

**Draft Minutes of the Meeting of the  
International Ethics Standards Board for Accountants  
October 17-19, 2011  
New York, USA**

	<b>Members</b>	<b>Technical Advisors</b>
<i>Present:</i>	Ken Dakdduk	Lisa Snyder
	Robert Franchini	Sylvie Soulier
	James Gaa	Stephen Spector
	Caroline Gardner	
	Peter Hughes	
	Felicitas Irungu (Day 2 in part and Day 3)	
	Wui San Kwok	Andrew Pinkney
	Alice McCleary	Eva Tsahuridu
	Michael Niehues	Petra Gunia
	Marisa Orbea	Liesbet Haustermans
	Robert Rutherford	
	Isabelle Sapet	
	Kate Spargo	
	Don Thomson	Kim Gibson
	Sandrine Van Bellinghen	Christine Cloquet
	Brian Walsh	Tony Bromell
	Nina Barakzai	
<i>Regrets:</i>	Jörgen Holmquist	Jean-Luc Doyle
	<b>Non-Voting Observers</b>	
<i>Present:</i>	Richard Fleck	
	Eddy Wymeersch	
	Koichi Uzuka	
<i>Regrets:</i>	Juan Maria Arteagoitia	

**Observing on Behalf of PIOB**  
*Present:* Eddy Wymeersch

**IFAC Technical Staff**  
*Present:* Jan Munro

Jim Sylph (Day 1 and 2)

**Guests**  
*Present:* Giancarlo Attolini (Item 3)  
Jason Evans (Item 4)  
Russell Guthrie (Item 10)  
Diana Hillier (Item 8)  
Chris Jackson (Day 1 and 2 in part)  
David McPeak (Item 7)  
Szymon Radziszewicz (Item 10)

## **1. Introduction and Administrative Matters**

Mr. Dakdduk opened the meeting noting that apologies had been received from Mr. Holmquist, who had provided his proxy to Ms. Spargo. Apologies had also been received from Ms. Irungu, who would be arriving in the afternoon of Day 2, from Mr. Arteagoitia and from Mr. Doyle.

### *Minutes of the Previous Meeting*

The minutes of the June 2011 meeting and the July 2011 conference call were approved, subject to some editorial revisions.

### *PIOB Comments at Previous IESBA Meeting*

Mr. Dakdduk stated that, consistent with board practice, included with the minutes were the comments from the PIOB representative who attended the Warsaw meeting. He noted that those comments were instructive about the importance of perceptions and optics and that he would be mindful of the comments as the board proceeds through its deliberations and as he carries out his responsibilities as chair. He was also mindful that the commentary might cause board members to exercise an excess of caution about what they say and how they say it. He noted that while caution is a good thing, an excess of caution could result in some feeling that it is better not to raise a point at all out of concern about how it might be perceived. He believed the PIOB representative's comments were not intended to stifle open debate and dialogue or limit the free exchange of thoughts and ideas. He would be concerned if a board member chose not to raise a

point because of the PIOB comments or simply because of concern that the point might be misinterpreted.

So, whether a board member is a practitioner or a non-practitioner, if he or she has a relevant point that has not been made yet, he or she should make it. If a member does not speak up, their effectiveness as a board member, and the effectiveness of the board. If the point is a good one, and the board does not have the opportunity to discuss it because the board member chose not to raise it, respondents to exposure drafts are likely to raise it. However, respondents' comments come late in the standard-setting process and it is much better to deal with relevant points early than late. It also would be easy for those respondents to ask themselves why the board missed the point. That would not bode well for the board in instilling confidence in its stakeholders that it engages in careful, thoughtful, and thorough analysis and deliberation.

Mr. Dakdduk noted that the PIOB's comments remind him that each member has an obligation to help fellow board members to be successful and contribute to the success of the board. Making sure that board members have the benefit of each other's insights and experience is an important way in which members can fulfill that obligation.

#### *Role of Technical Advisors*

Mr. Dakdduk reported that he had discussed with board members the role of technical advisors with respect to board activities. These discussions had been helpful in determining how to best utilize technical advisors. He noted that some technical advisors had expressed a desire to be involved with the board's task forces. Participation on task forces can be an effective way for technical advisors to lend their expertise to the board. There are five technical advisors currently involved with four of the board's projects. Going forward, when there is a need to supplement a task force, consideration will be given to asking a technical advisor to join that task force.

Some technical advisors might desire to participate in the board meetings themselves and engage in the board's discussions and debates. For this issue, he referred to the board's terms of reference, which state that a technical advisor has the privilege of the floor with the consent of the board member the technical advisor advises. This is consistent with the request made of technical advisors in February 2010 and with how the board generally has operated, which continues to be appropriate.

#### *Exposure Drafts*

Mr. Dakdduk noted that there were three projects presented for approval as an exposure draft. He reminded board members that the board's terms of reference state that "In voting in favor of the release of an exposure draft, a member of the [Public Interest Activity Committee] is confirming that he or she is satisfied that the draft would form an acceptable international pronouncement in the event that no comments were received on exposure that required the PIAC to amend the proposals." The Board does not vote on the explanatory memorandum that accompanies each exposure draft but is provided the opportunity to comment on the document.

Mr. Dakdduk provided an update on activities since the June 2011 meeting.

*Consultative Advisory Group (CAG)*

The CAG met in September 2011 and discussed all three projects that are presented for approval as an exposure draft at this meeting. All the task forces have met since the CAG meeting, either in person or by conference call, and have carefully considered all of the comments. The next meeting with the CAG is scheduled for March 5, 2012 in Brussels. Mr. Dakdduk encouraged board members to attend the meeting if it was convenient for them.

*International Organization of Securities Commissions (IOSCO)*

Mr Dakdduk reported that there had been a conference call with members of the IOSCO Standing Committee No. 1 after the July IESBA conference call to discuss the breaches project. Mr. Dakdduk indicated that he, Mr. Sylph and Ms. Munro would be meeting in person with the Standing Committee in November.

*International Forum of Independent Audit Regulators (IFIAR)*

Mr. Dakdduk and Mr. Sylph met with IFIAR in September and provided an update on the three standard setting projects underway (breaches, responding to a suspected illegal act and conflicts of interest). Convergence was also addressed and Mr. Dakdduk introduced the one page high-level summary of the independence provisions that apply to audits of public interest entities. The discussion on convergence included consideration of what can be done to make the prohibitions more prominent and to enhance enforceability.

Mr. Dakdduk noted that the IESBA has benefited from direct consultation with IOSCO and he would welcome developing a similar relationship with IFIAR.

*PIOB*

Mr. Dakdduk met with the PIOB in September. Subsequent to that meeting, the IESBA Strategy and Work Plan was issued following PIOB confirmation that due process had been followed. Mr. Dakdduk will next meet with the PIOB in December 2011.

*Outreach*

Mr. Dakdduk reported on the following outreach, which had been conducted since the last IESBA meeting:

- Singapore Accountancy Convention – Mr. Kwok
- Vietnam Association of Certified Public Accountants – Mr. Dakdduk and Ms. Munro
- Forum of Firms – Ms. Munro

Upcoming outreach includes:

- National Association of States Boards of Accountancy – Mr. Dakdduk
- Dubai Financial Services Authority Regional Conference – Mr. Walsh

## **2. Breach of an Independence Requirement**

Ms. Spargo introduced the project. The IESBA discussed a draft exposure draft at its June 2011 meeting and met again by conference call in July 2011 to discuss proposed Task Force changes to respond to input received from the IESBA. The Task Force revised the document based upon input received on the conference call and the revised document was discussed by the CAG at its meeting in September 2011. The Task Force met on September 30<sup>th</sup> and October 1st to consider input from CAG members and to finalize the exposure draft.

Ms. Spargo provided a summary of the agreed position after the Warsaw meeting and July conference call:

- The interest or relationship that created the breach shall be suspended, terminated, or eliminated;
- Any legal or regulatory requirements with respect to the breach shall be complied with;
- The significance of the breach shall be evaluated and a determination made of whether any action can be taken to satisfactorily address the consequences of the breach;
- If action cannot be taken, discuss the matter with those charged with governance and terminate the engagement;
- If a firm believes action can be taken, discuss the breach with those charged with governance as soon as possible and obtain their approval;
- Provide guidance for a breach that occurred in a prior period; and
- Documentation requirements.

The more significant comments of CAG members from the CAG's September meeting were:

- Agreement that breaches should be communicated to those charged with governance without delay;
- A suggestion that there be a requirement to report a breach to the relevant regulator;
- Agreement that the Code should contain some general guidance on how to address a breach other than an independence breach; and
- A need to explicitly consider the cumulative effect of any breaches.

Ms. Spargo reported that the Task Force is proposing a clarification to make it explicit that the significance of the breach will depend upon, among other things, the number and nature of previous breaches with respect to the client, if any, relevant to the current audit report.

At its June meeting and on the July conference call, the IESBA was of the view that the detailed provisions being proposed should apply only to the independence requirements of the Code. The rationale is that a distinguishing feature of the independence provisions is the focus on *consequences* of the violation – if an independence requirement is violated and the firm cannot issue an opinion, there is a potential for harm to, for example, third parties who are planning certain activities upon receiving the audited financial statements

and may be working within tight time constraints. If the impact of the violation was trivial or inconsequential, the consequences of a firm resignation would be disproportionate to the violation. In the case of the other provisions in the Code, there are not the same consequences to the public. CAG members generally agreed that the focus of a robust framework for dealing with breaches should be on a breach of an independence provision of the Code. They noted, however, that it would be useful if the Code contained some general guidance on the steps an accountant would take if a breach of another provision of the Code was identified. That point was raised by the PIOB during its consideration of the due process followed by the IESBA in its development of the 2011-2012 Strategy and Work Plan.

The Task Force considered the matter and developed a general paragraph that provides guidance to a professional accountant on how to apply the overarching principles in the framework for a breach of an independence provision to a breach of any other provision in the Code. The guidance would be contained in new paragraph 100.10 and is as follows:

“Sections 290 and 291 contain provisions with which a professional accountant shall comply if the professional accountant identifies a breach of an independence provision of the Code. If a professional accountant identifies a breach of any other provision of this Code, the professional accountant shall take steps as soon as possible, if any are available, to terminate or eliminate the circumstances or relationship that caused the breach. The professional accountant shall evaluate the significance of the breach and determine whether there are any actions that can be taken to address the consequences of the breach, including reporting the breach to those who may have been affected by the breach. The professional accountant shall comply with any duty to report a breach of a provision of this Code.”

Mr. Uzuka, representing the Japanese FSA, stated that he felt there was a great deal of reliance on those charged with governance in the proposed framework. He noted that there are many types of governance structures, some of which are stronger than others. Ms. Spargo noted that one has to assume that there are those charged with governance within an organization. There will be different corporate structures but the broadness of the approach assumes that there will be someone responsible for governance. Mr. Dakdduk noted that although those charged with governance may differ in capability, they are central to these provisions. In addition, the documentation requirements add rigor to the process and would be available to be reviewed by regulators, which should give comfort in places where governance is not as strong as it could be.

Mr. Uzuka stated that the current Code permits some judgment in determining materiality and the nature of safeguards that need to be applied. In light of this, he questioned whether there was a need for provisions dealing with breaches. Mr. Dakdduk noted that while the Code did contain materiality provisions, that didn't alleviate the need to address a breach, which could occur with any provision of the Code. In the case of a direct financial interest held by a member of the audit team, or an immediate family member, for example, there is no materiality provision.

The IESBA discussed the proposals and the following points were noted:

- Whether paragraph 100.10 should refer to the need to consider the cumulative effect of any breaches – the IESBA agreed that because the paragraph was a general one, it was not necessary to make this addition;
- Paragraph 100.10 should be strengthened to require the accountant to take whatever action might be available as opposed to “take steps”;
- The examples provided in paragraph 290.40 should be deleted because they are quite evident and do not add much to the understanding of the provisions;
- Whether the requirement should be that those charged with governance “conclude” as opposed to “agree” – the IESBA was of the view that “agree” was the appropriate requirement because the Code cannot impose an obligation on those charged with governance;
- Whether there should be a requirement to report to a relevant regulator – the IESBA concluded that paragraph 290.41 requires compliance with any legal or regulatory requirements that apply to the breach. This would include the need to disclose to a relevant regulator if the regulator has such a requirement. The IESBA was of the view that if a regulator wished to have all independence breaches reported, the regulator would make reporting mandatory and it was inappropriate for the IESBA to make this a requirement if a regulator had chosen not to make it mandatory;
- The reference in paragraph 290.42 to “current audit report” should be changed to “current audit engagement”;
- The reference in paragraph 290.47 to “the firm’s determination” should be deleted.

On the second day of the meeting, the IESBA considered a revised draft addressing the board’s comments. The board unanimously approved the document for release as an exposure draft.

Board members were requested to provide any comments on the explanatory memorandum to staff.

Mr. Dakdduk thanked the Task Force and, in particular, Ms. Spargo as chair, for all of their work in developing the exposure draft.

### **3. SME/SMP Task Force Report**

Mr. Thomson introduced the project and Mr. Attolini, the deputy chair of the SMP Committee who is also a member of the IESBA SME/SMP Working Group.

The IESBA SME/SMP Working Group was formed in late 2010 to identify and advise the board on unique and challenging issues faced by professional accountants in SMEs and SMPs when complying with the Code. Timely reporting by the Working Group was

requested so that the board could be responsive. At its June 2011 meeting in Warsaw, the board received a preliminary report setting out the Working Group's initial findings.

Mr. Thomson reviewed the recommendations contained in the report.

#### *Knowledge and Understanding*

Resource constraints, including lack of time, funds, and qualified individuals available to provide direction and advice, often inhibit the ability of professional accountants in SMEs and SMPs to develop a knowledge and understanding of the Code. This challenge may be exacerbated by the length and complexity of the Code, particularly when the professional accountant's language is other than English and translation is required.

The Working Group recommends:

- Developing guidance for users to facilitate general learning and the application of the Code to specific circumstances. It is suggested that this guidance be issued as *IESBA Staff Questions and Answers*, supplemented as appropriate by case studies;
- Preparing and publishing a synopsis of the Code. It must be clear that the synopsis is not meant to be a complete representation of the Code; it should be brief and condensed in such a manner as to enable an overview of the Code to be described appropriately, but potentially very few pages in length;
- Publishing the Code in a format that facilitates ready access to the sections of the Code relevant to the particular user – for example, the electronic version of the Code might be made available in one folder with separable files so that a professional accountant in an SME or SMP who does not need access to independence matters could ignore Sections 290 and 291; and
- Liaising with member bodies to identify how this guidance and other tools that the board may develop can be aligned with training programs to facilitate learning about the Code.

The IESBA discussed the recommendation and the following points were noted:

- A synopsis of the Code or publishing in a format that facilitates ready access would be useful to all professional accountants, not only SMPs;
- Case studies can be lengthy and the IESBA should be mindful of translation challenges that this might create.

#### *Safeguards*

The safeguards noted in various sections of the Code appear to be appropriate for most situations, yet the examples, although similar, vary from section to section. This inhibits the ability of a professional accountant in an SME or SMP to apply an intuitive approach to establishing safeguards. Having client management make significant judgments and decisions in connection with, for example, a non-assurance service and evaluate the results of the service and accept responsibility for them is viewed by many as an effective safeguard, yet it is not explicitly listed in various Code sections as an example of a safeguard. SMEs typically rely upon their professional accountant to provide advice on a variety of matters in addition to performing an audit or review. This advice enables them to overcome resource constraints and is often valued more than the audit or review. Such



an "informed management" is an important safeguard that contributes to the ability of SMEs to obtain the advice they need while safeguarding independence.

The Working Group recommends:

- More clearly including an informed management as an appropriate safeguard when addressing self-review and self-interest threats;
- Revising the examples of safeguards so they are consistent, where appropriate, from section to section to enable a more intuitive approach to applying safeguards;
- Considering whether to clarify that professional judgment is required when applying the Code's guidance on threats and safeguards because the Code may not have identified every threat or every safeguard available in a particular circumstance;
- Considering whether there are appropriate safeguards that may reduce to an acceptable level the self-review threat associated with a professional accountant performing a material valuation involving a significant degree of subjectivity for an SME audit client; and
- Considering whether there are appropriate safeguards that may reduce to an acceptable level the advocacy threat associated with a professional accountant acting as an advocate for an SME audit client in the resolution of a material tax matter before a public tribunal or court.

The IESBA discussed the recommendation and the following points were noted:

- The term "informed management" does not exist in the Code. We should not create that term in a Q&A.
- It could be argued that the guidance on management responsibilities in paragraph 290.166 requires informed management as a precondition as opposed to it being a safeguard.

*Safeguards for sole practitioners and small SMPs*

Many safeguards in the Code are not readily available to sole practitioners and small SMPs. The challenges facing SMPs in applying the code are even more challenging for the smallest firms.

The Working Group recommends:

- Developing guidance to help identify safeguards that are of particular help to the smallest firms;
- Encouraging the smallest firms to consult amongst themselves; and
- Consideration of informed management combined with exposure to inspection as a safeguard.

The IESBA discussed the recommendations and the following points were noted:

- Collaboration with similar firms could help ease the situation, but it is not appropriate for the IESBA to suggest that small firms should merge, and in some locations geography would preclude collaboration in any case. It was also

- questioned whether SMPs may need to change their structure to respond to changing expectations;
- A robust code should not rely solely on regulatory inspection as an effective safeguard;
  - SMPs are not asking for different rules, but they would appreciate practical guidance, such as Q&As; and
  - The safeguards should aim to help SMEs as well as SMPs.

#### *Network Firms*

Although it was recognised to be a minor issue, there may be confusion between SMP alliances and the Code's concept of a network firm.

The Working Group recommends the development of guidance to address possible confusion.

It was noted that this could be addressed through a Q&A on this topic.

#### *Future expansion of the code*

It was thought that the Code lacks guidance on areas other than independence for audit and assurance engagements. Those providing input to the Task Force were divided as to whether this warrants action.

The Working Group recommends that when future work plans are developed, consideration be given to expanding the Code to deal more specifically with non-assurance services, and tax in particular. It was recognised that the Code is already considered too long for many SMPs, but this report will alert IESBA to the specific needs of the smallest firms.

#### *Ongoing consideration*

The Task Force had concluded that SME/SMP issues warranted continuing attention and recommended that:

- IESBA processes always consider how issues relate to SMEs and SMPs
- Nominations to the IESBA, and possibly its CAG, include SME/SMP candidates
- Co-operation with the SMP Committee be encouraged
- Consideration be given to the Working Group continuing to assist the board.

The IESBA discussed the recommendations and the following points were noted:

- The IFAC Nominating Committee, IFAC Council, and PIOB are involved in the process of appointing members to the IESBA; and
- A further issue is that non-English speaking countries struggle to respond to EDs in the exposure period because of the need for translation.

Mr Dakdduk said the next step would be for the Planning Committee to consider the Task Force recommendations and the board's discussion. Recommendations would be presented at the February meeting.

#### **4. Conflicts of Interest**

Mr. Niehues introduced the project. He noted that all professional accountants may face a conflict of interest. Section 220 of the Code addresses conflicts of interest for professional accountants in public practice. Section 310 of the Code addresses conflicts for professional accountants in business. The objective of the project is to revise Sections 220 and 310 to provide additional guidance for professional accountants in identifying and addressing conflicts of interest.

At its June 2011 meeting, the IESBA discussed the Task Force proposals and reviewed the wording for revisions to the Code for Sections 220 and 310 and paragraphs 100.17 and 100.18. The Task Force met twice in-person since the June meeting and held two conference calls to respond to input received from the IESBA. The revised document was discussed by the CAG at its meeting in September 2011. The Task Force had considered all the comments and Mr. Niehues presented the revised document to the board.

The description of a conflict of interest presented to the board at the June meeting was discussed. Mr. Niehues reported that at that meeting it was suggested that the description of a conflict of interest contain an additional phrase stating that the conflict may be such that the professional accountant may be “unable to discharge professional services.” The Task Force has added the following sentence to the description:

“A professional accountant shall not allow a conflict of interest to compromise professional business judgment.”

CAG members generally agreed with this.

##### *Network Firms*

The Task Force proposed at the June 2011 IESBA meeting that in identifying whether a conflict of interest exists and in evaluating any threat to objectivity and other fundamental principles, the professional accountant shall evaluate any potential conflicts of interest that the professional accountant has “reason to believe” may exist due to relationships of a network firm.

At the June meeting, some IESBA members questioned whether the “reason to believe” threshold was too low. Some felt the “reason to believe” threshold was appropriate, but suggested that there be more guidance on factors that the professional accountant should consider when determining whether a conflict of interest exists.

Mr. Niehues reported that the Task Force had considered a “reasonably be expected to know” threshold. The Task Force was concerned that this threshold could create a need

for new systems to enable networks to identify and track certain relationships. The “reason to believe” threshold would require consideration of facts that are available to the professional accountant, and would be consistent with paragraph 291.3. The Task Force believes the threshold continues to be appropriate and developed a non-exclusive list of factors that a professional accountant would consider when deciding whether there was a reason to believe that a conflict of interest exists. CAG members were generally supportive of the approach.

The factors were:

- the structure of the network;
- the geographic location of its firms; and
- the nature of the clients served.

The IESBA discussed the factors and the following points were noted:

- Whether the section recommend that the firm ask for confirmation of a lack of conflicts in network firms - confirmations might be appropriate for the largest networks but would be disproportionate for small, less integrated networks;
- Networks might have difficulty sharing information across borders;
- It is the size of the network rather than its structure that is relevant; and
- The geographical location of all relevant parties should be taken into consideration as should the nature of the engagement.

### *Confidentiality*

The guidance in Section 220 would address situations where a professional accountant receives information from a client that could damage that client’s interests if it were disclosed to another client of the firm. Although it would normally be necessary to obtain consent, if institutional mechanisms are in place and confidentiality is not breached, it may serve the public interest for the firm to proceed with the service without consent being obtained, provided such information is not disclosed and certain other conditions are met. The Task Force presented a new proposed paragraph 220.10 and included an example within the guidance. Mr. Niehues noted that the example had been discussed with the CAG and CAG members were generally in favor of the guidance and an example being included in the Code.

Mr. Uzuka commented that professional accountants are subject to the confidentiality rules within their jurisdictions. He questioned whether the intention of the requirement was to override those rules. Mr. Niehues responded that was not the intent and noted that confidentiality is a fundamental principle and the proposed text requires institutional mechanisms to support this.

The IESBA discussed the proposed example in 220.10 and the following points were noted:

- Confidentiality is a fundamental principle and, therefore, if threats are not at an acceptable level and safeguards cannot be applied, the engagement would have to be terminated;

- The difference between an advocacy role and an advisory role was not clear – in responding to this point it was noted that an accountant acting for two clients that were in adversarial positions would be placed in a position in which the accountant's integrity could be questioned. In contrast an advocacy role is proactive rather than merely advisory in which the accountant's expertise is used for the benefit of the client.

The IESBA concluded that the paragraph was not helpful and agree that it should be deleted.

*Sections 320 and 340 of the Code.*

Mr. Niehues noted that professional accountants in business may face undue pressure and other conflicts when reporting financial information, especially when compensation is linked to financial reporting. The IESBA had agreed that these categories of “conflicts” were not included in the scope of the project. It asked the Task Force to consider whether there should be conforming amendments to Sections 320 and 340 for potential revisions or whether the Board should commission a new project.

The Task Force considered this issue. Mr. Niehues reported that a majority of the Task Force agreed that a full rewrite would go beyond the scope of the project and should be considered in the broader context of how Part C might be structured. The Task Force developed some conforming changes to Sections 320 and 340, which were presented to the CAG. CAG members generally agreed with the edits proposed by the Task Force.

The IESBA discussed the proposed changes and the following points were noted:

- Sections 320 and 340 addressed the threats reasonably well but did not appropriately address safeguards; and
- Section B is more comprehensive and the IESBA should review Part C to determine what changes would be appropriate.

On the second day of the meeting, the IESBA considered a revised draft addressing the board's comments. The IESBA unanimously approved the document for release as an exposure draft.

Board members were requested to provide any comments on the explanatory memorandum to staff.

Mr. Dakdduk thanked the Task Force and, in particular Mr Niehues as chair, for all of their work in developing the exposure draft.

## **5. ISA 610 Use of Internal Audit**

The topic was introduced and led by Mr. Franchini, who introduced Ms. Diana Hillier, chair of the IAASB ISA 610 Task Force. The IAASB has a project to revise ISA 610 *Using the Work Of Internal Auditors*. The objective of the project is to “revise . . . ISA

610 to reflect developments in the internal audit environment and changes in practice regarding the interactions between external and internal auditors.”

The issues the IAASB Task Force is considering include:

- The external auditor’s assessment of the competence and objectivity of the internal audit function; and
- Expansion of the scope of ISA 610 to address instances of internal audit staff providing direct assistance to the auditor.

Given the linkage with the Code, the IAASB extended an invitation to the IESBA to appoint a task force member. The IESBA accepted the invitation and Mr. Franchini is a correspondent member on IAASB Task Force.

At previous meetings, the IESBA considered the issue of internal auditors providing direct assistance and whether this was appropriate given that they are not independent of the audit client. The IESBA had concluded that the threats and safeguards approach being proposed by the Task Force, by which the external auditor would perform additional review and supervision of the work of the internal auditors, gave adequate recognition to the fact that internal auditors are not independent of the audit client. In view of this, the IESBA also concluded that the definition of engagement team did not need clarification.

The IAASB issued an exposure draft in July 2010. A number of respondents to the exposure draft commented on the apparent inconsistency between the use of internal auditors to perform external audit procedures and the requirement under the Code for external auditors to be independent of the audit client. Some of these respondents noted how internal auditors performing external audit procedures, in effect, would be part of the engagement team and the Code required that the engagement team be independent of the audit client.

In light of the comments the IAASB received on exposure, the IESBA concluded that a Task Force should be formed to consider the comments related to direct assistance and the definition of engagement team. The Task Force met on September 5, 2011 to discuss the comments and possible revisions to ISA 610. The IESBA ISA 610 Task Force discussed the responses received on the IAASB ED in relation to direct assistance. The Task Force was of the view that:

- The definition of engagement team should be modified to explicitly scope out internal auditors providing direct assistance;
- The auditor should be required to communicate to those charged with governance the planned use of internal auditors to provide direct assistance;
- The prohibition against using direct assistance when there are significant threats to the objectivity of the internal auditor should be modified to prohibit an auditor from using direct assistance if the threats to objectivity cannot be reduced to an acceptable level. This would be more consistent with the Code, which requires a professional accountant to apply safeguards to eliminate or reduce threats to an acceptable level.

The IESBA had also proposed some drafting improvements.

Ms. Hillier reported that she had met with the European Audit Inspection Group regulators who had been most critical of the exposure draft proposal and they were supportive of the tentative improvements in the recent draft. She noted that similar positive feedback had been received from the International Forum of Independent Audit Regulators.

The IESBA was invited to consider the issues raised by the Task Force and the completeness and the adequacy of IAASB's response:

*Use of Direct Assistance*

Mr. Franchini confirmed that the task force supported direct assistance following the improvements to the exposure draft. One member questioned the use of direct assistance and asked whether there was a desire to increase the use of internal audit. Ms. Hillier responded that the IAASB was not looking to increase the use of internal audit but to clarify its use.

The IESBA discussed direct assistance and the following points were noted:

- Some are philosophically against internal auditors providing direct assistance and, in such cases, safeguards are not sufficient;
- Direct assistance is prohibited in some jurisdictions;
- If direct assistance is not acceptable, this raises the question as to whether the auditor can use the work of the internal audit function – if it is unacceptable to use the work when it is direct, why is it acceptable to use the work when it is indirect?

*Communication with those charged with governance*

The IESBA discussed the Task Force recommendation that the auditor be required to communicate to those charged with governance the planned use of direct assistance from internal auditors. Disappointment was expressed that the IAASB had not accepted this recommendation. Ms. Hillier noted that the IAASB did not disagree with the principle of dialogue but was concerned that pre-approval could put greater pressure on the use of internal audit.

The IESBA asked Ms. Hillier whether the IAASB would re-consider the matter. Ms. Hillier stated that the IAASB would re-consider this matter at its December 2011 meeting.

Mr. Franchini asked the IESBA whether it would support a change to the definition of audit team, to explicitly exclude internal auditors providing direct assistance, if the IAASB provided for communication to those charged with governance. IESBA members generally expressed support for this approach.

Mr. Dakdduk thanked Mr. Franchini for chairing the IESBA Task Force and Ms. Hillier for her attendance.

## **6. Responding to a Suspected Illegal Act**

Mr. Franchini introduced the topic and the background issues.

He noted that Task Force proposals were discussed by the IESBA at its June meeting. The Task Force met on July 17-18<sup>th</sup> to consider the input received from the IESBA and revised the proposed wording for the section addressing professional accountants in public practice (new section 225) and professional accountants in business (new section 360). The Task Force met again on Sept 22<sup>nd</sup>-23<sup>rd</sup> to consider the input from CAG members at its meeting in September and to finalize the proposals.

There were two matters arising from the CAG meeting: whether there should be a requirement or a right to disclose when it was not adequately addressed, and whether the public interest is the right threshold test when deciding to make the disclosure. The majority of CAG members were in favor of a requirement, although it was recognized that it may be difficult to implement globally. All CAG members thought the public interest threshold was appropriate.

As a result, the following key changes to the guidance are proposed:

- Unethical or improper behavior is addressed under Client Acceptance (paragraphs 210.1 to 210.5) and paragraph 300.15.
- In the case of a professional accountant performing non-assurance services for a non-assurance client, the preliminary requirement is to report to the external auditor. There is a requirement to report outside the entity if the illegal act relates to the subject matter of the engagement.
- Disclosure is linked to “matters of such consequence that disclosure would be in the public interest.”

The Task Force proposes disclosure of matters that (i) affect financial reporting or (ii) are within the expertise of the professional accountant and that (iii) have not been appropriately addressed by the entity. In determining whether disclosure is in the public interest, the professional accountant shall consider “whether a reasonable and informed third party, weighing all the specific facts and circumstances, would be likely to conclude that the suspected illegal act is of such consequence that disclosure would be in the public interest.” A professional accountant “shall act reasonably, in good faith and exercise caution when making statements and assertions.”

### *A right or a responsibility and protection for accountants*

Arguments in favor of a requirement:

- A requirement is consistent with accountants acting in the public interest



- Promotes consistency in disclosure
- Disclosure by the professional accountant would be the last resort
- Would increase cases of disclosure
- Responsibility for determining whether action should be taken ultimately lies with an appropriate authority

Arguments in favor of a right:

- Protective mechanisms cannot be imposed by the Code
- A right enables accountant to take into account whether a fair judicial system exists
- Existing disclosure regimes, such as anti-money laundering legislation, do not impose a requirement on accountants in business
- The public interest is a question of judgment and may vary from person to person

The IESBA discussed the alternatives and the following points were noted:

- Disclosure should only be required in circumstances where there were safeguards for the accountant, namely there was an appropriate authority to receive the information, a trusted judicial process existed, the accountant has protection from legal liability, and confidentiality would be maintained;
- If disclosure is required and after investigation it is determined that no illegal act occurred, the accountant could be subject to a law suit;
- If there is a risk to personal safety it would be inappropriate to impose a requirement, but a requirement might be necessary to increase the level of reporting;
- The determination of whether an act is illegal is a matter for the courts to decide; this would support a right, but not a requirement, to disclose;
- Accountants are trained to analyze issues and look for a solution, which would support a right;
- The proposal requires the accountant to go to great lengths, for example, consultation and escalation of the issue, before reporting outside of the organization would be considered;
- Given the pressure on companies to deliver shareholder value and avoid negative publicity, a requirement is more likely to have an impact on company behavior than a right;
- On the matter of confidentiality, in the UK in *Initial Services Ltd v Putterill*, the Court of Appeals affirmed that employees should not disclose confidential information that they obtain during the course of their employment, but there is an exception where the disclosure is in the public interest. This was enshrined in legislation;

- The proposal would result in a breach of confidentiality, except when it is allowed by law. In comparison, other professions, such as priests, doctors, lawyers, and journalists, all maintain confidentiality. The proposals would undermine the trust of clients and employers in professional accountants.

The IESBA discussed whether there was some middle ground between an absolute requirement and a right. Mr Franchini noted the Task Force had discussed a “rebuttable presumption” but the CAG had expressed concern with the amount of discretion that this provided.

*Requirements for three categories of professional accountant*

The IESBA was asked to consider whether a requirement is appropriate for all three categories of professional accountants:

- Professional accountant performing professional services for an audit client: Requirement to disclose to an appropriate authority
- Professional accountant performing professional services for a non-audit client: Requirement to disclose to an appropriate authority if related to the services being performed, otherwise the requirement is to disclose to an appropriate authority or to the external auditor
- Professional accountant in business: Requirement to disclose to an appropriate authority.

The IESBA discussed these three categories and the following points were noted:

- An auditor or senior professional accountant in business would be well placed to investigate such matters, but non-audit practitioners or other professional accountants in business are less able to do so;
- The auditor has a wider duty of care and the public interest overrides confidentiality. If an auditor were to allow an illegal act to continue, it would not be in the public interest, although in most cases the duty of care is to the client.

Mr. Uzuka commented on timing in 225.11 and said that in Japan the auditor must encourage the client to disclose matters to the authorities. Therefore, consultation with management is important. Mr. Franchini indicated that the Task Force had discussed the timing of disclosure. There is flexibility in “reasonable period of time” as it will differ depending on when financial statements have been or will be issued.

The IESBA did not reach a consensus on whether there should be a requirement or a right to disclose. In light of that, Mr. Dakdduk asked whether the IESBA should issue a discussion paper to solicit input from stakeholders on the appropriate position. The IESBA discussed this approach but was concerned that this would add significantly to the timeframe and may not provide the IESBA with the information it needed to take a position.

After further discussion and a consideration of IFAC's due process, the Task Force was asked to develop wording to convey a “robust right” to disclose. The Task Force was also asked to prepare materials for the next meeting that, if the IESBA was unable to reach a consensus position, could be adapted to a consultation paper.

Mr. Dakdduk thanked Mr. Franchini, and the Task Force, for their work on this very challenging issue.

## **7. IAESB Exposure Draft of IES4, Professional Value, Ethics and Attitudes**

Mr. McPeak, Senior Manager, International Accounting Education Standards Board (IAESB), introduced the topic. He reported that as part of its project to improve the clarity of its standards, the IAESB has undertaken to revise and redraft all of its IESs in accordance with its new clarity drafting conventions. At its October 2009 meeting the IAESB agreed that all eight standards should be revised with the aim of:

- improving clarity;
- ensuring consistency with concepts of the revised IAESB Framework for International Education Pronouncements; and
- clarifying issues resulting from changes in the environment of accounting education and the experience gained from implementation of the standards by IFAC member bodies.

IES 4 was published in May 2004 and became effective on January 1, 2006. IES 4 prescribes the professional values, ethics, and attitudes that professional accountants should acquire during the education program leading to qualification.

### *Learning Outcome Approach*

IES 4 establishes the topics in a professional accounting education program covering values, ethics, and attitudes. The IAESB views the list of topics as an example of an input-based approach to learning and development. In contrast, an output-based approach focuses on whether the professional accountant has developed the specified competence. Competence is defined as the ability to perform a work role to a defined standard with reference to working environments. To demonstrate competence in a role, a professional accountant must possess the necessary (a) professional knowledge, (b) professional skills, and (c) professional values, ethics, and attitudes. Competence-based education begins with the creation of competence statements as benchmarks.

In supporting a competence-based approach to the education of the aspiring professional accountant, the IAESB is proposing to redraft the list of topics in the IES into learning outcomes that specify the appropriate depth of ethics education needed to become a professional accountant. This approach uses the same terminology as that used in IES 2, *Content of Professional Accounting Education Programs*, which provides the learning outcomes for a program of accountancy education. As a result, the IAESB is of the view

that the outcome approach should be more useful to educational institutions, regulators, and other interested parties than the current input based approach.

The IESBA discuss the proposed approach and the following points were noted:

- While it is important to have competencies that are both global and measurable, it is also important that ethics education address how to identify an ethical dilemma;
- The list should also include the importance of the independence of auditors and what this entails;
- The Code is based on a conceptual framework that includes the need to evaluate threats and apply safeguards and this should be addressed in ethics education;
- If social responsibility is not the same as public interest, there should be some discussion in the exposure draft of the meaning of social responsibility;
- The exposure draft did not seem to be well aligned with the Code – for example even the title is different, as it seems to imply that attitudes, ethics, and values are different;
- Many ethical dilemmas are created by perception as opposed to reality. It would, therefore, be useful for this concept to be included in learning and development;
- There should be some recognition that social responsibility includes not only what is fair and equitable, but also action that has commercial value; and
- There should be a closer linkage between this standard and the Continuing Professional Development standards in IES7.

#### *Reflection*

IES 4 encourages professional accountants and students to undertake periods of reflection in relation to lessons learned from ethical situations, but it is not set as a formal requirement. The IAESB defines reflection as:

“.... the practice of documenting experiences relating to lessons learned from ethical dilemmas and considering what approach may be taken in the future in similar circumstances can be used by professional accountants at all stages of their careers.

The IAESB considers reflection to be a very important element in the development of an ethical individual and has included a requirement in the proposed IES 4 and has also provided examples of reflection in the explanatory material.

#### *Assessment of a Program Containing Ethics, Values, and Attitudes*

IES 4 does not require a formal assessment of the program containing professional values, ethics, and attitudes. The IAESB is of the view that the assessment of professional values, ethics, and attitudes is essential. To ensure that the content of the proposed IES 4 is implemented by educators, and appropriately tested, it requires an assessment of the program of professional accounting education containing professional values, ethics, and attitudes. A requirement for assessment was viewed as being consistent with the Framework's discussion of assessment as a measure of the effectiveness of learning and development by a professional accountant.

### *Need for Implementation Guidance*

In support of the IESs, the IAESB issues two other types of publications: International Education Practice Statements (IEPSs) and International Education Information Papers (IEIPs). Mr. McPeak noted that The Public Oversight Board of the UK Financial Reporting Council commented in its response letter on the exposure draft of IES 4 as follows:

“We also believe that there would be merit in adding further clarity to the Explanation by ... considering whether further guidance can be provided, perhaps in conjunction with the International Ethics Standards Board for Accountants, on what these essential values and attributes are. While the IESBA Code contains some material on ethical behaviour (i.e., independence, objectivity, confidentiality, and integrity) there is a general lack of explanatory material in IFAC standards and guidance on the other values and attitudes.”

Mr. McPeak asked IESBA members what advice they might have to address the request of the POB. The IESBA discussed the request and the following points were noted

- The point might have been raised because of the differences in terminology used in IES 4 and the Code;
- The trend for a request for additional guidance can be worrying because it moves away from instituting an understanding of professional values and ethics. A professional accountant needs to be able to exercise professional judgment.;
- Some say that with principles-based standards you also need principles-based regulation;
- Some additional guidance might be needed for non-assurance services – while the fundamental principles apply, it might be useful to have additional guidance.

The IESBA provided some the following additional comment on the exposure draft:

- A7 refers to trust in the capital markets, but it is broader than that and should refer to all those who rely on financial information.

Mr. Dakdduk asked members to provide Ms. Munro with any additional comments on the exposure draft, including any comments that had not been addressed by the specific questions. Ms. Munro indicated that she would accumulate all such comments and convey them to Mr. McPeak.

Mr. McPeak thanked IESBA members for their comments and the opportunity to discuss the exposure draft with them. He indicated that the IAESB would carefully consider these comments, and any subsequent comments, at its upcoming meeting.

## **8. Audit Quality**

Mr. Thomson introduced the topic noting that the International Auditing and Assurance Standards Board (IAASB) has commenced a project on audit quality. The objective of the

project is to establish in the public interest an international framework that describes audit quality holistically, including:

- The influence of input, output and context factors;
- Stakeholders' varying perspectives on audit quality; and
- The importance of relationships between auditors and other key participants in the financial reporting supply chain (i.e., management, those charged with governance, investors, and regulators) which influence audit quality.

The IAASB extended an invitation to the IESBA to participate in the Task Force, because of the linkage between compliance with ethical requirements and audit quality. Mr. Thomson is a member of the IAASB Task Force.

Mr. Thomson noted that the Task Force has developed a preliminary draft of a consultation paper, which was discussed by the IAASB CAG at its meeting in September 2011 and the IAASB at its September 2011 meeting. The IAASB will consider a revised draft of the consultation paper at its December 2011 meeting.

#### *Contextual Factors*

The draft consultation paper notes that various environmental factors – contextual factors – can impact the robustness of the processes underlying the preparation of financial statements and audit quality. The consultation paper discusses the following factors:

- Business practices;
- Corporate governance requirements;
- The applicable financial reporting framework;
- Audit regulation;
- Industry, information technology, and the general economic environment;
- The educational environment for accountants and auditors and respect for the role of the audit; and
- Broader cultural issues.

#### *Input Factors*

The draft consultation paper notes that while auditors cannot significantly change the contextual factors, they do have direct influence over the inputs to the audit itself. The consultation paper discusses the following inputs:

- The culture within the firm;
- The knowledge and personal attributes and values of audit partners and staff; and
- The effectiveness of the audit process.

#### *Audit Outputs*

The consultation paper identifies the following main outputs from audits:

- The reliability of audit reporting to users of audited financial statements;
- The usefulness of audit reporting to such users;
- The quality and usefulness of audit communications to those charged with governance;
- The quality and usefulness of audit communications to management; and

- Transparency reports.

Mr. Thomson asked IESBA members for their views on whether there were any ethical issues that should be discussed further by the IAASB Task Force, whether there were any other comments on the draft audit quality framework, and if the framework highlights any matters that should be more comprehensively addressed in the Code.

IESBA members discussed the draft consultation paper and addressed the questions raised by Mr. Thomson and the following points were noted:

- A strength of the paper is that it takes a holistic approach and considers all players who can have an impact on audit quality;
- There was no mention in the paper of the relationship between fee levels and quality;
- In a public sector environment, the level of fees is less of an issue; the issue in understanding audit quality includes matters such as timeliness of reporting and the quality of the audit team;
- It might be useful to expand the third bullet under paragraph 33 to explain what financial regulators can do to assist audit quality through creating an environment where high-quality audit is valued;
- An audit committee has an interest in receiving a quality audit with a clean report; this matter could be given greater emphasis in the report with a further explanation of the relationship between the audit committee and the firm;
- The discussion of the role that audit committees can play in monitoring independence (paragraph 182) was useful;
- In contrast the discussion in paragraph 25 was not applicable in all jurisdictions;
- It is important that the consultation paper note that an independence violation would not necessarily impact audit quality;
- Audit quality would be enhanced through convergence of ethical standards because convergence would eliminate the need to understand multiple ethical standards and enable auditors to increase their focus on performing a quality audit;;
- Obtaining convergence of ethical standards will be challenging because of the need to reconcile the views of those who believe there should be a complete prohibition on all non-assurance services provided by an auditor and the views of those who feel that certain non-assurance services may be provided;
- It is difficult to discuss audit quality without also having a discussion of what an audit is and what it is designed to achieve – for example, it is important to first understand the expectations of shareholders and then to consider whether the audit is a quality audit

Mr. Thomson thanked IESBA members for their comments.

## **9. Definition of Professional Accountant**

Mr. Rutherford introduced the topic. He noted that in March 2010, IFAC formed a Task Force comprising a volunteer and a staff member from each of the boards and committees

(the “Task Force”). The Task Force proposed a new definition of a “professional accountant,” which was presented to the IESBA in New Delhi.

A Working Group was formed by the IESBA to review and consider possible changes to the Task Force’s proposed definition of a professional accountant and consider the impact on the Code of proposed changes to the current definition. The Working Group met on April 4-5, 2011 in New York and conducted a teleconference on May 17, 2011. Due to time constraints, the IESBA was unable to consider the Working Group’s proposed definitions at the Warsaw meeting. Subsequent to that meeting, the Working Group was provided with comments on the Staff Consultation Paper and proposed definitions submitted by other IFAC committees and boards. On September 23, 2011, the Working Group met via teleconference to consider those comments and determine whether they warranted further revisions to the proposed definitions.

*Inclusion of Professional Accountants who are not Members of an IFAC member body*

The current definition of a professional accountant in the Code is as follows:

*Professional accountant – an individual who is a member of an IFAC member body*

The proposed definition of a professional accountant as drafted by the IFAC Task Force is as follows:

*The term professional accountant describes a person who has expertise in the field of accountancy, achieved through formal education and practical experience, and who:*

- *Demonstrates and maintains competence;*
- *Complies with a code of ethics;*
- *Is held to a high professional standard; and,*
- *Is subject to enforcement by a professional accountancy organization or other regulatory mechanism.*

Mr. Rutherford noted that if the definition scopes in professional accountants who are not members of IFAC member bodies, it could be confusing in that the Code may appear to apply to those professional accountants since the definition would be included in the Code. Therefore, there may be confusion concerning who is subject to the Code. The Working Group agreed that if professional accountants who were not members of an IFAC member body were to be scoped into the definition and voluntarily complied with the Code, it would raise the bar for ethical standards for such professional accountants, and thus, it would be a positive step for the public interest. The Working Group considered the definition developed by the IFAC Task Force and recommended the following definition:

*Professional Accountant - A person who has expertise in the field of accountancy, achieved through formal education and practical experience and maintained through continuous learning and development; is held to high professional standards equivalent to the IESBA Code of Ethics for Professional Accountants and IAESB International Education Standards, and whose compliance with such*



*standards is subject to enforcement by a professional accountancy organization or regulatory mechanism.*

In developing this definition, the Working Group considered the potential for professional accountants who are scoped into the Code's current definition to be scoped out of the proposed definition as modified by the Working Group, and therefore not be subject to the Code due to the fact that they would not meet the criteria. For example, a professional accountant who is currently a member of an IFAC member body who does not obtain "practical experience" because his or her accountancy body may not have such a requirement would no longer be considered a professional accountant under the proposed definition. The Working Group, therefore, considered including the phrase "...is a member of an IFAC member body..." in the proposed definition to ensure certain professional accountants scoped in under the current definition are not scoped out under the proposed definition. The Working Group ultimately concluded that this would create a conflict because there may be associate member bodies of IFAC whose education standards are not as robust as the IAESB Standards, yet are a member body of IFAC.

The IESBA discussed the proposed change to the definition of professional accountant and the following points were noted:

- The proposed definition refers to standards that are "equivalent" to the IESBA Code of Ethics, but many member bodies of IFAC do not adopt the Code word for word. This might create a challenge to determine what is meant by "equivalent";
- The proposed definition would scope out certain members of IFAC member bodies who are currently covered by today's definition of professional accountant. Because they do not meet the IAESB educational standards, they would no longer be subject to the Code;
- The proposed definition could be seen as appropriate because jurisdictional and/or enforcement issues could be directly addressed by member bodies through their national codes. For example, many member bodies require that all *members* be subject to their code, which would include all member constituents, including student and non-accountant memberships.

The IESBA acknowledged that this is both a complex and difficult issue to address. After discussion, it was agreed that the concern about scoping out certain individuals who would be captured under the current definition should be communicated to the IFAC Task Force addressing the issue.

Mr. Dakdduk thanked Mr. Rutherford for his work on this subject.

## **10. Compliance Advisory Panel**

Mr. Guthrie, Executive Director, IFAC Quality and Member Relations, introduced the topic. Mr. Guthrie provided a brief history of the IFAC Member Body Compliance Program and the Compliance Advisory Panel that was launched in 2004 as part of the IFAC Reforms. The Compliance Advisory Panel, which is under the PIOB oversight, establishes the seven Statements of Membership Obligations (SMOs). The focus of the

Compliance Program is to support continuous improvement of professional accountancy organizations through the SMOs.

There have been three parts to the program:

- Part 1 – Gathering information on the regulatory and standard-setting framework in each member body's jurisdiction;
- Part 2 – Member body self-assessment of compliance with the SMOs;
- Part 3 – Member body action plans for development and continuous improvement in addressing the SMOs

Mr. Guthrie provided an overview of the enforcement action since 2005, noting that the focus was on commitment to and participation in the Compliance Program.

Mr. Guthrie provided the IESBA with some examples of how ethics, including independence, requirements are adopted in different jurisdictions. The overarching themes are that the Code is used as a major point of reference and there is strong awareness of the Code among professional accountancy organizations. Adoption challenges include the fact that principles and rules at a national level are often embedded in legislation, regulation, and member body governance documents. Implementation challenges include overcoming cultural barriers.

Assessing the extent of adoption of the Code is challenging because of the complexity of national environments. Adoption could, for example, involve government, regulators, and professional accountancy organizations.

Mr. Guthrie noted that the SMOs are being revised and the proposal is to clarify that “best endeavors” is not sufficient where the professional accountancy organization has responsibility for adopting the Code. In addition the “no less stringent” language would be removed. He noted that moving forward it would be challenging to track and articulate adoption of the Code, including the independence provisions. An open question would be who would determine whether local modifications were substantive such that they would lead to different outcomes.

The IESBA discussed the presentation and the following points were noted:

- Compliance with the Code is somewhat different than compliance with other standards because it involves personal behavior;
- It would be useful to understand why professional accountancy organizations made a change to a provision in the Code as part of their adoption;
- The SMOs indicate that a member body may depart from the requirements if departure is in the public interest. As action plans progress it will be interesting to see if there are such departures and the rationale for the departure.

Mr. Dakdduk thanked Mr. Guthrie for his presentation.

## **11. Regulatory Development**

Ms. Sapet provided the IESBA with an update on developments regarding the European Commission Green Paper “Audit Policy: Lessons from the Crisis.” The Green Paper was issued in October 2010. In May 2011 there was a report to parliament and in September a European Parliamentary Resolution. Draft legislation was expected in November 2011.

Ms. Sapet reported that the parliament resolution was in favor of:

- Independence of auditors to be reviewed by a public supervisory body that was independent of the profession;
- Impact assessment to be conducted on:
  - Firm rotation; and
  - Voluntary joint audits
- A clear demarcation between audit services and non-audit services provided to audit clients providing:
  - A prohibition on simultaneously providing internal and external audit services;
  - A prohibition on certain services;
  - Audit committee pre-approval; and
  - An impact assessment of a cap on non-audit services.

The IESBA discussed the parliament resolution and agreed that it would closely monitor developments.

Mr. Dakdduk reported that the US Public Company Accounting Oversight Board (PCAOB) issued a concept release on auditor independence and audit firm rotation. The release is to solicit public comment on ways that auditor independence, objectivity, and professional skepticism could be enhanced. One possible approach on which the PCAOB is seeking comment is mandatory audit firm rotation. The IESBA agreed that it would submit a response to the paper.

## **12. PIOB Remarks**

Mr. Dakdduk invited Mr. Wymeersch to make some remarks.

Mr. Wymeersch noted that he had been impressed by the quality of the IESBA debate and thanked Mr. Dakdduk for the balance he had demonstrated in chairing the meeting. He stressed the importance of the work of the IESBA and, in light of its importance, he expressed concern about the length of time it takes the IESBA to develop a change to the Code and encouraged the IESBA to consider what steps could be taken to reduce the time, including, for example holding a fourth meeting.

With respect to the IESBA agenda, Mr. Wymeersch noted that he would be concerned if audit fees were established at a level that threatened audit quality. With respect to the application of the Code, it might be helpful for those who develop application material to consult. He noted that at the EU level national supervisors shared experiences with respect to interpretation of IFRS and that had proved to be very valuable for the preparers of financial statements.

Mr. Wymeersch noted that in its communication to IFAC that due process had been followed in the development of the IESBA Strategic Plan, the PIOB had commented on the need to address a violation of any provision of the Code, as opposed to only an independence provision. He encouraged the IESBA to consider whether there was enough guidance on this matter.

With respect to a potential project on investment funds described in the draft strategic plan, he noted that one of the early elements of the financial crisis related to investment funds. In this regard the IESBA may wish to consider whether there needs to be a project on its agenda to address this area.

Mr. Dakdduk thanked Mr. Wymeersch for his remarks.

### **Closing Remarks and Future Meeting Dates**

Mr. Dakdduk thanked outgoing Board members Ms. Barakzai, Mr. Niehues, Mr. Rutherford and Ms Van Bellinghen for their service on the Board and each out-going member addressed the Board.

Mr. Dakdduk thanked all participants for their attendance and closed the meeting.

### **Future Meetings of IESBA**

- February 20-22, 2012 – Dublin, Ireland
- June 18-20, 2012 – New York, New York
- October 15-17, 2012 – New York, New York