

**Draft Minutes of the Meeting of the  
International Ethics Standards Board for Accountants  
April 19, 2012  
Conference Call 07.00-10.00 EDT**

**Members**

*Present:*

Ken Dakdduk  
Helene Agelii  
Robert Franchini  
James Gaa  
Caroline Gardner  
Gary Hannaford  
Jörgen Holmquist  
Peter Hughes  
Felicitas Irungu  
Chishala Kateka (in Part)  
Wui San Kwok  
  
Alice McCleary (in Part)  
Marisa Orbea  
Isabelle Sapet  
Don Thomson  
Brian Walsh

*Regrets:*

Kate Spargo  
Stefano Marchese

**Non-Voting Observers**

*Present:*

Richard Fleck  
Koichi Uzuka

*Regrets:*

Juan Maria Arteagoitia

**Observing on Behalf of PIOB**

*Present:*

Rob Ward

**IESBA Technical Staff**

**Technical Advisors**

Lisa Snyder  
Tone Maren Sakshaug  
  
Tony Bromell  
  
  
Andrew Pinkney  
Elbano de Nuccio  
Eva Tsahuridu  
Liesbet Haustermans  
  
Kim Gibson

*Present:* Jan Munro  
Chris Jackson

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

A roll-call of participants was conducted, a quorum was confirmed, and Mr. Dakdduk opened the meeting.

Mr. Ward, observing on behalf of the PIOB, asked whether there was an agenda for the meeting and whether minutes from the previous meeting had been provided. Mr. Dakdduk noted that there was one topic for discussion, the project on suspected illegal acts, and therefore no agenda had been provided. He indicated that minutes from the previous meeting were not yet available.

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

Mr. Franchini introduced the topic noting that the purpose of the conference call was to approve the Exposure Draft. He reported that at its February 2012 meeting the IESBA discussed alternative approaches for a professional accountant to respond when encountering a suspected illegal act.

The IESBA agreed that an auditor and a professional accountant in public practice providing non-assurance services to an audit client should be required to report certain illegal acts to an appropriate authority.

A professional accountant in public practice providing non-assurance services to a client that is not an audit client would have a requirement to report certain suspected illegal acts to the entity's external auditor. If the suspected illegal act relates to the subject matter of the professional service the accountant is providing, and the response to the matter is not appropriate, the accountant has a right to disclose the matter to an appropriate authority. The accountant would be expected to exercise that right in order to fulfill the accountant's responsibility to act in the public interest.

A professional accountant in business would have a requirement to disclose a suspected illegal act to the entity's external auditor if the accountant is unable to escalate the matter and there is no established mechanism such as an ethics policy. If, having escalated the matter or disclosed to the entity's external auditor, in the professional accountant's judgment the response to the matter is not appropriate, the accountant has a right to disclose the matter to an appropriate authority. The accountant would be expected to exercise that right in order to fulfill the accountant's responsibility to act in the public interest.

The IESBA also agreed in February that in exceptional circumstances the accountant would not be expected to make such disclosure.

The project was discussed with the Consultative Advisory Group (CAG) at its meeting on March 5, 2012. CAG members expressed mixed views on the proposed approach. Some CAG members

expressed the view that all professional accountants should have the same requirement to disclose to an appropriate authority. Other CAG members supported the proposed approach to require disclosure when an audit client is involved and expect all other professional accountants to exercise their right to disclose.

The Task Force met on March 20, 2012 to consider the input from the IESBA and CAG members and propose certain changes to the exposure draft.

The IESBA discussed the task force recommendation regarding the exception in 225.13. That paragraph stated:

In exceptional circumstances a professional accountant in public practice is not required, under this section, to disclose the suspected illegal act if a reasonable and informed third party would conclude that the probable threats to the physical safety of the professional accountant or other individuals are sufficiently severe to justify not complying with the requirement to disclose. In such cases the accountant shall determine whether to terminate the professional relationship with the client and whether it is appropriate to continue to provide professional services in the particular jurisdiction.

The IESBA considered whether “physical safety” was the only exceptional circumstance in which disclosure would not be required. It was noted that limiting the exception to only physical safety might be inappropriate given the number of jurisdictions without effective whistle blowing protection and the potential consequences of disclosing an act, which, after further investigation, is determined not to be illegal.

After taking a straw poll on the matter, the IESBA agreed that the exception should be limited to truly exceptional circumstances and that physical safety would be an example of such a circumstance. In the straw poll, a number of Board members noted that they did not want the exception to be capable of broad application beyond physical safety. The Task Force agreed to consider this and recommend wording in the June meeting.

#### *Paragraph 225.3*

The IESBA considered the application of the proposals in a group audit situation. The proposals would require a professional accountant providing professional services to an audit client to disclose a suspected illegal act to an appropriate authority in certain circumstances and a professional accountant providing professional services to a non-audit client to disclose the act to the external auditor in certain circumstances. The IESBA noted that the definition of audit client includes related entities in specific circumstances. In light of this definition, the IESBA asked the Task Force to consider to whom disclosure would be required if the professional accountant were providing professional services to an entity that was not an audit client but was a related entity of an audit client.

The IESBA agreed on other drafting changes including:

- 225.1 Deleting “where there is no applicable law or regulation”
- 225.5 Adding a statement that the matter would be discussed with those charged with governance as required by applicable auditing standards

- 225.10 Changing “substance” to “nature and magnitude” for consistency with paragraph 225.7

The IESBA agreed on some wording refinements to certain other provisions of the proposal.

The IESBA anticipates approving an Exposure Draft at its June meeting.

Mr Franchini noted that the Task Force would make changes to address the IESBA comments and would present a revised document for approval at the IESBA June meeting.

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

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

#### **Future Meetings of the IESBA**

- June 18-20, 2012 – New York, United States
- October 15-17, 2012 – New York, United States
- December 10-12, 2012 – New York, United States