

Draft Minutes of the Teleconference of the IESBA Consultative Advisory Group (CAG)

Held on June 30, 2014

Present: **Representatives of Member Organizations**

Kristian Koktvedgaard (Chair)	Business Europe
Linda de Beer	World Federation of Exchanges and IAASB CAG
Lucy Elliott	Organization for Economic Cooperation and Development (OECD)
Tom Finnell	International Association of Insurance Supervisors (IAIS)
Seiya Fukushima	International Organization of Security Commissions (IOSCO)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Marie Hollein	North American Financial Executives Institute
Anne Molyneux	International Corporate Governance Network (ICGN)
Myles Thompson	Fédération des Experts Comptables Européens (FEE)
Matthew Waldron	CFA Institute

Observers

Brian Bluhm	IFAC Small and Medium Practices (SMP) Committee (IESBA)
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IESBA

Wui San Kwok	Interim IESBA Chair
Marisa Orbea	IESBA Member and Long Association Task Force Chair
Gary Hannaford	IESBA and Long Association Task Force Member
Andrew Pinkney	IESBA Technical Advisor and Long Association Task Force Member

IESBA Staff

Ken Siong	Technical Director
Elizabeth Higgs	Technical Manager

<i>Regrets:</i> Jaseem Ahmed	Islamic Financial Services Board
Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities
Dr. Juan Maria Arteagoitia	European Commission (EC)
Martin Baumann	U.S. Public Company Accounting Oversight Board (PCAOB)
Hilde Blomme	FEE

Conchita Manabat	Asian Financial Executives Institutes
James Dalkin	International Organisation of Supreme Audit Institutions (INTOSAI)
Frederico Diomeda	European Federation of Accountants and Auditors for SMEs
Marie Lang	European Federation of Accountants and Auditors for SMEs
Nigel James	IOSCO
Irina Lopez	World Bank
Gayani Perera	Sri Lanka Accounting and Auditing Standards Monitoring Board
Jean-Luc Peyret	European Federation of Financial Executives' Institutes
Eddy Wymeersch	Public Interest Oversight Board

A. Opening Remarks

Mr. Kottvedgaard welcomed all participants, noting the importance of the teleconference in light of the Task Force's plan to seek IESBA approval of an exposure draft at the July 2014 IESBA meeting. He drew attention to the supplemental paper providing an overview of the significant issues, which had been circulated prior to the teleconference.

B. Long Association

Ms. Orbea introduced the topic, providing background to the key issues. She briefed the CAG on the outcomes of the discussions of the project at the recent IESBA and IESBA-National Standard Setters (NSS) meetings. She also outlined the pros and cons of the different options that had been considered on the issues as set out in the supplemental paper, noting that the arguments are finely balanced. She then led Representatives through the Task Force's analysis and proposals on the issues.

IS THE PROJECT STILL IMPORTANT TO CONTINUE?

Representatives, and Ms. Manabat by email, unanimously expressed support for the project as an important one that should be continued. Representatives commented as follows:

- Mr. Fukushima indicated that, as noted in IOSCO's comment letter in response to the IESBA's Strategy and Work Plan consultation paper, he supported the IESBA undertaking this project because familiarity with an audit client can undermine an auditor's objectivity.
- Mr. Hansen confirmed that he supported the project because it was important, not only for the profession, but also in the public interest.
- Ms. Hollein commented that her constituents support the continuance of the project. She emphasized the importance of considering what would be in the best interests of all stakeholders.
- Noting that she represents the institutional investor view, Ms. Molyneux noted that the project was critical mostly because of the issue of perception. She commented that it was important for auditors to be seen to act independently. Mr. Waldron concurred.

SHOULD THE ENGAGEMENT QUALITY CONTROL REVIEW PARTNER (EQCR) BE SUBJECT TO THE SAME REQUIREMENTS AS THE ENGAGEMENT PARTNER?

Ms. Orbea introduced the issue, summarizing the majority Board view that the focus of the revised cooling-off provisions should be on the engagement partner and not the EQCR. She noted that this would strike the right balance in terms of addressing the perception issue and ensuring a fresh look to the audit.

Several Representatives were of the view that the engagement partner and the EQCR should be subject to the same cooling-off period. They commented as follows:

- Mr. Hansen was of the view that the EQCR is at least as important as the engagement partner. He noted that the EQCR's involvement is the last step in the process before the audit report is signed and, accordingly, objectivity and independence are just as important to this role. He wondered what the approach for the EQCR would be if it were not the same as for the engagement partner, noting his concern that the EQCR could become the engagement partner and therefore be closely associated with the client for a longer period.

- Ms. Orbea indicated that all key audit partner roles on an audit are important because they are making significant judgments that impact the outcome of the audit. She noted that under the current proposals, they would all continue to be subject to the existing rotation provisions of seven years on and two years off. She added that the intention was not to convey that the EQCR has a less important role. Rather, on the basis that the Code has appropriate provisions now, there is a need to address the concerns that have been raised by stakeholders and it is the engagement partner that is most subject to significant familiarity and self-interest threats. She noted that while the EQCR's review is important, he or she has less contact with the client and is therefore most independent from the audit team. Accordingly, the strengthened proposals would be better focused on the engagement partner.
- Mr. Waldron agreed with Mr. Hansen's comments, noting that audit inspection findings released by the PCAOB in the last six months had highlighted issues that should have been identified by the EQCR. He was of the view that because of their role, particularly on large audits, EQCRs should be subject to the same provisions as engagement partners. Accordingly, he felt that the proposals would be flawed if the EQCR is not subject to the same requirement as the engagement partner. He also commented that clients know and are familiar with EQCRs who work with engagement partners.
- Ms. Molyneux agreed with Messrs. Hansen and Waldron on the grounds that audits should be robust. While the engagement partner needs objectivity, she felt that this is really backed up by the EQCR. Accordingly, she felt that the two should be subject to the same requirements.
- Ms. de Beer agreed, noting that the EQCR plays a really important role even though he or she may not have the same level of interaction with the client. She felt that perception is important and therefore she supported a longer cooling-off period for the EQCR aligned with that for the engagement partner. Mr. Bluhm concurred with the views that both the engagement partner and the EQCR should be subject to the same requirements.
- Mr. Fukushima indicated that IOSCO had not yet reached a consensus on this issue. He expressed a personal view that the EQCR should be subject to the same requirements as the engagement partner. He commented that in Japan the engagement partner and the EQCR have the same five-year time-on period. He noted that regardless of whether or not the EQCR is in contact with the client, the EQCR is involved in the sign off on the audit engagement and accordingly the EQCR's objectivity is as important as the engagement partner's.

Other Representatives expressed support for the Task Force's proposals. They commented as follows:

- Ms. Elliott indicated that if the IESBA is trying to address the perception issues, which are likely to be concentrated on the engagement partner, then the focus should be on the engagement partner. However, she acknowledged other views concerning the EQCR and indicated that she would support the majority. She nevertheless expressed a concern about the impact on resources, noting a preference for simplicity and avoiding imposing unnecessary restrictions.
- Commenting in a personal capacity, Mr. Finnell indicated that the insurance industry only considers rotation of the engagement partner and not of the EQCR. He noted that in his experience, as time goes on it is less likely that the EQCR would work in the same office as the engagement partner. He highlighted the very important roles of individuals in the firms' national offices. He added that although the engagement partner and EQCR both have very important

roles, generally the issue comes down to one of perception and not hard evidence. Accordingly, he expressed the view that the focus should be more on the engagement partner.

- Ms. Hollein, (Ms. Manabat by email) and Mr. Thompson noted that the focus should be on the engagement partner as long as the perception issue is addressed. Mr. Thompson indicated that the roles of the engagement partner and the EQCR are distinctly different. The engagement partner makes the decisions on the audit, albeit in consultation with the EQCR. He noted that the public will only see the engagement partner as the one who signs the audit report and therefore he considered that the perception concern lay only with the engagement partner.

Mr. Koktvedgaard invited Mr. Fukushima to consider the issues further with his colleagues in IOSCO in order to have a consensus IOSCO view on the issue. Mr. Fukushima indicated that as the issues are complex it is difficult to reach a consensus but he agreed to confer further with his colleagues within IOSCO.

DURATION OF THE COOLING-OFF PERIOD

Ms. Orbea outlined the Task Force's and the Board's thinking in developing its proposals regarding the duration of the cooling-off period for the engagement partner and other KAPs, and whether there should be a differentiation between listed entities and other public interest entities (PIEs).

Representatives (including Ms. Manabat via email) broadly expressed support for the cooling-off period for engagement partners being extended to five years without listed entities being distinguished from other PIEs.

Ms. Elliott commented that the proposal gives a strong message to address the issue of perception. Mr. Bluhm, however, felt that a five-year cooling-off period is a concern within the small and medium practices (SMP) community. He added that it would be more helpful if the extension to the cooling-off period were limited to audits of listed entities.

PERMISSIBLE ACTIVITIES

Ms. Orbea explained the Task Force's and the Board's deliberations in arriving at the proposals regarding permissible activities during the cooling-off period, noting that the proposals took into account the views of NSS. Representatives commented as follows:

- Mss. Molyneux, Hollein and Elliott, and Messrs. Finnell, Thompson and Waldron supported the proposals. Mss. Molyneux and Hollein commented that they allowed for proper cooling off, having regard to the need not to unduly restrict access to specialist resources, and were practical.
- Mr. Thompson commented that the key principle was that the outgoing partner should not influence the outcome of the audit during the cooling-off period.
- Mr. Hansen expressed general support for the proposals. He was of the view that it should only be on an exception basis that the outgoing engagement partner be consulted on the prior audit conclusions and that he or she should not have any influence on the conclusions on the current engagement.
- Mr. Fukushima, expressing a personal view, questioned whether after two years has elapsed, the exemption could be applied in a consistent manner because it may sometimes not be easy to distinguish the audit of transactions or events in which the engagement partner was previously involved from the audit of transactions or events in which the engagement partner was not.

- Ms. de Beer expressed support for the proposals in principle but questioned whether, if an individual is cooling off the engagement, any manner of return should be allowed. She supported the proposed exception in respect of the consultation of industry specialists but did not think that non-audit services should be permitted during cooling off. Overall, she felt that the proposals were going in the right direction.

CORRESPONDING CHANGES TO SECTION 291

Ms. Orbea outlined the corresponding changes to Section 291. She explained that the Task Force had tried to reflect that an assurance engagement that was not an audit or review would need to be of a recurring nature for a long association threat to arise. Representatives noted the changes and made no comments.

WAY FORWARD

Mr. Kocktvedgaard indicated that the IESBA would be considering the Task Force's proposals with a view to approving an exposure draft at its July 7-9, 2014 meeting in New York. He noted that he would inform the PIOB of the outcome of the meeting.

C. **Closing Remarks**

Mr. Kocktvedgaard thanked CAG Participants for their valuable feedback and the Task Force and staff for their hard work in preparing for the teleconference. He then closed the meeting.