

**Draft Minutes**  
**International Ethics Standards Board for Accountants**  
**CONSULTATIVE ADVISORY GROUP**  
**Held on September 19<sup>th</sup> 2007**

<i>Present</i> Richard Fleck (chair)	Financial Reporting Council
Federico Diomeda	European Federation of Accountants and Auditors for SMEs
Marc Pickeur	Basel Committee on Banking Supervision
Rebecca Todd McEnally	CFA Institute
Torben Haaning	Fédération des Experts Comptables Européens
Hilde Blomme	Fédération des Experts Comptables Européens
David Damant	IAASB Consultative Advisory Committee
Len Jui	International Organization of Securities Commissions
Patricia Sucher	International Organization of Securities Commissions
Tomokazu Sekiguchi	International Organization of Securities Commissions
Filip Cassel	International Organization of Supreme Audit Institutions
Lori Cox	Institute of Internal Auditors
Greg Scates	Public Company Accountability Oversight Board
John Hegarty	World Bank
Antoine Bracchi	Public Interest Oversight Board
Richard George	IESBA (chair)
Ken Dakdduk	IESBA Member
Jean Rothbarth	IESBA Member
Jim Sylph	IFAC Executive Director
Jan Munro	IESBA Senior Technical Manager
<i>Regrets</i> Gerald Edwards	Basel Committee on Banking Supervision
Vickson Ncube	Eastern Central and Southern African Federation of Accountants
Jean-Luc Peyret	European Federation of Financial Executives' Institutes
Georges Couvois	European Federation of Financial Executives' Institutes
John Carchrae	International Organization of Securities Commissions
Susan Koski-Grafer	International Organization of Securities Commissions

## **A. Opening Remarks**

Mr. Fleck welcomed all participants to the meeting. He noted that it was the first face to face meeting of the CAG for a significant time. He welcomed Lori Cox from the Institute of Internal Auditors. He also welcomed some members of the IESBA who are members of the Independence Task Force as public observers to the meeting. He noted that he was pleased they had taken time to attend the CAG meeting because it was important that they hear the discussion of the CAG.

Mr. Fleck indicated that he had received some comment from certain CAG members on the wording of the minutes. He noted that some members had commented that phrases such as “the CAG expressed support for” might be overstating the position because the CAG is not a body that has been created to achieve consensus. Mr Fleck noted that if the CAG is to fulfill its objective of providing technical advice to the IESBA it was most helpful to the IESBA if the views of the CAG are clearly communicated. He indicated that to achieve this clarity in communication it was his desire to draw the views of the CAG together while respecting that there might be some differing opinions. He suggested that a way forward would be to express the CAG’s views to the IESBA as either:

- The CAG is generally in agreement with the proposed IESBA course of action; or
- The CAG is generally in disagreement with the proposed IESBA course of action and provide the rationale for the disagreement; or
- The CAG has differing views on the proposed IESBA course of action. The differing views would be explained with the arguments that support each of the differing views.

Mr. Sekiguchi noted that the CAG is not a consensus organization because its members represent a wide range of stakeholders whose interests and views may differ. He noted that while the CAG might on occasion reach consensus, it was not always necessary. Ms Sucher commented that a practical way forward would be to proceed as suggested by Mr Fleck since this would be of most use to the IESBA.

*The CAG agreed with the proposal as presented by Mr Fleck.*

The minutes from the June conference call were approved as presented.

Mr. Sylph noted that over the last six months there had been a lot of discussion at IFAC about “public interest”. It was apparent that there are many different definitions of public interest. IFAC is developing a paper on this matter and the PIOB is also considering the issue. He indicated that it was likely that a paper would be issued on this matter in early 2008. Mr Fleck noted that the CAG would likely be very interested in the discussion and stated that it might be useful to have this discussion as part of a joint IESBA and IESBA CAG meeting.

## **B. Report from IESBA Chair**

Mr. George noted that a Chair's report and draft minutes from the last IESBA meeting on June 25-27, 2007 in Berlin were included in the agenda materials. He thanked the CAG members for rescheduling the previous meeting and indicated that because of the rescheduling, the IESBA had been able to consider the CAG comments at its Berlin meeting.

He noted that the focus of the IESBA activities since the last CAG meeting had been independence and the implications of the IAASB drafting conventions on the Code. He reported that the IESBA and Task Forces were working towards being able to issue a revised Code in mid-2008. This prioritisation has necessitated deferring work on other Board projects such as ethical guidance for accountants when encountering fraud and illegal acts.

Ms. Sucher questioned whether the Board had yet given consideration to the effective date of the proposed independence revisions noting that given the proposals it might be necessary to have differing effective dates. Mr George indicated that the Board had not yet discussed a possible effective date and indicated that there would likely be some transitional provisions to provide for an orderly implementation of the new requirements. *It was agreed that it would be useful if the CAG was given the opportunity to provide input to the effective date.*

## **C: IESBA Strategic Plan**

Mr. George introduced the exposure draft containing the proposed Strategic and Operational Plan for 2008-2009. He noted that in developing the plan the IESBA had issued a survey designed to seek the views of interested parties and stakeholders on matters which should be considered by the IESBA during the strategic review. In March 2007, the survey was posted on the IFAC website and mentioned in the IFAC news. The survey was also sent to: current and past IESBA members and technical advisors; IESBA CAG members; to other IFAC board/committees and technical advisors; IFAC member bodies; regulatory and oversight organizations; attendees at the 2005 IESBA forum held in Brussels and all respondents to IESBA exposure drafts issued in 2006 and 2006. 127 responses were received providing a range of views on the IESBA's current and future strategic direction.

The IESBA had taken the responses into consideration when developing the draft Plan and developing the work program. Ms Sucher questioned whether there was a further analysis available of the responses and, in particular, how each stakeholder group had weighted the proposed projects. Mr George responded that for the survey respondents there was no such public analysis and that, consistent with the surveys conducted by the other IFAC PIACs, the responses were anonymous. He did indicate however that differing weighting had been applied to the responses and irrespective of the weightings the same three projects were the top priority. He noted that the responses to the exposure draft were, as usual, publicly available and that the papers for the Toronto meeting would contain an analysis of all the comments received on exposure.

Ms Todd McEnally noted that in the listing of groups that are affected by the IESBA's activities there is a great deal of specificity with respect to accounting groups and then a rather large category entitled "users". She noted that it might be helpful to categorize this group further.

Mr. Damant noted that there would be value in providing more emphasis on the academic community. Academics who teach accounting and ethics can provide useful feedback on the practicality of IESBA proposals and can also bring the rigour of the academic approach to assist the IESBA in thinking through the challenges it faces.

Mr George then presented the future projects that were proposed in the work plan.

#### *Fraud and Illegal Acts*

Mr George noted that respondents to the exposure draft had expressed broad support for IESBA undertaking a project to develop practical guidance related to ethical issues faced by professional accountants when encountering fraud or illegal acts. The CAG discussed the project and the following points were noted:

- The importance of ensuring that there is communication between the IESBA and the IAASB because of the auditing standards in this area and the fact that stakeholders do not necessarily understand the distinction between auditing standards and ethical standards especially in relation to fraud;
- It may be difficult to find the right balance in a global Code between providing guidance which is too generic and guidance which is too detailed;
- It will be challenging to develop global guidance in light of the many differing legislative regimes; and
- It would be useful to provide a fuller description of the intended project.

#### *Conflicts of Interest*

Mr George noted that for many member bodies of IFAC conflicts of interest is of particular concern, and is often at the root of the most frequently asked questions on members hot-lines. The CAG discussed the project and the following points were noted:

- There are differing view of conflicts of interest including commercial conflicts, legal conflicts and ethical conflicts;
- Whether the project should give special consideration to small and medium sized entities; and
- It would be useful to provide a fuller description of the intended project.

#### *Independence*

Mr George noted that there were differing opinions on which of the possible sub-projects on independence are priorities. The CAG discussed the project and the following points were noted:

- Legal protection clauses – the AICPA in the US had issued two exposure drafts in this area containing very differing views; and,
- This is not an independence issue rather it is a public policy issue related to auditor liability and as such should not be addressed in the Code.

Mr Fleck asked the CAG members whether there were any projects which were missing or had an inadequate priority. CAG members confirmed that this was not the case.

*Mr George indicated that the Strategic Plan would provide a fuller description of the intended projects.*

Mr George indicated that the Strategic Plan also discussed convergence and implementation guidance. The Plan indicates the IESBA's intention to hold four regional fora or roundtables 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. Mr Sekiguchi noted that the first forum would be held after the proposals from the two current Independence projects had been released. Mr George noted that the objective of the forums was to seek input on convergence and not to finalize the proposals. Mr Jui noted that IOSCO carried out a significant study on regulation of non-audit services in 2006 and 2007 and was hopeful that the IESBA would make great use of this survey.

#### **D. Implications of the IAASB Clarity Project on the Code**

Mr Dakdduk, Task Force Chair, presented the agenda item noting that the purpose of the project was to determine the implications on the Code of the IAASB clarity conventions and other changes to improve the clarity of the Code.

He noted that the IAASB Clarity project has adopted four conventions:

- Each ISA will state the objective to be achieved in relation to the subject matter of the ISA;
- Each ISA will specify requirements designed to achieve the stated objective. The requirements are to be applied in all cases, where they are relevant to the circumstances of the engagement, and are identified by the word "shall". In exceptional circumstances where the professional accountant judges it necessary to depart from a requirement in order to achieve the purpose of that requirement the accountant will be required to document how the alternative procedures performed achieve the purpose of the requirement, and, unless otherwise clear, the reasons for the departure;
- The present tense will no longer be used in ISAs to describe actions taken or procedures performed by the professional accountant;
- Each ISA will contain application material, which provides further explanation and guidance supporting proper application of the standards. While the professional accountant has a responsibility to consider the entire text of a standard in carrying out an engagement the application material is not intended to impose a requirement for the professional accountant.

Mr Dakdduk reported that the IESBA has considered the feasibility of applying the above approach to the Code. The IESBA is of the view that, because the structure of the Code and the structure of the ISAs are very different, separately presenting the objective to be achieved, the requirements designed to achieve that objective, and the application material, as in the ISAs, would not improve the clarity of the Code. As currently drafted,

Part A of the Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. Parts B and C of the Code illustrate how the conceptual framework is to be applied in specific situations. In all cases, the objective to be achieved, as outlined in the conceptual framework, is to identify threats to compliance with the fundamental principles and apply safeguards to eliminate the threats or reduce them to an acceptable level.

The IESBA is, however, of the view that the clarity of the Code would be improved if the word “shall” were to be used to designate a requirement. Mr Dakdduk noted that the IESBA is of the view that the use of “shall” in the Code will achieve consistency with the IAASB drafting – users of the Code who perform assurance engagements will be knowledgeable of the ISAs and using different terms to denote a requirement would be confusing. It will also have advantages from a compliance and translation perspective.

The CAG discussed the proposal and the following points were noted:

- The structure of the Code is different from the ISAs and it would be unfortunate if the IESBA went through the lengthy process of restructuring the Code for minimal added clarity; and
- It was appropriate for the IESBA to adopt shall to denote a requirement.

Mr Dakdduk stated that the IESBA has also considered the use of the term “clearly insignificant” and the requirement to apply safeguards to eliminate a threat or reduce it to an acceptable level. This issue arose during the Task Force’s review of the Code but it had also been raised in the comments to the December 2006 Exposure Draft. The Code requires identification of threats to compliance with the fundamental principles, evaluation of the significance of those threats and, if such threats are not clearly insignificant, the application of safeguards to eliminate the threats or reduce them to an acceptable level. Mr Dakdduk noted that this raised the following questions:

- Is “clearly insignificant” the same as an “acceptable level”? - “Clearly insignificant” is defined in the Code as “A matter that is deemed to be both trivial and inconsequential.” There is no definition of acceptable level;
- If “clearly insignificant” is a lower level than “acceptable,” this could presumably mean that if a threat is not “clearly insignificant” but is at an “acceptable level” no safeguards need to be applied.

Mr Dakdduk reported that since the June IESBA meeting the Task Force has developed a proposal to modify the guidance, by eliminating the reference to clearly insignificant and providing guidance on what is intended by the term “acceptable level.” Under the Task Force’s proposal, an acceptable level is a level at which it is likely that a reasonable and informed third party would conclude, weighing all the specific facts and circumstances, that compliance with the fundamental principles is not compromised. A professional accountant would be required to identify threats to compliance with the fundamental principles, evaluate the significance of the threats and, when necessary, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level. This proposal emphasizes the importance of the accountant focusing his or her analysis on the

threats that are not at an acceptable level because those are the threats that would require the application of safeguards. The Task Force is of the view that this would be a more efficient and effective way of applying the threats and safeguards framework set out in the Code and would eliminate uncertainty about the interplay between the terms "clearly insignificant" and "acceptable level" in the existing guidance.

Mr. Dakdduk further reported that the Task Force proposal also contains an amendment of the documentation requirements in Sections 290 and 291. Under the existing Code, when threats to independence that are not clearly insignificant are identified and the firm decides to accept or continue the engagement, the decision should be documented along with a description of the threats identified and the safeguards applied to eliminate them or reduce them to an acceptable level. The proposal makes the documentation requirement consistent with the clarification above by calling for documentation of threats in situations in which the application of safeguards are necessary to eliminate a threat or reduce it to an acceptable level. The documentation should describe the nature of the threats and the safeguards that were applied.

The CAG discussed the proposal and the following points were noted:

- This is an area where it is easy for people to get confused – it was therefore appropriate for the IESBA to try and clarify this area;
- The conclusion that threats are at an acceptable level requires a significant amount of judgment and it was important that such significant judgments are documented;
- When an individual is required to document a judgment this can bring an additional level of rigor to the decision making process; and
- It is not appropriate to require the documentation of threats that are clearly insignificant – the focus should be on the areas where significant judgment is necessary.

*The CAG generally agreed that it was appropriate to amend the documentation requirement but care should be given to ensure that the documentation of the significant judgments is retained.*

Mr. Dakdduk noted that the Task Force was proposing that an acceptable level be described as a level at which a reasonable party would be likely to conclude, weighing all the specific facts and circumstances, that compliance with the fundamental principles was not compromised.

*The CAG discussed the proposal. The CAG was split in its view as to whether acceptable level should be expressed in the negative (i.e., use of "not compromised") or whether the concept should be expressed in the positive. It was also noted that the concept of an "informed" reasonable party had been dropped. Mr. Dakdduk indicated that the Task Force would consider both of these matters.*

Mr. Dakdduk reported that the Code frequently uses the words "consider" and "consideration." In reviewing the Code for Clarity, the Task Force was concerned that in

many instances the term consider could be seen by some as being less robust than intended. For example it could be seen as equivalent to “think about” as opposed to “determine whether it is necessary to”. He indicated that the Task Force is proposing changes to the Code consistent with the following principles of drafting:

- “Consider” will be used where the accountant is required to think about several matters – for example ¶100.17 “When initiating either a formal or informal conflict resolution process, a professional accountant shall consider the following, either individually or together with others, as part of the resolution process”
- “Evaluate” will be used when the accountant has to assess and weigh matters as in “the significance of the threat should be evaluated”
- “Determine” will be used when the accountant has to conclude and make a decision – for example ¶100.20 “The professional accountant shall determine whether to obtain legal advice to ascertain whether there is a requirement to report.”

The CAG discussed the proposal and noted that it might be useful for the explanatory memorandum to explain how each of these words are used in the Code.

Mr George indicated the IESBA would be considering an exposure draft at its October meeting which would contain the implications of the drafting conventions on the Code and the exposure draft of Section 290 and 291. The CAG discussed this and the following points were noted:

- The approach is different from that taken by the IAASB which finalizes a document before issuing an exposure draft of the implications of the clarity conventions;
- The impact of the IESBA drafting conventions is more limited than the impact of the IAASB’s conventions and the intent is not to create any additional requirements;
- It is important that there is adequate consultation; and
- If there are significant changes resulting from the exposure of Independence 1 or 2 that would require re-exposure, that would affect the timing of the final clarity changes.

*Mr George noted the cautionary views of the CAG. Mr Fleck indicated that the matter would be reviewed at the December 2007 CAG meeting.*

## **E. Independence**

Ms Rothbarth, Independence Task Force Chair, introduced the topic noting that 76 responses to the exposure draft had been received. The IESBA had discussed key issues at its June 2007 meeting and the Task Force had not reviewed all comments received at that meeting. The Task Force would be presenting a draft proposing changes at the October 2007 meeting. She noted that at this meeting, the IESBA was requesting comments from the CAG on key issues. The Task Force would meet before the next



IESBA meeting to discuss the comments from the CAG and amend, as appropriate, the draft that will be presented to the IESBA in October.

*Principles/Rules*

Ms Rothbarth noted that the Exposure Draft maintains the principles-based approach such that if the particular circumstances would create a threat that is so significant no safeguard could reduce the threat to an acceptable level the activity, relationship or interest creating the threat must be avoided. 34 respondents commented on the issue of a principles-based approach as opposed to a rules based approach. The respondents expressed concern that the exposure draft seems to be moving away from a principles based approach. She noted that some of the respondents who expressed concern that the revisions were moving towards a rules-based approach expressed concern with some of the specific requirements – in particular the proposals partner rotation, on valuations for SPIES, the cooling-off requirement and the requirements on taxation services.

Ms Rothbarth noted that the IESBA is of the view that there is no conflict between a principles-based approach and absolute restrictions or prohibitions, provided that such restrictions or prohibitions flow directly from the application of the principles. The IESBA concluded that the matter will be considered on an item by item basis as the IESBA discusses proposed changes to respond to comments received on exposure – consideration will be given to whether the individual proposals are consistent with the principles-based approach.

The CAG discussed the issue and the following points were noted:

- Many of the additional restrictions for SPIEs were ones with which the CAG has previously expressed explicit support; and
- There is no contradiction between a principles-based approach and absolute prohibitions.

*The CAG did not express any concern with the view of the IESBA.*

*Split of Section 290*

Ms Rothbarth noted that the existing Code contains one section (Section 290) that addresses independence requirements for all assurance engagements. The IESBA concluded that existing Section 290 should be split into two. A primary reason for this was to provide greater focus and clarity on the requirements relating to the audit of financial statements. Further, because most assurance engagements are either audit or review engagements, the exposure draft therefore revised Section 290 to address all audit and review engagements and Section 291 to address all other assurance engagements.

Ms Rothbarth reported that the majority of respondents that commented on this matter were in favour of a split of existing 290. Comments were however received from many respondents as to “how” the split should be made. Some expressed concern about the inclusion of reviews of historic financial information (either in totality or in part), as well as engagements relating to components of financial statements, in Section 290.

Ms Rothbarth reported that IESBA was not persuaded that review engagements should be addressed in Section 291. In particular, the IESBA was not persuaded by a primary argument that because the level of assurance was less than in an audit therefore the independence requirements should also be less rigorous. In coming to this view, the IESBA had particular concerns that if reviews of financial statements were moved to Section 291 the important provisions in Section 290 relating to accounting and bookkeeping services might not be followed when the firm is conducting a review of financial statements. The IESBA is of the view that this is particularly important given the nature of the more limited procedures undertaken to form a review conclusion, but the same self review threat.

With respect to the concern about the inclusion of the audit and review of “one or more specific elements, accounts or items of a financial statement” in Section 290) the IESBA is of the view that the requirements of the exposure draft may have been unnecessarily wide. The IESBA is therefore of the view that Section 290 should not deal with such engagements, and that Section 290 should address only the audit and review of “financial statements”.

The CAG discussed the issue and the following points were noted:

- Some CAG members expressed the view that it was appropriate that review engagements are addressed in Section 290 because users of financial statements expect a high level of independence irrespective of whether a high or limited level of assurance is provided;
- One CAG member expressed the view that there should be differing independence requirements because a self-review primarily related to the public interest and in the small and medium entity environment it can be safeguarded. Review engagements are performed primarily for SMEs and should therefore be in Section 291; and
- The IAASB is exploring the concept of an alternative assurance service, clearly distinguished from an audit, designed to meet the needs of stakeholders of SMEs. This will include a consideration of whether to revise ISRE 2400 Engagements to Review Financial Statements and ISRS 4410 Engagements to Compile Financial Statements. It is, however, too early to presume what form this new service would take.

*The CAG noted that it might be useful to mention the IAASB project in the explanatory memorandum to the final document.*

#### *Entities of Significant Public Interest*

Ms Rothbarth reported that recognizing the need for more specific guidance and in light of the public interest associated with a wide range of entities, the IESBA proposed in the exposure draft to strengthen this guidance. The proposal extended the listed entity independence provisions to all entities of significant public interest. Such entities are described in proposed revised Section 290 as listed entities and certain other entities which, because of their business, size or number of employees have a large number and wide range of stakeholders. The exposure draft also stated that entities of significant

public interest will normally include regulated financial institutions such as banks and insurance companies, and may include pension funds, government-agencies, government-controlled entities and not-for-profit entities.

Ms Rothbarth noted that 60 respondents commented specifically on the extension of the listed entity provisions to all entities of significant public interest (“ESPIs”) of whom the majority either agreed with the proposal or agreed in large part with the proposal with some suggestions for clarification. Several of the respondents who disagreed with the proposal commented that this could lead to inconsistent application because of differing interpretation from jurisdiction to jurisdiction. Some also commented that this could be particularly problematic for ESPIs that cross jurisdictions.

Ms Rothbarth indicated that the IESBA had considered several different alternatives to addressing this issue and, after considering all the comments received on exposure, were of the view that public interest entities should include listed entities and other entities that a regulator or legislation has designated to be an entity of significant public interest. In addition, Section 290 would encourage, towards the beginning of the section, firms and member bodies to consider whether other types of entities should be treated as entities of significant public interest for independence purposes in that jurisdiction, thus subjecting their auditors to the more stringent independence requirements contained in Section 290. The Task Force is of the view that, in light of the narrower definition, the reference to “significant” can be dropped. The Task Force will recommend to the IESBA at its October meeting that the entities are referred to as “entities of public interest.”

The CAG discussed the issue and the following points were noted:

- This is a very difficult area for a global Code because of the large range of differing definitions;
- As previously discussed at the CAG it would be useful if the audit opinion indicated the independence standards which had been applied; and
- If the regulator in a particular jurisdiction does not designate any entities to be of significant public interest only listed entities in that jurisdiction would be subject to the more stringent requirements.

*On balance, recognizing the difficulty of this area, the CAG was of the view that the position proposed was a suitable balance. The CAG re-iterated its view that the audit report should disclose the independence regime applied, in the same way as it indicated the GAAP and GAAS used. The CAG recognized that this issue is not within the mandate of the IESBA..*

#### *Partner Rotation*

Ms Rothbarth reported that the exposure draft proposed removing the exemption for partner rotation for firms with limited resources and extending the partner rotation requirements to all key audit partners on any audit of an entity of significant public interest.

Ms Rothbarth noted that 61 respondents commented specifically on the partner rotation proposals, of which 40 opposed the proposals directly or queried whether they were entirely in the public interest. The overwhelming reason given for objecting to the Exposure Draft was the practical impact of removing the limited resource flexibility.

Ms Rothbarth indicated that the IESBA had considered several different alternatives to addressing this issue and, after considering all the comments received on exposure, was of the view that the Code should require partner rotation except when a firm has only a few people with the necessary knowledge and experience to serve as key audit partner and the independent regulator in that jurisdiction has provided an exemption from partner rotation for such firms if specified alternative safeguards are applied. Ms Rothbarth noted that the Board had considered, and rejected, whether a member body should be able to provide such relief.

The CAG discussed the issue and the following points were noted:

- It is extremely difficult to get acceptance of a global Code if a member body can provide relief from partner rotation requirements;
- Concern was expressed as to whether it was appropriate to allow a regulator to provide an exemption from partner rotation – it was noted that the exemption was acceptable only if safeguards were applied;
- If there is no independent regulator in the jurisdiction there would be no possibility of relief from partner rotation;
- Rotation should extend beyond key partners and should extend, for example, to managers – it was noted that the Code requires consideration of long service of others on the audit team.

Ms Rothbarth noted the exposure draft contained the following definition of a key audit partner:

“The engagement partner, the individual responsible for the engagement quality control review, and other audit partners on the engagement team, such as lead partners on significant subsidiaries or divisions, who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.”

Ms Rothbarth stated that many respondents had expressed the view that the definition needed to be clarified. Some were of the view that only partners who are responsible for key decisions or judgments at the group level should be subject to rotation, others were of the view that the definition should be aligned with the EU Statutory Audit Directive definition. Ms Rothbarth indicated that the definition of key audit partner was intended to cover those partners who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements of the entity of significant public interest.

Ms Rothbarth reported that the Task Force has considered the comments and will propose the following revised definition to the IESBA:

“the engagement partner, the individual responsible for the engagement quality control review and other audit partner, if any, on the engagement team who may key decisions of judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individual on the audit, the other audit partners may include, for example, audit partner responsible for significant subsidiaries or divisions.”

With respect to “financial statements on which the firm will express an opinion” the Task Force believes that additional guidance, perhaps in the definitions, should be given to state that when an entity issues consolidated financial statements, these statements are the relevant financial statements for this purpose.

The CAG discussed the issue and the following points were noted:

- The definition in the exposure draft is capable of differing interpretations;
- The EU definition could be much broader than the proposed IESBA definition; and
- It might be useful for the IESBA to look at the group audits ISA and the concept of whether there was a significant risk of material misstatement in the financial statements.

#### *Engagement Team*

Ms Rothbarth noted that the definition of engagement team in the exposure draft was:

“All partners and staff performing the engagement and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm.”

26 respondents commented on the proposed revised definition. The majority of respondents who commented on this area were of the view that position of experts was not clear. They felt that the proposed definition was too broad. Some respondents expressed the view that only experts who perform audit procedures should be considered to be part of the engagement team and therefore subject to the independence requirements in Section 290 and 291. Others were of the view that no external experts should be on the engagement team. In their view such experts should not be subject to the independence requirements rather the objectivity of the expert would be assessed in determining whether reliance was warranted. Many respondents also expressed the view that the definition in the Code and in the ISAs should be consistent.

Ms Rothbarth reported that the IESBA had liaised with the IAASB and was proposing the following definition:

"Partners and staff performing the engagement and any individuals engaged by the firm or network firm who perform assurance procedures on the engagement. This excludes auditor's external experts engaged by the firm".

Under this approach external experts would not be subject to the independence requirements contained in the Code, rather the auditor would assess the objectivity of such experts under ISA 620 “Using the Work of an Auditor’s Expert.”

The CAG discussed the issue and the following points were noted:

- The Code and ISAs should contain the same definition; and
- It is important that there is no overlap and it is clear whether an individual would be considered to be on the team or not.

The question was asked whether an external valuator would be considered to be part of the team. It was noted that such an individual would not be a part of the team but the auditor would need to comply with ISA 620, including assessing the objectivity of the expert, in determining whether the work was appropriate.

*The CAG agreed with the proposed position.*

#### *Non-audit services*

Ms Rothbarth provided an overview of the comments received with respect to provision of non-assurance services.

- *Management Responsibilities* – other than some changes to improve the clarity of the guidance, the Task Force is not recommending any changes in this area;
- *Valuation services* – The exposure draft proposed providing additional guidance on the meaning of significant subjectivity and it proposed that for audit clients that are entities of significant public interest, a firm should not provide a valuation service if it would have a material effect on the financial statements. Of the 15 respondents who commented on the proposal that a firm should not perform a valuation service if it would have a material effect on the financial statements of an audit client that is an entity of significant public interest, four expressed explicit support for the proposal and 11 stated that they disagreed with the proposal because if there was no significant subjectivity involved in the valuation service there would not be an acceptable self-review threat. Ms Rothbarth reported that the Task Force has considered the comments received on this area and is of the view that no change is necessary because the public interest associated with financial statements of public interest entities is such that the threat to independence would be too great if an audit firm performed a material valuation for such an audit client. *The CAG expressed support for the Task Force recommendation;*
- *Taxation services* – The exposure draft recognized that performing certain tax services may create self-review and advocacy threats and contains guidance on four broad categories of taxation services: tax return preparation; preparation of tax calculations, tax planning and other advisory services and assistance in the resolution of tax dispute. Ms Rothbarth noted that many respondents commented on this area. Those that expressed concern noted that taxation services have not historically caused problems and there appears to be a disproportionate amount of space devoted to covering services that have traditionally been provided by accountants to their audit clients without restrictions. Ms Rothbarth noted that the IESBA had considered this issue and

was of the view that given the differing conclusions on the independence consequences of differing taxation services, it was necessary to discuss the categories of tax services separately. As a result, other than possibly streamlining the language where possible, the IESBA concluded that the categories of taxation services addressed in the ED were appropriate.

Ms Rothbarth noted that the other main issue on taxation services related to comments on preparation of tax calculations. Several respondents suggested that the preparation of tax calculations should only be restricted for entities of significant public interest if the amounts are material and there is a high degree of subjectivity. Others argued that safeguards should be able to be applied to minimize any threat resulting from preparing tax calculations. Several respondents noted that either determining the “primary” purpose of the calculations would be difficult or the purpose of the calculations is not what gives rise to the threat. Two respondents argued that the threat to independence depends on the timing of the calculations.

Ms Rothbarth noted that in considering this issue the IESBA noted that for entities of significant public interest bookkeeping services were prohibited without regard to materiality. Thus, restricting auditors from calculating the tax liability for use by the client in preparing its accounting entries was not unreasonable. The IESBA also discussed whether the restriction should depend on the timing of the preparation of the tax calculations, recognizing that in some instances the calculations are performed before the audit is complete, whereas in other cases the calculations are performed after the audit. The IESBA was of the view that the critical issue, regardless of timing, is whether the client makes a good faith effort at calculating its current and deferred tax liabilities and preparing its accounting entries. The IESBA was of the view that the use of the term “primary” could convey the wrong meaning. The Task Force has considered the term and is of the view the term should be deleted. The Task Force is also of the view that an exception should be provided for emergency situations – which will bring align the position to that taken in bookkeeping.

The CAG discussed the provision of taxation services and the following points were noted:

- It was difficult to agree with the view that the tax calculation is always mechanical – Ms Rothbarth noted that the IESBA was striving to achieve consistency within the Code both with bookkeeping and valuation services;
- Taxation services do create a self-review threat and, in the case of public interest entities, can create a threat that is so significant it could undermine the credibility of the audit – Ms Rothbarth noted that there was a restriction on preparing tax calculation for the purpose of preparing accounting entries that are material to the financial statements.
- IT Systems Services – Ms Rothbarth noted the exposure draft proposed strengthening the existing Code in two areas. For audit clients that are not entities of significant public interest, the ED proposes that either the design or the implementation of

financial information technology systems that form a significant part of the accounting systems, or generate information that is significant to the client's financial statements, may create a threat that is likely to be too significant unless certain specified safeguards are applied. For audit clients that are entities of significant public interest, the ED proposes that, due to the level of public interest in such entities, a firm should not provide services involving either the design or the implementation of financial information technology systems that form a significant part of the accounting systems, or generate information that is significant to the client's financial statements. Ms Rothbarth noted that of the 14 respondents who commented on this proposal three were supportive of the strengthening of the requirements for entities of significant public interest, nine stated that the strengthening was not necessary, several stating that there was no evidence that the existing approach of mandatory safeguards had failed. Ms Rothbarth reported that the Task Force has considered the comments received. The Task Force is of the view that a firm should not provide design or implementation services to an audit client that is an entity of significant public interest. The Task Force will, therefore, be recommending no change in this provision.

#### *Cooling-off period*

Ms Rothbarth reported that the exposure draft proposed that there should be a mandatory "cooling-off period" before a key audit partner or the firm's Senior or Managing Partner joins an audit client that is an entity of significant public interest as a director or officer or in a position to exert significant influence over the financial statements. Ms Rothbarth noted that some respondents expressed concern that the application to application to non-listed entities of significant public interest is too broad – restricting the ability of these entities to hire the most qualified person for the job could reduce the quality of financial reporting and period of cooling off is too complex should be a flat two years for both the CEO and key audit partners. Ms Rothbarth reported that the Task Force considered whether any change to the period of the cooling-off period was appropriate. The Task Force noted that in many circumstances the period would be longer than one year and could sometimes be almost two years. The Task Force is of the view that the period of time is appropriate and focuses on the threat to independence. The Task Force is not, therefore, recommending any changes in this area.

Mr Fleck noted that the exposure process had worked well and there had been a thorough analysis of responses and good reasons provided for how the responses had been addressed by the IESBA. *He noted that the CAG would have the opportunity to review the proposed wording at its December meeting and to consider how the IESBA had addressed the issues raised at this meeting.*

#### **F. Closing**

Mr Fleck thanked all CAG members for their participation and closed the meeting.

#### **G. Future Meeting Dates**

December 11, 2007 (Brussels, Belgium)  
March 5, 2008 (Basel, Switzerland)  
September 3, 2008 (Toronto, Canada)