

**Draft Minutes of the Meeting of the
International Ethics Standards Board for Accountants
CONSULTATIVE ADVISORY GROUP
Held on September 13, 2006
InterContinental Hotel, Toronto, Canada**

<i>Present:</i> Richard Fleck (chair)	Financial Reporting Council
Marc Pickeur	Basel Committee on Banking Supervision
Rebecca Todd McEnally	CFA Institute
Hilde Blomme	Fédération des Experts Comptables Européens
David Damant	IAASB Consultative Advisory Committee
Linda DeBeer	Eastern Central and Southern African Federation of Accountants
Federico Diomeda	European Federation of Accountants and Auditors for SMEs
Heriot Prentice	Institute of Internal Auditors
John Carchrae	International Organization of Securities Commissions
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
Bella Rivshin	Public Company Accountability Oversight Board
John Hegarty	World Bank
Michael Hafeman	Public Interest Oversight Board
Richard George	IESBA (chair)
Jean Rothbarth	IESBA Member
Jan Munro	IESBA Senior Technical Manager
Jim Sylph	IFAC Executive Director
<i>Regrets</i> Gerald Edwards	Basel Committee on Banking Supervision
Ndung'u Gathinji	Eastern Central and Southern African Federation of Accountants
Frederic Gielen	World Bank
Jean-Luc Peyret	European Federation of Financial Executives' Institutes
Georges Couvois	European Federation of Financial Executives' Institutes
Joyce Drummond-Hill	Institute of Internal Auditors
Susan Koski-Grafer	International Organization of Securities Commissions

A. Welcome, introductions, agenda and minutes

Mr. Fleck welcomed all participants to the meeting and noted that this was the first CAG meeting which was open to the public.

The minutes of the previous CAG meeting held on April 3, 2006 were approved as presented. It was noted that Agenda Paper D.3 contained a feedback statement detailing how the Independence Task Force had addressed the issues raised by CAG members at the previous meeting. It was agreed that this useful feedback statement would be enhanced if the items to be commented on were circulated at the same time as the draft minutes. This would provide CAG members the opportunity to confirm that their comments had been accurately and completely recorded. Ms Munro agreed that such a system would be implemented.

Mr Fleck reported that he had attended the June IESBA meeting. He indicated that it had been a successful meeting with a good discussion and consideration of differing views

The agenda for the CAG meeting was reviewed, no additional items were added.

B. Report from IESBA Chair

Mr George provided an update on IESBA activities since the last CAG meeting in April 2006.

Network Firms

He reported that its June meeting the IESBA had approved for release changes to the definition of a network firm. The revised definition is identical to the definition contained in the EU 8th directive. It classifies firms as network firms if the firms belong to a larger structure that is aimed at cooperation and is clearly aimed at profit or cost sharing, or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name or a significant part of professional resources.

The document was issued on July 31, 2006 and has an effective date for assurance reports dated on or after December 31, 2008. This effective date gives firms and member bodies approximately 18 months to implement the requirements. He indicated that the Board had considered the need for re-exposure and had concluded that it was not warranted.

Mr Carchrae asked what factors the Board considered in determining whether re-exposure was necessary. Ms Munro indicated that, consistent with its due process, the IESBA assesses whether there has been substantial change to the exposed document that may warrant re-exposure. Situations that constitute potential grounds for a decision to re-expose include, for example, substantial change to a proposal arising from matters aired in the exposure draft such that commentators have not had an opportunity to make their views known to IESBA before it reaches a final conclusion; or substantial change arising from matters not previously deliberated by the IESBA. In the case of the network firm

definition the Board was of the view that there had not been substantial change, rather there had been change in wording to align to the EU 8th directive language.

Mr Fleck commented that if an objective of IESBA was to further international convergence it was important to carefully consider the overall direction of the changes to the Code.

Accountants in Government

Mr George reported that the Task Force on this project had met once since the April CAG meeting. The Task Force had developed some changes to the Code to provide additional guidance in Part C for professional accountants in government and to develop independence guidance for public accountants performing assurance engagements in the public sector. He further reported that it was proposed that the Board would approve and expose any such changes concurrently with the proposed changes to Section 290.

Ethical Guidance for Professional Accountants Encountering Fraud or Illegal Acts

Mr George reported that due to the need to focus on independence, work on this project has been delayed and it is anticipated that the Board will not discuss this item again until 2007.

When the project was approved, the IESBA determined that the scope should be restricted to professional accountants in business. When the scope of the project was subsequently discussed with the CAG, concern was expressed that the project was not also dealing with professional accountants in public practice. The IESBA has amended the scope of the project and has asked the Task Force to consider whether the guidance in Section 210 could be strengthened with respect to communications between the incoming and existing auditor and whether there are any situations where the auditor should communicate matters to persons outside the entity, recognizing that confidentiality is key to audit quality because it is essential that there is full and frank discussion between management and the auditor.

C. IESBA CAG Terms of Reference and Membership

Mr Fleck introduced a discussion of the CAG Membership in light of its terms of reference and recent changes to the composition of IESBA. He noted that as reported at the previous CAG meeting, two initiatives have been approved to change the composition of the IESBA:

- When appointing the new voting members to IESBA, and considering those put forward for re-appointment, the Nominating Committee will give particular regard to qualified individuals who are non-practitioners and to non-accountants.
- Consistent with the terms of reference, up to three observers can be appointed to the IESBA. The observers will have the privilege of the floor, participate in projects but will have no vote.

In addition, it is proposed that the public membership of the IESBA be increased from two to three members. This proposed change has been reflected in the IESBA Terms of Reference.

Mr. Damant noted that the text of the IESBA CAG Terms of Reference was substantially similar to the IAASB CAG. CAG members indicated that they were comfortable with the IESBA CAG Terms of Reference as drafted.

Mr Fleck led the CAG in a discussion of the organizations which should be represented on the IESBA CAG. In this discussion CAG members considered Agenda Paper C.3 containing a comparison of the organizations represented on the IAASB CAG and the IAESB CAG. During the discussion the following points were noted:

- Appropriate geographical representation on the CAG was important and in this regard there was no current membership from Australia and under representation from Asia;
- As the Code is translated into many different languages, it is useful to have CAG members who can anticipate potential translation issues;
- It would be useful to have someone with an academic background on the CAG;
- Accountants and auditors in the standard setting arena are already well represented on the IESBA and therefore, with a few exceptions, it was probably not necessary to have similar representation on the IESBA CAG;
- It is important to recognize that the Code also provides guidance for professional accountants in business and, therefore, there should be appropriate representation from organizations interested in the ethical behavior of such accountants; and
- Representation from developing nations could be strengthened since these are the nations which would be most likely pick up the Code in its entirety.

The CAG discussed various organizations which might be approached for membership of the CAG. It was agreed that Mr Fleck and Ms Munro would work on expanding the CAG membership before the next meeting.

D. Independence

Timelines

Ms Rothbarth, Independence Task Force Chair, provided an overview of the considerations of the Task Force and the IESBA since the previous presentation to the CAG in April 2006.

She noted that the Task Force presented a first draft of revised Sections 290 and 291 and obtained feedback from the IESBA on key issues at the June meeting. The draft had been presented as illustrative wording and was not discussed in detail.

The Task Force has met twice since the June 13-14, 2006 IESBA meeting and will meet again between the CAG meeting and the IESBA meeting in October. The Task Force will consider input received from the CAG at its next meeting before revising the document for presentation to IESBA in October.

The target date for approval of the exposure draft is 2006, either at the October meeting or, more likely, at the December meeting. She noted that, assuming the standard three month exposure period, it was anticipated that a final standard would be approved in Q1 2008, with an effective date of September 15, 2009. This effective date would give firms and member bodies 18 months for implementation. Mr. Fleck noted that the exposure

draft was long and the drafting requires people to think things through carefully. Mr. Pickeur agreed, noting that in this case a longer exposure period could be justified because the document is complicated in areas and the language is quite subtle. Ms Blomme further noted that some respondents would have their own due process to comply with when developing a response. Mr. Hafeman asked CAG members whether they were of the view that the standard exposure period should be four months. *After further discussion, the CAG concluded that a standard three month period was appropriate but in the case of the independence exposure draft a four month comment period was more appropriate. Ms Rothbarth indicated that the Task Force would consider this matter and report to the IESBA.*

Split of Code

Ms Rothbarth stated that the IESBA had responded to the feedback received from the October 2005 Forum that Section 290 be split. Therefore, the IESBA plans to expose Section 290 which will address independence requirements for audit and review engagements and Section 291 which will address independence requirements for other assurance engagements. The CAG expressed support for this split. *Mr Fleck noted that it was important that this split is clear to readers of the Code.*

Language

Ms. Rothbarth reported that, in drafting the new sections 290 and 291, the IESBA has adopted more direct language for example, by stating that a member of the assurance team should not have a direct or a material indirect financial interest in the assurance client. The CAG expressed support for this approach. Mr Fleck asked whether the IESBA was adopting the clarity conventions used by the IAASB which include the use of “shall” rather than “should”. Ms Munro indicated that the revised section 290 and new section 291 had been drafted under the existing conventions of the Code and that the IESBA was still considering the implications of the IAASB clarity conventions for the entire Code. *It was agreed that it was important that the explanatory memo refer to this fact.*

Responsibility

Ms. Rothbarth reported that the IESBA had considered a comment received on the network firm exposure draft (and from the CAG) that in some cases the Code is not clear whether the responsibility for a particular action or requirement rests with a firm, a network firm, an individual or all parties concerned. The IESBA has considered the issue and is of the view that it would not be appropriate to be prescriptive as to the specific responsibility of individuals within the firm or network firm because responsibility may differ depending upon the size and structure of the firm. Accordingly, the IESBA was proposing a paragraph discussing responsibility and including a statement that firms should have policies and procedures in place to assign responsibility for such actions. Ms Sucher suggested that the Code might have an overall statement emphasizing the importance of independence and the “tone at the top”. Ms Munro indicated that this is addressed in ISQC 1. Ms Todd McEnally stated that it was critical that firms assign responsibility for independence matters. *The CAG expressed support for the text as draft with the recommendation that the text stress the importance of firms having policies and procedures to allocate responsibility.*

Entities of Significant Public Interest

Ms Rothbarth reported that the IESBA proposes to strengthen the guidance for the independence requirements relating to entities of significant public interest. The IESBA is of the view that it is not possible to establish a workable global definition of a public interest entity. Benchmarking has indicated that jurisdictions which have adopted a definition of a public interest entity have used widely differing size tests.

The approach proposed is to give the strongest guidance possible while still recognizing that there is a need for flexibility to address the particular circumstances in a jurisdiction. The proposal is:

- If the scope of all public interest entities for independence purposes is defined by statute or regulation in a particular jurisdiction that definition should be used.
- In the absence of such a definition, member bodies should determine the types of entity that will be considered to be of significant public interest. Such entities:
 - Will always include listed entities;
 - Will normally include banks, governments, insurance companies and other regulated financial institutions; and
 - May, depending upon their size, include pension funds, government-agencies, government-owned entities and not-for-profit entities.

The IESBA is of the view that this provides consistent guidance while still maintaining a necessary degree of flexibility.

Mr Hegarty noted it was important that a user of audited financial statements know whether the audit had been conducted under independence requirements for audits of entities of significant public interest or for entities which are not of significant public interest. Ms Todd McEnally noted that the issue was important because there may be a risk premium factored into the difference. The CAG discussed the matter agreeing that, while it was an issue, it was not a matter which could be addressed by the Code. Mr Fleck noted that the issue emphasized the importance of the interaction of the Code of Ethics and International Standards on Auditing.

Mr Cassel noted that there might be situations where certain government entities were not defined as entities of significant public interest for independence purposes by legislation. He asked how this would be brought to the attention of the member body. The CAG discussed whether there were any steps which could be taken to assist member bodies in defining such entities. It was noted that there might be a role for IESBA to assist in this area.

Government program – benefits

Ms Rothbarth indicated that the Task Force addressing matters for accountants in the public sector that perform assurance engagements was of the view that section 290 should address threats to independence that might be created by benefits from a government program which is the subject of the audit engagement. For example, a government audit office might be engaged to audit a particular government program (government pension, a program which funds special education needs, veterans benefit programs etc). Consideration should be given to whether members of the audit team, or their immediate

or close family members obtain a benefit from the program. The drafted guidance indicates that the significance of any threat created should be evaluated and, if necessary, safeguards applied to address the threat.

Mr Fleck noted that the concept was not limited to a government program and perhaps should be reconsidered from the wider perspective of receiving benefits from any audit client. Mr Pickeur questioned whether “government program or government entity” was sufficiently clear and would this, for example include a local authority?

Cooling off

Ms Rothbarth noted that the existing Code states that independence may be threatened if a director, an officer, or an employee of the assurance client in a position to exert direct and significant influence over the subject matter information of the assurance engagement, has been a member of the assurance team or a partner of the firm. The Code provides guidance on matters which will influence the significance of any threat created, requires the significance of the threat to be evaluated and, if other than clearly insignificant, requires that safeguards be applied to eliminate the threat or reduce it to an acceptable level. The IESBA proposes that, for audit clients that are entities of significant public interest, there should be a mandatory cooling off period before a key audit partner joins the client as a director or an officer or an employee in a position to exert significant influence over the preparation of the accounting records or the financial statements. A key audit partner could not take such a position unless there had been an audit opinion covering a period of not less than twelve months for which the partner was not a member of the audit team. She noted that the proposed definition of key audit engagement partner was:

“The engagement partner, the individual responsible for the engagement quality control review, and other partners on the engagement team involved at the group level who are responsible for key decisions or judgments on significant matters with respect to the audit engagement.”

Mr Fleck asked whether the definition would capture the engagement partner on a significant subsidiary. *It was suggested that the definition focus on whether the individual was responsible for key decisions or judgments.*

Mr Carchrae asked why the definition referred to the narrower “engagement team” as opposed to the broader “audit team”. Ms Rothbarth noted that it was engagement team members who were responsible for the key decision or judgments and it was not the intent to pick up, for example, those provide consultation regarding technical or industry specific issues. *Mr Fleck suggested that the Task Force give careful consideration the difference between engagement team and assurance team to ensure the definition of key audit partner is appropriate. Mr Carchrae noted that the definition of assurance team included the words “others within the firm who can directly influence the outcome of the audit engagement” and questioned how this aligned with the concept of responsibility for key decisions or judgments.*

Ms Rivshin asked whether the IESBA had considered the implications of other members of the audit team joining a client. Ms Rothbarth responded that this would be addressed by the overall requirement in 290.135 which requires the application of certain safeguards and the consideration of whether any threats to independence remain, in which safeguards should be applied to address the threats.

Mr Sekiguchi asked how the proposal would apply if a key audit partner joined a material subsidiary of an audit client. Ms Rothbarth indicated that a mandatory cooling off period would be required if the key audit partner was in a position to exert significant influence over the preparation of the accounting records or the financial statements of the audit client.

Ms Rivshin indicated that people might focus on the twelve month period when in reality the period would be longer, because of the necessity for there to be an audit report covering a period of at least twelve months for which the audit partner was not a member of the audit team. Ms Rothbarth indicated consideration would be given to providing some examples in the explanatory memorandum.

Partner Rotation

Ms Rothbarth reported that the IESBA proposed to:

- Extend the partner rotation requirements to key audit partners on audits of entities of significant public interest;
- Requires a seven/two rotation period for the engagement partner and the individual responsible for the engagement quality control review, and generally require rotation after seven years for other key audit partners but allow one additional year on the client if the individual's continuity was especially important to audit quality;
- Eliminate the flexibility for small firms, for whom rotation is not possible, to apply alternative safeguards to address the familiarity threat.

Ms Blomme noted that the Fédération des Experts Comptables Européens Ethics Working Party had discussed the proposals and the majority view was under the proposals it would not be possible for firms with fewer than four partners to audit entities of significant public interest.

Ms Todd McEnally noted that the proposals were essential. Mr Sekiguchi noted that the matter was under discussion in Japan where the existing requirements are for rotation after five years in the big firms and after seven years for other firms. He further noted that smaller firms had indicated that the rotation requirements were difficult particularly in smaller centres where there were fewer partners. Mr Carchrae commented that while not disagreeing with the requirement to rotate key audit partners irrespective of the size of the firm he questioned whether there was a broader issue related to audit quality and the effect of consolidation of the profession.

Ms Rivshin asked why there was a provision to allow a partner who had been on an audit for six years to remain on the client for a further two years if the client became a listed entity. Ms Rothbarth responded that provision was provided so that rotation would not be required at the same time an entity went public.

Management Functions

Ms Rothbarth noted that the existing Code does not make specific reference to acting as management or acting in a management role. Instead there are several references direct or indirect to this issue. The IESBA proposes changes as follows:

- State that a firm should not perform management functions for an audit client because it would create self-review, self-interest and familiarity threats that are so significant safeguards would not be available to address the threat;
- State that management functions involve leading and directing an entity including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources;
- Provide the following examples of management functions:
 - Setting policies and strategic direction;
 - Preparing and fairly presenting the financial statements in accordance with the applicable financial reporting framework;
 - Designing, implementing and maintaining internal control;
 - Deciding which recommendations of the firm or other third parties should be implemented; and
 - Authorizing transactions.
- State that some activities may not be management functions because they are routine and administrative, involve matters that are insignificant or do not otherwise represent a management responsibility. For example:
 - Executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit client of such forthcoming dates would not be considered management functions; and
 - Providing advice and recommendations to assist management in performing its functions or providing elements of a client's internal training program would not be considered a management function.
- Require the firm to be satisfied that a member of management of the client has been designated to make all significant judgments and decisions connected with the performance of the services and accept responsibility for the results of the service received. This reduces the risk of the firm inadvertently making any significant judgment or decision. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions on the basis of an objective and transparent analysis and presentation of the issues.

Mr Pickeur questioned whether acting as an internal auditor would be considered to be a management function. Ms Rothbarth responded that the Code specifically addressed internal audit services and states that such services could only be provided if specific safeguards were in place and the safeguards were intended to prevent the firm from performing management functions. It was further noted that the issue of the provision of internal audit services was to be addressed in phase 2 of the independence project.

Ms Todd McEnally stated that the guidance was open to interpretation and expressed concern that it would be interpreted in different ways. Mr Fleck agreed but noted that was why there was an overriding principle with which the audit firm would be required to comply. Ms Rothbarth noted that the proposed revisions to 290 were trying to provide

guidance in an area where there had been no guidance in the past and further stated that it was not possible to develop an exact definition of a management function. *Mr Carchrae noted that it might be useful to look at the IOSCO survey to determine whether any of the examples there could be usefully included in section 290 as management functions.*

Non-assurance Services

Ms Rothbarth indicated that IESBA had continued its discussion of changes to the provision of non-assurance services and was proposing the following:

- *Bookkeeping services* no significant changes were necessary. The position taken with respect to non-listed entities was generally appropriate but it should be clarified to indicate that for non-listed audit entities an auditor can prepare standard or adjusting journal entries provided that the client reviews the entries and understands their purpose. In addition, the Code should make it clear that accounting advice can be provided to listed and non-listed audit clients.

The CAG did not raise any issues for consideration by IESBA.

- *Valuation services* – Providing guidance on what is meant by significant subjectivity with respect to a valuation service and restricting firms from providing valuations services to audit clients that are entities of significant public interest if the valuation would have a material effect on the financial statements.

Mr Hegarty asked that consideration be given to whether Section 290 should specifically address the situation where it is known that an entity will go public and the firm is asked to perform a valuation.

Ms Blomme asked for an explanation of the rationale for a more restrictive provision for entities which are of significant public interest. Ms Rothbarth indicated that change was made as a result of the benchmarking exercise and the position is now more aligned with bookkeeping which has more restrictions for entities that are of significant public interest.

Mr Pickeur questioned whether the guidance should refer to estimates.

- *Taxation services* – Providing additional guidance on the provision of taxation services under the following broad headings:
 - *Tax Return Preparation* which explains that the provision of such services does not generally threaten the firm's independence because the services are generally based upon historical information, principally involve analysis and presentation of such historical information based upon the constraints of existing tax law and the returns are subject to whatever review or approval process the tax authority considers appropriate.

The CAG did not raise any issues for consideration by IESBA.

- *Preparation of tax calculation to be used as the basis for the accounting entries in the financial statements* – recognizes that such services may create a self-review threat. The proposal indicates that, for audit clients that are entities of significant public interest, a firm should not provide such services if the entries are material to the financial statements.

The CAG did raise any issues for consideration by IESBA.

- *Tax Planning and Other Tax Advisory Services* – recognizes that such services may create a self-review threat. The proposal indicates that firms should not provide tax advice to an audit client when the effectiveness of the tax advice depends upon a particular accounting treatment and there is reasonable doubt as to the appropriateness of the related accounting treatment and the outcome or consequences of the tax advice will have a material impact on the financial statements.

Mr Hegarty asked whether seeking a private ruling would be considered tax planning or assistance in the resolution of a tax dispute. Ms Rothbarth indicated that it would likely be considered tax advice.

Mr Carchrae asked how the reasonable doubt test would be applied and in particular reasonable “doubt to whom?” Mr Fleck suggested that consideration should be given to whether there was a track record for such matters. Ms Rothbarth noted that in some cases there was no track record and therefore it would be a matter of professional judgment. *It was noted that it might be appropriate to link the determination of whether reasonable doubt exists to whether there is a track record.*

- *Assistance in Resolution of Tax Disputes* – recognizes that acting for an audit client in the resolution of a tax matters before a public tribunal or court may create an advocacy threat. What constitutes a “public tribunal or court” should be determined according to how tax proceedings are heard in the particular jurisdiction. If the matters involved are material to the financial statements the threat created would be so significant safeguards could not address the threat and accordingly firms should not provide such services for their audit clients. If the matters are not material the firm should assess the significance of the threat and apply safeguards.

Mr Hegarty questioned why the restriction was limited to a public tribunal or court. Ms Rothbarth indicated that in many jurisdictions, accountants assist clients in tax disputes directly with tax authority. It is not until the dispute is in the public arena that the advocacy threat related to the financial statements becomes unacceptable. The threat becomes unacceptable once a firm is advocating a particular treatment in the public domain because it becomes difficult for the firm to step away from that position in the consideration of the financial statements. Ms Rothbarth indicated that the issue was in particular a threat to independence in appearance. Mr Carchrae stated that it would seem

that CAG members were questioning whether it was only an issue of independence in appearance and if it was broader than independence in appearance, it might indicate that there was also a threat when the matter was not before a public tribunal. *Mr Fleck suggested that it might be possible to base the restriction on whether there was a formal process as opposed to whether the process was public.*

- *IT Systems Services* – For audit clients that are entities of significant public interest restricting firms from designing or implementing IT systems that form a significant part of the accounting systems or generate significant financial information used in the preparation of the financial statements.

The CAG did raise any issues for consideration by IESBA.

- *Litigation Support Services* – restricting firms from providing litigation support services involving the estimates of damages if the estimation involves a significant degree of subjectivity and the amounts are material to the financial statements. For audit clients that are entities of significant public interest, restricting the firm from providing such services if the amount is material to the financial statements. This aligns the guidance with the position taken on valuation services.

The CAG did raise any issues for consideration by IESBA.

- *Recruiting Senior Management* – for audit clients that are entities of significant public interest restricting, a firm from recruiting senior management in a position to exert significant influence over the preparation of the accounting records or the financial statements.

The CAG did raise any issues for consideration by IESBA.

- *Corporate Finance Services* – providing additional guidance in the area of corporate finance service and aligning it to the position with respect to providing tax advice i.e. restricting a firm from providing corporate finance advice when the effectiveness of the advice depends on a particular accounting and there is reasonable doubt as to the appropriateness of the related accounting treatment and the outcome or consequences of the corporate finance advice will have a material impact on the financial statements.

The CAG did raise any issues for consideration by IESBA.

Partner Remuneration

Ms Rothbarth indicated that the existing Code does not address any threat to independence that might be created by partner remuneration schemes.

The Task Force proposes to include guidance in this area to indicate that a key audit partner should not be evaluated on, or compensated, for the selling of non-assurance services to his or her audit client. The guidance would also indicate that compensating or

evaluating other members of the audit team for selling non-assurance services to their audit clients might create a threat.

Ms Sucher questioned whether remuneration schemes created threats. Mr Fleck stated that he was of the view that such schemes did create threats and it was important this threat be addressed in the Code. Mr Carchrae agreed that this should be addressed at it was important to recognize schemes that compensate or evaluate the success in selling non-assurance services to audit clients.

Other Matters

Ms Rothbarth reported that IESBA has determined that certain items, while important, are not of a priority nature and will be addressed in the future. The IESBA took this decision recognizing that if the scope of the revisions was expanded this would significantly delay the issuance of the revised Section 290. Some of the issues which will be considered in the next phase of changes are:

- Independence for Compilation and Agreed upon Procedures Engagements
- Auditor indemnification;
- Financial interests held in trust;
- Mutual funds;
- Significant influence and control;
- Definition of listed entity;
- Internal audit services; and
- Contingent fees.

Mr Jui suggested that the IESBA might wish to review the questions asked in the IOSCO survey on non-audit services to determine whether there are additional categories of service which should be addressed in the Code.

The CAG confirmed that it agreed the IESBA should address the matters noted above in a second phase of amendments to the Code.

E. Scope and Authority of the Code

Mr Fleck reviewed the scope and authority of the Code. He noted that the preface of the Code and the IFAC Statement of Membership Obligations require member bodies of IFAC to apply no less stringent standards than those stated in the Code, unless prohibited from complying with certain parts of the Code by law or regulation, in which case the member body should comply with all other parts of the Code. In addition, under the constitution of the Forum of Firms, members of the Forum agree to meet the Forum membership obligations which include having “policies and methodologies which conform to the IFAC Code of Ethics for Professional Accountants and national codes of ethics.”

Mr Sylph reported that by December 2006 at least 100 of the 160 IFAC member bodies will have completed part 2 of the compliance questionnaire. This questionnaire provides information on how member bodies are complying with the statements of membership obligations. The next phase of the compliance program will be to work with member bodies that have not complied and assist them in complying.

Mr Hegarty indicated that it was not possible to tell from audit opinions whether the auditors had complied with the Code or not. He further noted that the linkage between the Code and International Auditing Standards was not clear; for example if an auditor performs an audit in accordance with ISAs but had not complied with the Code would they have performed an ISA audit. It was agreed that this was a good question for which there was not an immediate answer. It was further agreed that this was an ongoing issue which would be reported back to the CAG.

F. IESBA Work Plan

Mr Fleck lead a discussion of the IESBA work plan. It was noted that changes had been made to the IESBA priorities to concentrate on independence. In particular the project addressing ethical guidance for professional accountants who encounter fraud or illegal acts had been deferred and it was anticipated that the project would recommence in 2007. Mr George noted that because of expected turnover in the Board it would be necessary to rebalance the membership of the Task Force. *Ms Munro suggested that, in light of the length of time which had passed since the project started, a revised project proposal be prepared for discussion with the CAG. Such an approach would ensure that the project was brought under the revised due process. The CAG agreed with this suggestion.*

Ms DeBeer noted that the majority of the projects addressed professional accountants in public practice and questioned whether the IESBA had a list of possible projects for professional accountants in business. Mr George indicated that the work plan and priorities will be reviewed after the first national standard setters meeting which the IESBA plans to hold in Q3 2007.

Mr Fleck encouraged any CAG members who had views on projects which should be added to the IESBA work plan to pass such suggestions to IESBA staff.

G. Closing

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

The next meeting of the Ethics CAG will be April 2, 2007 in New York.