman, new representative of the PCAOB, Board members and IESBA staff.

At Mr. Koktvedgaard's invitation, Dr. Thomadakis provided an update on the IESBA's new Strategy and Work Plan 2019-2023 (SWP) which was approved by the Board at its December 2018 meeting. In addition to a number of key initiatives, including pre-committed projects and new initiatives such as technology and tax planning, Dr. Thomadakis noted that the IESBA will focus on promoting the adoption and implementation of the Code through deepening engagement with stakeholders and collaboration with IFAC. Dr. Thomadakis also noted that the IESBA will conduct a mid-cycle strategy review in 2021 and be in consultation with the IAASB in order to achieve greater strategic alignment on the two Board's future work plans for 2024 and beyond. The [SWP](#) has since been approved by the PIOB and was released in April 2018.

The CAG approved the minutes of the September 2018 public session as presented.

## **B. Role and Mindset**

Mr. Fleck introduced the session by providing a summary of the Task Force's activities since the project was approved by the IESBA in September 2018, including highlights from the December 2018 IESBA meeting. The CAG Representatives noted the report-back and did not raise any comments.

Mr. Fleck provided a summary of the draft proposals, including a new Introduction to the Code as well as revisions to Sections 100, 110 and 120 of the Code. Mr. Fleck also noted that there was overall support for the Task Force's direction of travel from IAASB and International Accounting Education Standards Board (IAESB) representatives at the recent Professional Skepticism joint chairs teleconference.

### INTRODUCTION TO THE CODE

Several CAG representatives, including Messrs. Hansen, Dalkin and Fortin and Prof. Cela, expressed support for the draft material, its length and proposed location as part of a new Introduction to the Code.

CAG Representatives discussed at length the relationship between compliance with the Code and a PA's responsibility to act in the public interest. There was general consensus from the CAG that compliance with the Code does not amount to prima facie evidence that a PA is acting in the public interest. In response, Mr. Fleck clarified that the proposed text was not intended to make such an assertion. Instead, it intended to demonstrate that compliance with the fundamental principles and application of the conceptual framework lie at the heart of the Code and that they play an important role in ensuring PAs are acting in the public interest.

The following comments were also raised:

- Mr. Hansen noted that public interest and expectations change over time and that there are fundamental underlying principles of ethics that cannot be ignored even if they are not in writing. Similarly, Mr. van der Ende cautioned the Board against assuming that the fundamental principles would not require any revisions in the long run. He suggested that, for instance, the principle of confidentiality might be seen as too restrictive in light of changing public expectations. In response, Mr. Fleck agreed that perceptions of the public interest do change over time and, as such, the IESBA needs to regularly review and revise the Code to ensure its currency and relevance.

- Mr. James pointed out that without carrying out a comprehensive review of the entire Code, it is difficult to make an assertion that compliance with the Code means a PA has acted in the public interest. He further noted that additions to the Code by some jurisdictions suggest that the Code may need further enhancement. Dr. Lawal noted that one should also ask whether any provisions of the Code are in conflict with the public interest. Mr. Dalkin pointed out that there are several pillars to the public interest and that whilst behaving ethically is an indication of working towards acting in public interest, it is not a guarantee.
- Mr. Sobel agreed with Mr. Fleck's clarification that the proposals are only aimed at demonstrating that compliance with the fundamental principles and application of the conceptual framework are essential if a PA is to act in the public interest.
- Prof. Cela was of the view that compliance with the Code is prima facie evidence of acting in the public interest.
- On the proposed text regarding complying with not only the letter of the Code but also the spirit of the Code, Mr. Fortin noted that there should be an obligation to comply with both. Mr. James noted that evidence from inspection findings indicates that compliance with relevant standards highlights possible gaps between what is in the public interest and what is in the Code. He added that this might point to the need to look more to the spirit of the Code.

Mr. Fleck stressed that if the Code does not give some weight to compliance with the Code towards meeting the public interest, it may lead others to question its value to a PA when faced with an ethical challenge. Mr. Fleck reiterated the importance of complying with the spirit of the Code and that the Code is a major contribution towards a PA acting in the public interest, albeit not the answer on its own.

#### SECTION 100

Mr. Fleck clarified the scope of the Code as stated in the proposed paragraphs 100.1 A2 and 100.1 A3 in response to queries raised by Messrs. Yurdakul and Dalkin about the language used in these two paragraphs.

#### SECTION 110

With regards to the proposed revisions to the principle of objectivity, Ms. Robert expressed support for the use of an affirmative statement, whilst Mr. Fortin queried if the change will add any substantive value. The following comments were also raised by CAG representatives:

- Ms. McGeachy-Colby and Mr. Fortin did not support the phrase "Perception, emotion or imagination" as the terms are difficult to measure. They suggested that it might be better to place it as part of the concept of bias in the proposals. Ms. Robert noted that the phrase could be seen as more neutral attributes and suggested adding "inappropriate" in front of the phrase.
- Mr. Fortin supported the reference to technology in the description of objectivity.
- Mr. James queried if anything might be lost by deleting the reference to business judgment.
- Mr. Pavas was of the view that ignorance of a PA will also affect their objectivity.

With regards to the proposed new concept of "resolve" under the principle of integrity, both Messrs. Thompson and Fortin supported the concept but suggested using a different term as "resolve" may be difficult to translate in some jurisdictions.

## SECTION 120

Several CAG Representatives queried if questioning mindset is the most appropriate term to describe the concept. They suggested other alternatives including “questioning mind” and other more action-oriented terms such as “critical thinking” and “challenging mindset” for the Task Force’s consideration. In response, Mr. Fleck noted that the Task Force is open to suggestions of other terms to capture the concept. The following comments were also raised:

- Mr. Fortin was of the view that the term “questioning mindset” should not be included as a requirement in combination with the exercise of professional judgment in paragraph R120.5. Instead, he suggested that the text should explain that exercising professional judgment needs the application of some form of questioning mindset to question the information. Mr. Yurdakul suggested that there may instances whereby a PA is required to have a questioning mind without the need to exercise professional judgment.
- In suggesting the term “critical thinking,” Ms. Manabat suggested that these attributes must be second nature to a PA. Mr. James noted his comment from the September 2018 CAG meeting that even with the correct terminology, the ultimate goal is to embed the concepts into the mindset and behavior of PAs. In response, Mr. Fleck reiterated his previous comment that the Code alone cannot change behavior and that other factors such as education, the right organizational culture and tone at the top are also important in this regard.
- Ms. Zietsman suggested more examples be added to better explain the concept. In response, Mr. Fleck noted that the more is added to amplify the text, the greater the risk of replicating professional skepticism without mentioning the term.

Several CAG Representatives expressed support for the proposed material on bias and organizational culture. The following comments were raised:

- Mr. Hansen suggested that the material on bias will make PAs become more aware of them and that training material can further expand on them. Ms. McGeachy-Colby suggested that the proposed examples of bias in paragraph 120.12 A2 be included in non-authoritative material, such as Staff Q&A, in order to have wider reach. In response, Mr. Fleck noted that the Task Force will be considering what additional guidance might be helpful as non-authoritative material.
- Ms. McGeachy-Colby noted that the term “devil’s advocate” might be difficult to translate in some jurisdictions. In response, Mr. Fleck noted that the Task Force is aware of the potential issue and that it has sought input from Board members about how the term might be translated into other languages.
- Mr. Pavas noted that ethical behavior is a complex matter and that supervision and discipline should be included in the proposed text on organizational culture. In response, Mr. Fleck clarified that the concept of supervision and discipline are already reflected in the proposed text. The PIOB Observer noted her personal view that management style is also important. Mr. Fleck agreed that the Task Force will consider these suggestions.
- Mr. van Der Ende asked whether PAs should look for contradictory data through the use of different accounting frameworks in the public interest but acknowledged that this may not be a bias-related issue. Mr. Fleck agreed that this was not a matter that should be addressed by the Code.

#### WAY FORWARD

The PIOB Observer expressed her appreciation of the richness of the discussion. Mr. Fleck noted that the Task Force would aim to seek the Board's approval of an Exposure Draft of its proposals at the June 2019 IESBA meeting.

#### **C. Alignment of Part 4B of the Code with ISAE 3000 (Revised)<sup>1</sup>**

Ms. Haustermans, Chair of the Alignment of Part 4B with ISAE 3000 (Revised) Task Force, commenced the session by updating the CAG on developments since the approval of the project proposal in September 2018, including the recent activities of the Task Force. She then outlined the key proposals of the Task Force in the draft Exposure Draft (ED).

Representatives were supportive of the draft ED and the following comments were made:

- Mr. Dalkin thanked Ms. Haustermans for the presentation. On the topic of direct engagements, he noted that paragraph 900.14 A2 indicates that the responsible party or engaging party might appoint another party to prepare the subject matter information. He observed that in practice, there might be a conflict of interest if the auditor is also the preparer of the subject matter information. He emphasized the need for assurance that practitioners are not also preparing subject matter information.
- Ms. Haustermans responded that based on discussions with several experts in the area of direct engagements, including representatives from the IAASB, and reviews of such engagements, in reality the practitioner is not reviewing the practitioner's own work. Rather, assurance is obtained at the same time as the evaluation or measurement of the subject matter. There is therefore no independence issue. She noted that the IESBA's position on this matter will be clarified in the explanatory memorandum to accompany the ED. In addition, the Task Force envisaged that an IESBA Staff publication will be developed in coordination with the IAASB to explain why there is no self-review threat in a direct engagement.
- Mr. Dalkin followed up with a comment that he has in mind more a non-audit service where the practitioner prepared the information that is subsequently the focus of the direct engagement. Mr. Dalkin thought that the question was probably more suited for the NAS session later on the agenda.
- Commenting on assurance engagements other than audits or reviews, Mr. Pavas noted that some topics such as ESG will increase the demand for assurance in years to come. Accordingly, he wondered whether it would be beneficial to include examples of those types of engagement.

#### WAY FORWARD

Ms. Haustermans outlined the forward timeline for the project, with a first read of the proposed revised Part 4B post-exposure scheduled for the September 2019 IESBA meeting, and final approval at the December 2019 IESBA meeting.

Mr. Koktvedgaard thanked Ms. Haustermans for the presentation.

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<sup>1</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

## **D. Technology**

Ms. Mulvaney introduced the topic, noting that the Working Group was established by the Board in mid-2018 to pursue this work stream as a strategic priority, ahead of the approval of the SWP.

### SCOPE AND APPROACH

Ms. Mulvaney highlighted the key elements of the Working Group's terms of reference which were approved by IESBA at its December 2018 meeting. Amongst other things, she noted that the Working Group's objectives include identifying the implications of technology developments on the Code and developing the appropriate responses. To achieve this, the Working Group will focus on both professional accountants (PAs) in public practice (PAPPs) and PAs in business (PAIBs). The Working Group will also take a phased approach with an initial focus on artificial intelligence and robotic process automation (AI) as well big data and data analytics (Data). The Working Group will present its Phase 1 report to the Board in December 2019. Ms. Mulvaney also noted that the IESBA will be coordinating its work on this topic with the other Standard Setting Boards.

The CAG Representatives and the PIOB Observer expressed strong support for the initiative, noting that it is a strategically important work stream. Amongst other matters, the following general comments were raised:

- Mr. Dalkin pointed out the risk of audit teams taking up management responsibilities when using new products to deliver their services. He acknowledged that this issue may be better addressed by the NAS Task Force. In response, Ms. Mulvaney noted that there may be some overlap between the two IESBA teams' work on this issue and that the Working Group will consider this point further in due course.
- Mr. Dalkin recommended that the Working Group also consider reaching out to stakeholders in the public sector as they might have some unique views to offer on this topic.
- Mr. van der Ende noted the importance of understanding data quality, not only because basic data are so critical as an input but also because management can make choices with the data. He therefore queried if the Code should provide guidance to PAs on evaluating the accuracy and appropriateness of source data.
- Mr. James also made observations about the increase of 'fake news' in the media and the doctoring of online pictures, and therefore the potential for a new dimension of fraud. He asked how PAs should prepare themselves in discerning false information generated by technology and in ensuring data integrity. In response, Ms. Mulvaney noted that the Role and Mindset Task Force is proposing a concept of "questioning mindset." She added that whilst PAs do not need to be data scientists, they need to have the competence to ask the right questions and marshal the appropriate support. Ms. Mulvaney also pointed out that this issue relates to the fundamental principle of professional competence and due care.
- Mr. Sobel was pleased to see that the scope of the initiative covers both PAPPs and PAIBs. He suggested that as different technologies are developed for audit process and for accounting and transactional processes, some consideration might be given to whether there are any differences in the ethical considerations.
- Mr. Sobel observed that there might be bias in the evaluation of technologies by those who fear their jobs are at risk, including auditing roles being replaced by technology.

- Ms. Zietsman agreed with the Working Group's approach as set out its Terms of Reference. She also took the view that the initiative cannot be completed by simply resolving a fixed number of issues. Instead, she agreed with the approach of blending the technology elements into ongoing projects, as done with the foundational aspects of the Role and Mindset proposals. She also noted that the IESBA can be nimble by issuing non-authoritative guidance as opposed to looking at making ongoing revisions to the Code. In response, Ms. Mulvaney noted the Working Group's observation that technology demonstrates the relevancy and applicability of the Code. Mr. Koktvedgaard clarified that the Working Group's recommendations may not necessarily include changes to the Code.
- Ms. Borgerth preferred to view technology as an opportunity to provide more reliable information in a more expedient way. Mr. Fortin also noted that technology can be disruptive in a good sense by unlocking issues that have been hidden for a long time. Ms. Mulvaney pointed out that the Working Group will also consider opportunities technology is presenting to the profession.
- Ms. Singh noted that the CFA Institute has made similar considerations within the investor community and is currently conducting a similar consultation with its constituents on the impact of technology on compliance with the Institute's Code of Ethics and Standards of Professional Conduct. In this regard, she noted that the CFA Institute would be pleased to share the results of its work with the IESBA.
- Mr. van der Ende asked if the initiative's scope includes the trend in seeking assurance beyond financial information to encompass systems, processes and other matters involving technology, such as blockchain. In this regard, Mr. Koktvedgaard reminded CAG Representatives that the IAASB also has a separate work stream on technology which is better placed to address these issues.

Ms. Mulvaney then provided an overview of the Working Group's information gathering activities in Q1 2019. She presented five emerging themes from the work performed to date which, amongst other things, incorporate the following observations:

- Stakeholders did not identify any noticeable gaps in the fundamental principles or the rest of the Code in terms of how PAs should deal with technology-related ethics issues.
- AI ethics frameworks often include the concepts of fairness, transparency and accountability, which may intersect with the Code. The Working Group will examine the interaction between these concepts and the fundamental principles.
- Stakeholders mentioned the importance of PAs having the appropriate mindset, including an advisory mindset and a growth mindset.
- Bias in AI (machine bias) is a significant risk and can be present in the data AI consumes and the algorithms used to analyze the data.
- Some stakeholders asked if PAs have a broader role in society as ethical leaders and champions in their organizations, as well as whether firms should have an ethical responsibility to discuss with their clients the use and risks of particular technology.

The following matters were raised:

- Dr. Lawal suggested that there should be more emphasis on professional competence, new skill sets and continuing professional development and the PA's ability to lead with regard to technology



developments. He felt that these would be critical success factors. Both Mr. Fortin and Ms. Robert echoed the importance of professional competence in the digital age.

- Ms. Manabat noted that standard setting may be lagging behind how large firms are doing business as the latter have been developing their technologies over a period of time to streamline their work processes and increase their productivity, including through use of shared service centers. In response, Ms. Mulvaney pointed out that whilst AI technologies are available, many organizations have yet to fully utilize their capabilities due to data not being properly organized. The Working Group will be carrying out its work irrespective of the readiness of organizations. Ms. Borgerth also encouraged the Working Group not to be unduly concerned with the fact that its work is behind technology developments.
- Mr. James noted that regulators have been struggling with the question of whether to allow technology to develop before establishing the necessary regulatory boundaries, as investors and other stakeholders have been concerned about stifling innovation if regulation comes too early. He wondered if standard setters should have a different threshold than regulators, establishing the appropriate standards without stifling innovation. Ms. Mulvaney acknowledged the challenge, noting that the IESBA is focused on the continuing relevance of the fundamental principles and whether the Code remains fit for purpose in this dynamic environment.
- Ms. Robert suggested that developing a growth mindset and the responsibility to advise clients on risks to and benefits of using AI fall within the firms' responsibilities. She also noted that fairness and transparency are important concepts linked to ethical behavior and that trust is becoming increasingly important with technology disruptions.
- Mr. Fortin queried whether PAs should play a role in upholding fairness and transparency or promoting the benefits of technology. In response, Ms. Mulvaney agreed that trust in AI is an important issue and that the Working Group will continue to explore this aspect. Mr. Fortin also pointed out that technology can be both a threat and a tool to protect confidentiality.

#### WAY FORWARD

Ms. Mulvaney noted that the Working Group will continue its information gathering and stakeholder outreach. She encouraged the CAG Representatives to reach out to the IESBA and provide any further input on the topics presented.

#### **E. Non-assurance Services**

Mr. Fleck introduced the session by providing a summary of the Task Force's planned activities until the Exposure Draft is submitted for approval. The CAG Representatives noted the report-back and did not raise any comments.

Mr. Fleck summarized the key policy decisions involved in addressing the issues outlined in the [Non-Assurance Services \(NAS\) Project Proposal](#). Representatives generally supported the direction of the proposals. Among other matters, the following comments were made.

- Mr. Thompson referred to recent developments in the UK, highlighting that some firms are opting not to provide NAS to audit clients that are public interest entities (PIEs). He asked whether the proposed revisions arising from this project will catch up with that trend.
- Mr. Hansen inquired whether the definition of PIE is in the scope of this project. Mr. Fleck responded that although a review of the definition of PIE is not part of this project, he anticipated that the

explanatory memorandum to the Exposure Draft would include an indication of the IESBA's intention to bring forward such a project. He pointed out that the aim would be to align the effective date of the changes to the definition of a PIE with the effective date of the changes to the NAS provisions. Ms. Robert agreed with the Task Force's approach and concurred that the Definition of PIE project is very important.

- Mr. Dalkin suggested that entities from the public sector should be included in the notion of PIEs. Mr. Fleck agreed, adding that he was also of the view that the discussion on PIEs has to be wider than simply listed entities.

Mr. Fleck presented the Task Force's proposed revisions to the NAS provisions of the Code, including the proposed new framework on permissibility of the provision of NAS to PIE audit clients.

Among other matters, the following were raised:

#### RETAINING A DIFFERENTIAL APPROACH TO PIE AND NON-PIE AUDIT CLIENTS

- Mr. Yurdakul raised that the audit services provided are the same for PIE and non-PIE clients. However, based on the current proposals, the provision of NAS would be different according to whether or not the client is a PIE. He asked whether this is solely because of the public interest. Similarly, Mr. Pavas asked what the rationale is behind treating non-PIEs differently.
- Mr. Fleck explained that due to the lack of resources, small- and medium-sized entities (SMEs) often need guidance from their auditors. He noted that SMEs need this relationship with the auditor to be able to grow. Any limits to this relationship would adversely impact their growth and that would be against the public interest. Reflecting on Mr. Fleck's response, Mr. James raised caution that carving out non-PIE audit clients could be seen not only as benefiting the public interest and economic growth but also as benefiting accounting firms in terms of additional revenue.
- Mr. Fortin supported the Task Force's approach. He pointed out that the element of perception of independence is higher for PIEs, consequently the pragmatic approach is to have different provisions for them. He believes this issue is not about independence, because the Code still has provisions for non-PIE clients. However, the IESBA needs to keep the flexibility in that area as a matter of balance. Mr. Fleck concurred, noting that the conceptual framework still applies in the case of non-PIEs.
- Mr. Pavas did not support the Task Force's approach to this matter. He saw a contradiction in differentiating between PIEs and non-PIEs. He was of the view that NAS creating a self-review threat should be prohibited both for PIEs and non-PIEs.
- Dr. Thomadakis remarked that PIEs are more exposed to public interest issues and therefore there is a different level of responsibilities for firms with respect to them, a proportionality which is already reflected in the Code. However, he noted that this does not mean that there is no need for safeguards in case of non-PIE clients. His view was that this a matter of graduation of intensity in applying safeguards and not the absence of provisions and safeguards for non-PIEs.
- Reflecting on Dr. Thomadakis' remarks, Mr. James noted that in his view there is no such thing as graduation of independence, but perhaps graduation of services firms can provide. In case of audit clients, firms can be independent or not independent, and he felt the line should be drawn there. Dr. Thomadakis acknowledged the point but noted that even in the EU Audit Regulation, there is a focus on PIEs. He emphasized that the Code's conceptual framework applies fully to non-PIEs.

- In line with the distinction between PIEs and non-PIEs, Mr. Yurdakul suggested that the Task Force consider the possible implications when a non-PIE client later becomes a PIE. Mr. Fleck responded that the Task Force is conscious about this transition issue.

#### PROHIBITION OF NAS CREATING SELF-REVIEW THREAT

- Mr. James suggested reviewing the language of the requirement regarding considering prohibitions in national laws and regulations. He noted that it should be stronger than just “consider” relevant laws and regulations as compliance is needed. Mr. Fleck responded that the Code already recognized the need for such compliance.
- Ms. Pettersson and Mr. Hansen highlighted the need for further guidance regarding the concept of “direct and indirect effect on the financial statements” in the wording of the prohibition. Mr. Fleck responded that the Task Force will try to articulate how indirect effect operates in practice through some examples.
- In relation to the proposed list of examples to prohibited services due to the self-review threat included in the application material, Dr. Lawal noted that the list could be good guidance. Messrs. Pavas, Hansen and Fortin concurred. Ms. McGeachy-Colby noted that it was helpful to have the list of prohibited services. However, she suggested that it would be helpful if there were a staff publication explaining what the safeguards might be if there was no prohibitions. On the other hand, Mss. Borgerth was of the view that a list of such services could result in an undue focus on them at the expense of firms carefully thinking about the particular NAS to be provided.
- Mr. Yurdakul noted that the outcome of the NAS could impact the financial statements several years down the road. Mr. Fleck responded that the Task Force would consider the matter further.
- As to the issue of materiality, Messrs. Dalkin and James supported the withdrawal of the concept of materiality with respect to the provision of NAS where a self-review threat arises.

#### PROVISION OF NAS CREATING OTHER THREATS

- Mr. Dalkin asked how the “significance of a threat’ should be interpreted. He noted that in the US, the GAO has adopted the IESBA’s conceptual framework but added guidance to explain what “significance” means. He raised the same question with respect to the interpretation of the term “acceptable level.” He did not suggest moving away from the principles-based approach. However, he suggested considering providing some specificity but acknowledged the danger of ending up with rules. Mr. Fleck responded that the Task Force injected to the thought process the reasonable and informed third party test (RITP test) and indicated that this issue is on the radar screen of the Task Force.
- Mr. James asked whether, in the thinking process suggested by the Task Force regarding the permissibility of an NAS, there was a point at which the firm considers the totality of the NAS provided to a client. Mr. Fleck responded that although the effect of providing multiple NAS to the same client is not part of the decision tree, the Task Force proposed enhanced provisions regarding that matter.

#### PROHIBITION ON ASSUMING MANAGEMENT RESPONSIBILITY

- Reflecting on Mr. Dalkin’s comments on the interpretation of “significance of a threat,” Mr. Hansen referred to the same problematic interpretation issue with assuming management responsibility.

He noted that even though providing advice and recommendation is not considered as assuming management responsibility, at the end of the day management will act according to the advice provided. Mr. Dalkin agreed that the responsibility of management is subject to interpretation. He suggested that the IESBA consider providing guidance regarding that responsibility. Mr. Fleck responded that the Task Force had recognized the question and tried to address it in the Code through focusing on the need for there to be suitable expertise within the client to understand the advice.

#### PRE-APPROVAL OF PROVISION OF NAS BY TCWG

- Ms. Zietsman asked whether the Task Force had addressed the need for engagement by those charged with governance (TCWG) in the decision to avoid the request for an approval be a simple presentation of the NAS to TCWG. Mr. Fleck answered that the communication and pre-approval are intended to be an interactive two-way process between the auditor and TCWG. Mr. Fortin noted that pre-approval would be better if it were a communication between TCWG and management, instead of with the auditor. He felt that for the auditor to ask TCWG could be problematic as it is more a management decision. Mr. Fleck responded that both routes have their risks as many among management believe that having the auditor provide the NAS helps with the audit. He added that auditors should not avoid assessing the threats just because of pre-approval. He clarified that the aim of the proposal on enhanced communication is to ensure, through creating an environment where honest conversation can take place, that TCWG consider the NAS to be provided properly.
- Mr. Pavas pointed out that the corporate governance environment for non-PIE clients is not appropriate for seeking pre-approval. He was of the view that in the case of such entities, it is not necessary.
- Mr. Hansen raised the importance of the documentation of that pre-approval either by the entity or by the firm.

#### EXCEPTION TO RELATED ENTITIES

- Mr. Dalkin agreed with the Task Force's proposals that parent companies should be out of scope of the exception provided to related entities. Mr. Fortin agreed but recognized it might be complicated to apply in practice. Mr. Hansen also expressed support for scoping out parent entities; however, he also suggested excluding sister entities.

Representatives had the following questions regarding the scope of the NAS Project:

- Mr. Fortin asked whether the issue of the period during which independence is required could be handled by auditing standards.
- Mr. James inquired whether the project focuses on NAS provided to audit clients only or also assurance clients. Ms. Jules clarified that the project focuses on audit and review engagements, but consequential changes will be considered with respect to assurance clients in Part 4B of the Code.

Ms. Pettersson expressed appreciation that some of the matters suggested previously by PIOB are being addressed, e.g. ratio of fees. She remarked that these proposals could lead the PIOB closer to addressing the issue of the firms' business model.

## WAY FORWARD

Mr. Fleck summarized as a main take-away from the discussion that the CAG was generally supportive of prohibiting NAS on the grounds of a self-review threat. The Task Force will bring at the September 2019 CAG meeting a more developed set of the proposals for the CAG's further input.

## F. Fees

Mr. McPhee, Chair of the Fees Task Force, commenced the session by providing a summary of the Task Force's activities since the project was approved by the IESBA in September 2018. The CAG Representatives noted the report-back to the comments provided at the September 2018 CAG meeting and did not raise any comments.

Mr. McPhee provided a summary of the Task Force's preliminary proposals to changes to the Code to address fee-related matters. Representatives generally supported the direction of the proposals.

Among other matters, the following were raised:

### LEVEL OF AUDIT FEES

- Mr. James asked how to assess that auditors are determining the appropriate fee level for the resources needed. He wondered whether there is a need for more granularity in the proposals (e.g. in terms of audit hours or other objective parameters). Mr. Yurdakul was of the view that enforcement of the requirement relating to the engagement partner would be difficult. He asked whether there should be some sort of reasonable and informed third party test or use of industry benchmarks. Mr. McPhee responded that the Task Force is relying on transparency. He was of the view that it would be complicated to take a more granular approach as there are many variables in play. For example, some NAS such as a review of internal control may facilitate a more efficient audit process. Accordingly, he felt it best to see how the market would respond to the new requirements and for the IESBA to undertake an implementation review in due course.
- Mr. van der Ende supported the Task Force's approach focusing on the resources needed and not on the amount of fees. He noted that the Basel Committee's guidelines relating to the external audit of banks focus on the resources for the audit and encourage TCWG to be satisfied about the level of these resources. He added that there is a correlation between fees and the condition of the entity's financial reporting system: if the internal control does not operate properly and there are lots of mistakes, a high level of audit fees will be appropriate. However, if the level of fees is too low for a bank, that would be a concern. Mr. Yurdakul concurred.
- Ms. McGeachy-Colby queried the rationale behind having a duplication of the requirement in the ISAs relating to the engagement partner in the Code. Mr. McPhee responded that national standard setters do not all implement the changes to the Code and auditing standards at the same time. In addition, the Task Force saw the benefit in having this requirement in the Code since this would be reinforcing the engagement partner's responsibility.

### PUBLIC DISCLOSURE OF LEVEL OF AUDIT FEES

- Mr. Hansen noted fees are very important from an ethical perspective. He was of the view that SMPs will push back on the proposal on public disclosure because that could raise issues of confidentiality. He also questioned the extent to which private entities can be compelled to disclose the fees they are paying to their auditors. He added that there might be unintended consequences,

since firms could find ways to manipulate the presentation of fees in a disclosure. Ms. McGeachy-Colby agreed with Mr. Hansen that such disclosure could raise concerns about confidentiality in the case of SMEs and SMPs.

- Mr. van Der Ende was not supportive with the proposal regarding public disclosure since for regulators it is more important that the job is done properly. He added that disclosure is of lesser importance, especially in case of small banks.
- Mr. Yurdakul noted that in some jurisdictions, regulators determine whether fee-related information should be made public or not. Accordingly, he cautioned that the proposed public disclosure by firms could create a conflict with national laws and regulations. He suggested reconsideration of the proposal and that public disclosure only be addressed if national laws and regulations do not address it. Mr. Thompson agreed, noting that in the UK, auditors have disclosed fees for a long time for both PIEs and non-PIEs. Mr. McPhee responded that the Task Force is respectful of the role of regulators, but the Task Force found it important to have such a requirement at a global level, especially for jurisdictions where disclosure is not required by law or regulation.
- Mr. Koktvedgaard asked for clarification about the geography of the disclosure, and wondered whether it would be in the audit report or the financial statements. If the former, he noted that there would be a need for coordination with the IAASB.

#### FEE DEPENDENCY

- Regarding the Task force's proposals for clients that are PIEs, Mr. Koktvedgaard suggested that the Task Force should be careful about potential unintended consequences for entry by new firms to the PIE audit market. Mr. Van Der Ende agreed, adding that the Task Force's proposals could affect second tier firms entering the PIE audit market. Ms. Robert had the same view that the bar in the proposals may be too high. She mentioned, for example, that in the EU the threshold is at 3 consecutive years and there is no public disclosure but discussion with TCWG. Dr. Lawal concurred with Ms. Robert.
- Mr. Thompson agreed that more entrants are needed into the PIE audit market but there is also a need to make sure that firms have the resources to undertake the audits, especially for significant PIEs. Mr. McPhee responded that the Task Force would reflect further on the comments but that the Task Force did not intend to restrict new entrants to the PIE audit market.
- Regarding the proposals for non-PIE audit clients, Mr. Fortin expressed support for the inclusion of a threshold for non-PIEs. However, he wondered whether there should be an external party to undertake the review as he did not feel it would be credible to have someone internal to the firm to undertake it. Concerning the safeguards applicable in case of fee dependency for non-PIE audit clients, Mr. Fortin asked whether the disclosure and discussion with TCWG are appropriate safeguards. Mr. Koktvedgaard recommended that the Task Force consider reporting to the regulator as a safeguard.
- Mr. van der Ende remarked that he did not see the rationale behind the Task Force's proposals to address fee dependency and the role of transparency. He also provided examples when disclosure had unintended consequences (e.g. on salaries).

Ms. Pettersson noted the PIOB's support for the project. She highlighted that the business model of firms is changing as they are making investments in technology and developing new tools that could have an effect on the level of fees. In addition, new ways of service delivery could affect the fee charging models of the firms. She noted that this is a complex issue that would require the Task Force to engage in coordination with other Task Forces.

#### **G. Revised and Restructured Code Rollout and eCode**

Mr. Thomson introduced the session and updated the CAG on recent activities aimed at promoting awareness of the revised and restructured Code. These include: a dedicated webpage, plans for two 90-minute webinars to be held in March and April 2019 to promote awareness of the changes to the Code, and the development of the *Decoding the Code of Ethics* series intended as an innovative way to highlight key elements of the Code. Representatives were requested to promote awareness and adoption of the Code.

Mr. Thomson then introduced the eCode, recapped the objectives of the eCode initiative, introduced the key features of the eCode and invited co-presenter Mr. Jeff Nordstedt of Finn Partners to demonstrate a staged website of the eCode. Mr. Nordstedt presented the design elements, features and functionalities of the eCode. Mr. Thomson highlighted that the eCode is expected to be launched around mid-June 2019, and that beta testing is currently underway. The working group will continue to reflect on feedback received from the CAG, input from the March IESBA meeting, and the multi-stakeholder beta tester group in order to refine the features ahead of the launch.

#### FEEDBACK ON PROPOSED eCODE

Representatives generally expressed support for the proposed eCode and welcomed the introduction of its interactive features. Representatives received clarification on the following matters:

- Mr. Koktvedgaard asked whether users can see the effective date of the Code and whether the eCode will enable users to access multiple versions of the Code over time as the Code is updated. Mr. Nordstedt demonstrated where the effective date has been included in the eCode. Messrs. Thomson and Nordstedt confirmed that flexibility has been built into the product to cater for different versions of the Code with various effective dates in the future.
- Ms. Robert queried if consideration had been given to splitting the PIE and non-PIE requirements, such as by color coding or some other way. Messrs. Thomson and Nordstedt confirmed that the requirements that apply for PIEs and non-PIEs have been tagged within the eCode. The working group is considering an advanced search filter to enable two possible types of search: to restrict a search to incremental PIE or non-PIE paragraphs, or alternatively to search for all paragraphs that apply to PIEs, which could include both the paragraphs that apply to all clients as well as those that apply only to PIEs.

Mr. Thomson thanked the CAG Representatives for their input and encouraged representatives to continue to provide any feedback that could be used to refine the eCode to IESBA staff prior to the launch date.

#### **H. PIOB Observer's Remarks**

Ms. Pettersson thanked the CAG for the opportunity to participate in the meeting as an observer and appreciated participants' sharing of their views and suggestions. She also appreciated the opportunity to be updated on the issues being addressed by the IESBA, noting that she would be pleased to report on

the constructive discussions at this meeting to the PIOB. Finally, she wished Mr. Koktvedgaard all the best for the future, and congratulated Mr. Hansen on his appointment as the new CAG Chair.

**I. Closing Remarks**

Mr. Koktvedgaard thanked all CAG Representatives and IESBA Representatives for their contributions during the meeting.

As the outgoing CAG Chair, Mr. Koktvedgaard also thanked the CAG and IESBA for making his last 12 years of involvement as a CAG Representative and Chair a very rewarding experience.

Mr. Koktvedgaard then closed the meeting.