

**Draft Minutes of the Meeting of the  
IESBA Consultative Advisory Group (CAG)**

**Held on March 10, 2014 in New York, USA**

(Mark-Up)

**Present: Representatives of Member Organizations**

Kristian Koktvedgaard (Chair)	BusinessEurope
Matthew Waldron	CFA Institute
Marie Lang	European Federation of Accountants and Auditors for SMEs
Hilde Blomme	Fédération des Experts Comptables Européens (FEE)
Myles Thompson	FEE
Tom Finnell Jr.	International Association of Insurance Supervisors (IAIS)
Nigel James	International Organization of Securities Commissions (IOSCO)
Seiya Fukushima	IOSCO
James Dalkin	International Organisation of Supreme Audit Institutions (INTOSAI)
Gaylen Hansen	National Association of State Boards of Accountancy (NASBA)
Marie Hollein	North American Financial Executives Institute
Gayani Perera	Sri Lanka Accounting and Auditing Standards Monitoring Bd.
Irina Lopez	World Bank
Linda de Beer	World Federation of Exchanges and IAASB CAG

**Observers**

Martin Baumann <sup>1</sup>	U.S. Public Company Accounting Oversight Board (PCAOB)
Brian Bluhm	IFAC Small and Medium Practices (SMP) Committee

**Public Interest Oversight Board (PIOB)**

Chandu Bhave	PIOB Member
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**IESBA**

Wui San Kwok	IESBA Deputy Chair
Jim Gaa	IESBA Member

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<sup>1</sup> Views expressed by PCAOB Representatives represent their views and do not necessarily reflect the views of the PCAOB Board or PCAOB members or other staff.

Caroline Gardner	IESBA Member
Gary Hannaford	IESBA Member
Marisa Orbea	IESBA Member
Kate Spargo	IESBA Member
Don Thomson	IESBA Member

**IESBA Staff**

Jim Sylph	Executive Director
Ken Siong	Technical Director
Kaushal Gandhi	Technical Manager
Elizabeth Higgs	Technical Manager
Chris Jackson	Technical Manager

<i>Regrets:</i>	Jörgen Homquist	IESBA Chair
	Conchita Manabat	Asian Financial Executives Institutes
	Dr. Juan Maria Arteagoitia	European Commission (EC)
	Frederico Diomeda	European Federation of Accountants and Auditors for SMEs
	Georges Couvois	European Federation of Financial Executives' Institutes
	Jean-Luc Peyret	European Federation of Financial Executives' Institutes
	Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities
	Anne Molyneux	International Corporate Governance Network (ICGN)
	Lucy Elliott	Org'n for Economic Cooperation and Development (OECD)

**A. Opening Remarks**

Mr. Koktvedgaard welcomed all participants to the meeting. He welcomed, in particular, new CAG Representatives James Dalkin (representing INTOSAI), replacing Mr. Baigent; and Ms. Perera, (representing the Sri Lanka Accounting and Auditing Standards Monitoring Board), replacing Mr. Ratnayake. He also welcomed Mr. Bhave, observing on behalf of the PIOB. He noted that Ms. Lopez has been confirmed as the World Bank Representative. He noted that Ms. Elliott will represent the OECD and Ms. Hollein the North American FEI in future but they were unable to attend this meeting. Apologies were also noted for Mss. Manabat and Molyneux, Dr. Arteagoitia, and Messrs. Holmquist, Al Zaabi, Couvois, Diomeda and Peyret.

Mr. Koktvedgaard noted that Mr. Grund, representing the Basel Committee on Banking Supervision, and Mr. Darinzo, representing the Institute of Internal Auditors, had stepped down from the CAG. He noted for the record his thanks to them for their contributions to the CAG.

The minutes of the September 2013 CAG meeting were approved as presented.

**B. Responding to Non-Compliance with Laws and Regulations (NOCLAR)**

Ms. Gardner introduced the topic, noting her appreciation for Mr. Robert Franchini, the former chair of the Task Force, for his long service to and contributions in leading the project. She then outlined the context surrounding the project, noting increased public expectations of the profession, especially in the wake of the global financial crisis. She added that the heart of the project is how to balance the public interest against the fundamental principle of confidentiality, and that the Task Force and the Board had been endeavoring to determine how the Code could strike that balance in a practicable way. She then outlined the key matters for consideration and the main changes to the proposals since the September 2013 CAG meeting.

The following matters were raised:

**DISCLOSURE OF SUSPECTED NOCLAR TO AN APPROPRIATE AUTHORITY**

- As a general comment, Mr. Fukushima wondered whether the current Task Force proposal not to move forward with a rebuttable presumption of disclosure of suspected NOCLAR to an appropriate authority was consistent with the message in the proposed IESBA Strategy and Work Plan, 2014-2018 (SWP) regarding the Board's commitment to maintain the Code as a leading set of global ethical standards. He suggested that the Board consider the direction of the project in the context of the SWP.
- More specifically, Mr. Fukushima commented that not reporting suspected NOCLAR to an appropriate authority when the matter has a significant impact on the financial statements might cause the professional accountant (PA) to be in breach of the fundamental principle of integrity. In this regard, he noted that paragraph 110.2 of the Code requires the PA not to knowingly be associated with reports or other information where the PA believes such information contains a materially false or misleading statement. He also noted that the International Auditing and Assurance Standards Board (IAASB) is currently proposing under its ISA 720<sup>2</sup> project that the auditor highlight in the auditor's report misstatements of fact or material inconsistencies in other

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<sup>2</sup> International Standard on Auditing (ISA) 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

information in documents containing audited financial statements. He wondered whether the IESBA and IAASB were taking different directions in addressing such matters and encouraged both boards to liaise with each other.

- Ms. Gardner emphasized that the IESBA is seeking to raise the bar in terms of how best the PA can serve the public interest when facing NOCLAR, noting that the balance between the public interest and the fundamental principle of confidentiality is a fine one to strike. She conveyed that the Board has already endeavored to conform the proposals to ISA 250<sup>3</sup> and paragraph 110.2 of the Code. She added that the challenge for the Board is that it is seeking to go beyond the financial statements and also to cover acts of non-compliance that may have significant long-term consequences, not necessarily those limited to the scope of ISA 250 and Section 110 of the Code. So the Board was aiming to make clear in the proposals that the PA must first comply with any applicable laws and regulations when facing suspected NOCLAR. However, where there are no legal or regulatory requirements, the proposals would still require the PA to go through the process of considering the public interest and whether there is a need to disclose the matter to an appropriate authority.
- Mr. James noted that when IOSCO members consider the public interest and determine that there is something to report in that context, they would find a way to communicate it. He was of the view that the concept of a rebuttable presumption took away the notion that the PA would report a suspected NOCLAR if deemed appropriate to do so. He felt that paragraph 225.20<sup>4</sup> provided the PA with a basis for deciding not to make such a disclosure, a situation IOSCO members would not feel would be right. He was of the view that the pendulum had swung too far the other way and that further work was needed to bring it back.
- Ms. Gardner noted that the Board had made the consideration of disclosure a requirement. In addition, paragraph 225.21 provided additional considerations to assist the PA in determining whether to disclose the matter to an appropriate authority. With respect to the rebuttable presumption, she indicated that the Board believed that this would go too far, especially in the context of emerging countries. She added, however, that the Task Force would revisit the wording of paragraph 225.20 with the aim of encouraging disclosure.
- In relation to the proposed explanation regarding how the PA would judge the gravity of the matter, Mr. James noted that some IOSCO members were concerned that the phrase “wider damage to the public” would set too high a bar for disclosure. As an example, he noted that insider trading would generally not have a wide impact on the public and may therefore not be captured under the provisions. Ms. Gardner noted that the Task Force had been endeavoring to identify appropriate examples of reportable NOCLAR since the December 2013 IESBA meeting as these could assist in clarifying why the public interest would be better served in disclosure. She added that the Task Force would consider the matter further.
- Ms. Lang agreed that providing examples of the types of reportable NOCLAR would be helpful. She felt that the generic example provided in the proposed standard was self-evident. She was of the view that the provisions would be more understandable if additional examples were provided, adding that in her view most people would concur with Mr. James’s example.

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<sup>3</sup> ISA 230, *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>4</sup> Proposed Section 225, *Responding to Non-Compliance with Laws and Regulations*

- Mr. Dalkin was of the view that it is important to consider the burden on the auditor of disclosing suspected NOCLAR to an appropriate authority above and beyond the auditor's responsibilities with respect to the financial statements. Ms. Gardner explained that what the Task Force had been endeavoring to scope in were matters not focused only on the financial statements. She noted, however, that the Task Force would consider the feedback further.
- Ms. Blomme expressed a concern about the broad requirement for PAs, adding that PAs in the EU will already be subject to a requirement to report a material breach of laws and regulations to an appropriate authority in the context of the statutory audit of public interest entities (PIEs). Ms. de Beer noted that the EU requirement does not involve a search for NOCLAR but more a "stumbling across" the matter. She wondered what the materiality frame of reference would be if the scope was broader than the financial statements. She noted that in South Africa, auditors have a legal duty to report irregularities to the Independent Regulatory Board for Auditors.
- Mr. Bhave commented that paragraph 225.21 provides no indication of what is in the wider public interest. He wondered whether there should be a reference to the public interest somewhere. In addition, he wondered whether a code of ethics should make reference to compliance with laws and regulations, as this should be taken for granted. Ms. Gardner noted that a reference to the public interest is already made in paragraph 225.20, with the provisions then taking the PA through the process of determining whether to report the matter to an appropriate authority.
- Mr. James expressed a concern about broadening the scope beyond financial statements as thousands of laws and regulations could then become relevant. He also agreed with Ms. de Beer that the PA should not be seeking out NOCLAR. In relation to the public interest filter, he wondered where that should come in. He indicated that IOSCO felt that this should come more at the back end in the context of enforcement. He questioned whether PAs would understand the concept of the public interest and how to apply it.
- Mr. Dalkin was of the view that there may be circumstances that go beyond a "stumbling over." Acknowledging that he was not knowledgeable about all laws and regulations, he wondered whether auditors were being assigned responsibility beyond their expertise. Ms. Gardner highlighted that the proposals already recognized this dimension as paragraph 225.7 notes that the closer the matter is to the PA's expertise, the greater the duty for the PA to pursue the matter with the client.
- Ms. Lang felt that paragraph 225.7 needed clarification. Ms. Gardner explained that the intention was to introduce a filter linked to the PA's expertise.

#### COMMUNICATION BETWEEN EXISTING AND PROPOSED AUDITOR

- Ms. Blomme outlined the EU requirement regarding communication between an existing auditor and a proposed one. Mr. Thompson noted that no client consent would be needed and that the communication would cover not all the proposed auditors but only the chosen one.
- Mr. Hansen commented that the existing auditor could simply refuse to communicate with the proposed auditor and resign. Ms. Gardner noted that simply resigning would not be acceptable. Rather, what the Board is proposing is to require the communication between the two firms.
- Mr. Koktvedgaard commented that what the proposals achieved in effect was to lead the proposed auditor not to accept the appointment if the information from the existing auditor was not forthcoming. Mr. Hansen noted that the proposals only required the proposed auditor to

carefully consider a failure or refusal by the client to grant consent to the existing auditor to communicate with the proposed auditor, not to decline to accept the appointment. Ms. Gardner noted that such information would be strong warning to the proposed auditor to consider whether to proceed with accepting the appointment.

- Mr. James acknowledged the Board's efforts in trying to strengthen the Code with the objective of achieving a high quality Code. He felt that if the intention was to strengthen the Code, then the aim should be to benchmark against the highest standards around, which would then enable the Board to identify where the gaps are and how they can best be closed. He was of the view that this would be more of a mindset. Ms. Gardner noted that the Board was endeavoring to establish a high benchmark that is at the same time practicable and as widely applicable as possible.
- Mr. Dalkin was of the view that the proposed communication requirement between the existing auditor and the proposed auditor appeared to be a reasonable one.

#### DOCUMENTATION

- Mr. Koktvedgaard wondered whether consideration had been given to the possibility of no documentation being prepared. Ms. Gardner noted that the Board had tried to focus more on the benefits of documentation. Mr. Siong noted that auditors already have a documentation requirement under the ISAs.
- Mr. James suggested clarifying where the documentation requirement is located, as it was unclear who had the responsibility to document – all PAs or only auditors. He also felt that it was unclear what matters PAs would be required to document. In addition, he was of the view that if the PA had stumbled across a suspected NOCLAR, the expectation would be that the PA would document the PA's thought process for dealing with the matter. Ms. Gardner noted that the documentation provisions cover all PAs but that the TF would further consider the feedback.
- Ms. Blomme wondered whether the guidance on documentation is consistent with the ISAs. She suggested that the Task Force cross-check it with the ISAs for consistency. Ms. Gardner noted that the Task Force did consider the approach in the ISAs but that it will review the proposed guidance in light of the feedback.
- In relation to paragraphs 225.19 and 23, ~~he~~ [Mr. James](#) noted that the reference is to NOCLAR but it should also be to suspected NOCLAR.

#### PROPOSED SECTION 360<sup>5</sup>

Representatives had no comments on proposed Section 360.

#### OTHER COMMENTS

- Mr. Dalkin urged the Board not to increase the public expectations gap regarding the role of auditors as this could lead to diminished public trust in the profession. He felt it important that the Board consider any potential unintended consequences in exploring what the responsibilities of the profession should be regarding NOCLAR.

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<sup>5</sup> Proposed Section 360, *Responding to Non-Compliance with Laws and Regulations*

- In relation to paragraph 225.17 regarding reporting to the external auditor, Ms. Lang felt that this should only come after the PA has obtained legal advice and communicated with those charged with governance (TCWG). She also perceived a mismatch between this provision and the corresponding one in the proposed Section 360 as PAs in business (PAIBs) may not have access to the external auditor. Ms. Gardner acknowledged the concern, noting that the Task Force would further consider the feedback.

#### WAY FORWARD

Ms. Gardner thanked Representatives for their input, noting that the Task Force would plan on briefing the CAG on the feedback received from the three upcoming global NOCLAR roundtables at the September 2014 CAG meeting.

#### C. **Non-Assurance Services**

Ms. Spargo introduced the topic, providing background to the project and outlining the forward timeline, including consideration by the Board of a proposed exposure draft for approval at the April 2014 IESBA meeting. She then led a discussion of the proposed changes to the Code.

#### DELETION OF EMERGENCY EXCEPTION PROVISIONS

Ms. Spargo explained the proposed deletion of the current emergency exception provisions in Section 290 of the Code as these relate to bookkeeping and taxation services.

The following matters were raised:

- Mr. Hansen agreed with the proposal, noting that this demonstrated that the Board takes independence seriously. He was of the view that the exception provisions provided an opportunity for misuse, accordingly the proposal went in the right direction. Mr. James agreed, noting that IOSCO had raised a concern in that regard in the past.
- Ms. Blomme noted that there are practical issues of timing regarding requests for implementation of the emergency exception provisions and that if the Board was intending to withdraw them, it should do so on the basis that they are not capable of being implemented. Ms. Spargo noted that the Board's understanding is that the provisions are almost never used. Mr. Kwok noted that based on the Board's research, it is not aware that such provisions have ~~never~~ been used except in the U.S. as a result of the severe market disruption caused by the September 11, 2001 terrorist attack. He added that the fact that the exceptions would not be in the Code would not preclude a regulator from granting an exemption, and that this would not be contrary to the Code.
- Mr. Koktvedgaard asked the CAG if there was any feedback concerning the report-back, specifically concerning the Board's position on internal audit, taxation and valuation services. Mr. Kwok noted that the IESBA did consider these areas when researching the issues for the project. It agreed that but agreed to narrow the scope to the specific issues addressed in the proposals as these are those which needed priority attention. He noted that the Board planned on addressing ~~theto consider~~ other areas in the position paper ~~it planned to develop~~ with respect to the topic of non-assurance services later on.

#### MANAGEMENT RESPONSIBILITIES

Ms. Spargo explained the proposed enhancements to the "Management Responsibilities" subsection of Section 290, noting that the Task Force proposed deleting the term "significant" before the term

“decisions” in the description of management responsibilities (paragraph 290.162). Doing so would thus lead to all decisions relating to leading an entity and deployment of certain resources a management responsibility.

The following matters were raised:

- Mr. Hansen agreed with the removal of the term “significant,” but wondered why paragraph 290.162 needed to list all the different types of resources (“...control of human, financial, physical, technological and intangible resources”) as opposed to simply stating “control resources.” Ms. Spargo explained that the Task Force has endeavored to balance providing sufficient examples to make the guidance useful and providing too many that would make the list appear exhaustive.
- Mr. James noted a recent trend of accounting firms acquiring consulting firms to increase the range of their service offerings. He expressed a concern that the proposed description of management responsibility may not alleviate a threat to independence when the firm does most of the work and management simply acknowledges the work performed. Ms. Spargo noted that the Board had already considered this issue and the proposed changes to the Code addressed this further on, as she would explain later in the session.
- Mr. Dalkin commented that the term “management responsibility” should be well-defined to avoid circumstances where management does not have sufficient competence in accounting matters to take full responsibility for the financial statements and the auditor therefore assumes management responsibility. Ms. Spargo acknowledged the issue, noting that it is more common among SMEs where the client relies to a significant extent on the auditor for the accounting and bookkeeping services. She noted that as a public member, her concern has always been at the PIE end of the market and that her concern was lesser at the other end of the market. While this would not imply that there is no issue at the SME end of the market, she felt that the emphasis should be at the PIE end. She noted that in the SME part of the market, the reality is that the client will generally seek the auditor’s assistance and advice regarding accounting matters.
- Mr. Kwok noted that bookkeeping services are prohibited by the Code for all PIEs except in very limited circumstances, and that such services can only be performed for non-PIEs when they are of a routine and mechanical nature. He emphasized that the proposal focuses not on a decision by management but on a decision by informed management. Accordingly, this strengthened the provisions, thus making the Code more robust.

Ms. Spargo outlined the proposed examples of management responsibilities and requested feedback from the CAG.

The following matters were raised:

- Mr. Baumann expressed concern that the proposed guidance states that the examples are “generally considered” to be management functions. He noted that it would be difficult to identify circumstances where the activities would not be considered to be a management function. He also suggested removing “taking responsibility for” from the examples concerning preparation of the financial statements and the concept of designing, implementing and maintaining internal controls. Ms. Spargo noted that the Task Force would consider these comments.
- Messrs. Baumann and Dalkin both suggested that the guidance pertaining to providing advice should not be located beneath the examples, as providing advice in relation to some of the examples could be considered a management function. Ms. Spargo noted the Task Force would consider the comments.

- Referring to paragraph 290.162, Mr. Koktvedgaard noted that there may be a conflict if the term “significant” is removed, yet the guidance allows the auditor to draft the financial statements. Ms. Spargo noted that the removal of the term “significant” pertains to making decisions regarding leading an entity and making decisions concerning specified resources. The removal of the term would strengthen the Code as all judgment of the auditor is removed concerning management decisions pertaining to those respective activities.

Ms. Spargo outlined the proposed guidance pertaining to administrative services, including its proposed relocation to its own subsection, and related proposed enhancements.

The following matters were raised:

- Mr. Baumann suggested that the example of executing insignificant transactions should not be included as an administrative service as it could be misinterpreted. He suggested that if it remained within the guidance, the provision should be rephrased in terms of “assisting in executing administrative tasks.”
- Ms. Fukushima was of the view that the Board should consider independence in appearance. A party that receives an invitation from the auditor to a client event, which is included as an example, may create a threat to independence in appearance.
- Mr. Hansen was of the view that the examples within the administrative services guidance could create threats to independence and the guidance currently stated that “such services would not generally create a threat to independence.” Accordingly, he suggested that the Task Force reconsider the guidance.
- Mr. Dalkin and Mr. Hansen both agreed that that the terms “administrative” and “clerical” could have different meanings to different people.
- Ms. Blomme presented a brief update on the recent regulatory developments in the EU concerning audit reform.

#### INFORMED MANAGEMENT

Ms. Spargo outlined the proposed informed management requirement to ensure the auditor does not assume a management responsibility.

The following matters were raised:

- Mr. Dalkin wondered how management could take responsibility for a technical accounting matter if they do not have the accounting competence to evaluate the matter. Ms. Spargo drew a parallel to audit committees, noting that it is unlikely that they would be as knowledgeable about accounting matters as the auditor. Nevertheless, they would make a general assessment of the relevant matters. She added that management would need to have someone who could make such an assessment. In this regard, she noted that the proposals contained an element of the auditor determining whether there is someone within management who could make that assessment.
- Mr. Bluhm expressed a concern that the proposal will be a challenge for the SME market. He wondered what public interest would be served in the SME presenting a set of financial statements to a lender. He felt that it would be better to focus on what the appropriate safeguards would be at that end of the market. Ms. Spargo agreed, noting that there is a lesser concern at the SME end of the market. She added that the public interest would not be served by forcing

SMEs to hire two separate accounting firms. She felt that there was a need to strike a balance at that end of the market.

- Mr. James suggested that in paragraph 290.165, the “suitable individual” “should understand” as opposed to the current draft which states “would understand.”
- Mr. Dalkin suggested that the auditor’s report could state that the auditor is independent although the auditor has prepared the financial statements. Mr. Bluhm disagreed, expressing a preference to focus on safeguards. Ms. de Beer cautioned about creating two different classes of auditors as it would not serve the profession to create two levels of independence. Mr. Hansen and Ms. Lang agreed.
- Ms. Blomme noted that the Code already has two levels of independence for PIEs and non-PIEs. She noted that in Europe, there is no prohibition with respect to management responsibility for non-PIEs but safeguards. For PIEs, however, the rules are more demanding than the Code, so the approach is different. Mr. Baumann agreed with Ms. Blomme’s assessment regarding the two levels of independence with respect to PIEs and non-PIEs.
- Mr. Kwok explained the definition of a PIE in the Code, noting that PIEs have a large number and wide range of stakeholders. ~~While a small bank may be a PIE by definition, it is possible that the number of stakeholders may be smaller than for some of the larger PIEs.~~ An auditor may not prepare financial statements or provide bookkeeping services for a PIE, except in very limited situations. Further, any services provided by an auditor for a non-PIE must be routine or mechanical and management must be informed as to the services and take responsibility for any services. ~~Thus, he was of the view that there are not two levels of independence as the self-review threat is eliminated.~~
- Mr. Hansen inquired as to why approval of non-assurance services by those charged with governance is not being investigated as it would be beneficial to have an independent view from TCWG. Mr. Waldron agreed. Ms. Spargo noted that this requirement is included in many jurisdictions and the Task Force would consider the suggestion further. Mr. Kwok agreed, noting that independence is a joint responsibility for the auditor and TCWG. He added that there is a possibility also of looking at safeguards under the proposed review of safeguards in the Code under the SWP.

#### ROUTINE OR MECHANICAL

Ms. Spargo outlined the proposed clarifications regarding the phrase “routine or mechanical” as it pertains to bookkeeping services. Mr. Koktvedgaard noted that for a sole practitioner, there may not be another engagement team to provide bookkeeping services as suggested in the safeguards.

#### WAY FORWARD

Ms. Spargo thanked the Representatives for the input, noting that the Board would take it into account in finalizing the proposals for exposure.

#### D. Long Association

Ms. Orbea introduced the topic, re-capping the background to the project. She then led the CAG through the discussion of the issues and Task Force proposals.

#### COOLING-OFF PERIOD

Ms. Orbea explained that the Task Force (TF) had initially proposed the introduction of a three-year cooling-off period for all key audit partners (KAPs) on audits of PIEs in conjunction with enhanced restrictions on permissible activities during cooling-off. The Board had considered the proposals and, after due deliberation, had requested that the TF consider a longer cooling-off period for Lead Audit Engagement Partners (LAEPs) and Engagement Quality Control Partners (EQCPs).

The TF considered that any change must be substantive to address the concern that a KAP could serve on the audit of the same client for 14 out of 16 years under the extant Code. The TF then considered the different roles that a KAP could play on an audit team. After deliberation, the TF formed a view that should the cooling-off periods be bifurcated, it would be appropriate for the LAEP to be subject to a five-year cooling-off period.

The following matters were raised:

- Mr. Koktvedgaard wondered whether the revised rotation provisions also covered senior personnel other than KAPs. Ms. Orbea explained that the TF proposed to deal with this under the general framework of principles addressing long association.
- Ms. de Beer was of the view that a bifurcation of cooling-off periods, coupled with coverage of different roles, would create a level of complexity that would be impractical to manage and oversee, particularly from the perspective of TCWG. She was of the view that a three-year cooling-off period would be better than a two-year one. Mr. Waldron and Ms. Lopez shared Ms. de Beer's view that a bifurcation would create unnecessary complications. Ms. Orbea noted the views expressed.
- Mr. James was of the view that the role(s) a KAP takes with the audit client should not dictate the cooling-off period. He noted a hypothetical situation where a significant amount of audit work could be performed on a subsidiary in another jurisdiction, with the KAP for the subsidiary) not being subject to the longer cooling-off period applicable to the LAEP. Mr. Waldron expressed a similar view, noting that since all KAPs are involved in the decision-making process, a consistent approach to rotation would be preferable. Ms. Orbea explained that the original TF proposal of a three-year cooling-off period did consider that all KAPs have a role in decision-making. However, the TF considered if a five-year cooling-off period was applied, then it would be too extreme for it to apply to all KAPs. As a bifurcation of cooling-off periods for LAEPs and EQCRs does exist in a number of jurisdictions, the TF aimed to reflect this situation in the revised proposal.
- Mr. Dalkin asked whether audits of governmental agencies were exempted from the rotation requirements. Ms. Orbea confirmed that the rotation requirements currently apply to KAPs on audits of PIEs. A government agency may be defined as a PIE in a jurisdiction. She added that the Code does not override legal requirements.
- Ms. Blomme summarized the new EU mandatory firm rotation requirements. She expressed the view that setting mandatory rotation requirements for KAPs globally presented a difficult challenge as in some jurisdictions, these must be overlaid with mandatory firm rotation. She noted that countries currently operating with bifurcated KAP rotation requirements did not have mandatory firm rotation. She expressed the view that from the point of view of the European Union, a simple uniform rotation requirement would be preferable to a bifurcation.
- Mr. Koktvedgaard asked whether the TF had, in its deliberations, considered how mandatory firm rotation might affect the proposed revised cooling-off period. Ms. Orbea indicated that mandatory

firm rotation had been considered by the TF. Certain jurisdictions had very short firm rotation requirements that essentially negated the need for partner rotation. With longer firm rotation requirements, the mandatory firm rotation would need to be overlaid with the partner rotation requirements. The TF therefore considered that a revised proposal would still need to take into account the need to ensure that a new partner is in place for a sufficient amount of time to provide a fresh look to the audit, even in some cases where there is firm rotation.

Ms. Orbea summarized the discussion, noting that there was generally no support for bifurcation of the cooling-off period among Representatives and that there was preference for uniform cooling-off period.

In addition, Ms. Orbea asked Representatives what the ideal cooling-off period should be. No suggestions were received. Mr. Hansen indicated his preference a five-year cooling-off period for all KAPs, consistent with current practice in the US. Ms. Orbea noted that the five-year cooling-off period being suggested by the TF was applicable only to LAEPs.

#### PERMISSIBLE ACTIVITIES

Ms. Orbea explained that the Board generally agreed with the TF's proposal that the rotated partner should not be able to influence the audit outcome and should have limited contact with the engagement team and the client during the cooling-off period. However, Board members had differing views as to the nature and extent of the permissible roles a rotated individual could take, particularly with respect to specialist resources, if the cooling-off period were extended to five years. Some Board members were concerned that an extended cooling-off period could adversely affect audit quality by depriving the audit team of specialist resources, especially when these are in short supply.

After reflecting on the matter further, the TF considered that if a five-year cooling-off period was being served there could be roles that would not create a significant threat to independence if undertaken two or three years into the cooling-off period. The TF tentatively concluded that making these roles permissible part way through the cooling-off period could address both familiarity concerns and practical challenges of limited specialist resources.

The following matters were raised:

- Ms. Blomme was of the view that, with a five-year cooling-off period, restrictions on permissible activities should not be relaxed part way through the cooling-off period.
- Mr. Thompson noted that there could be situations where there would be benefit to the rotated partner being able to discuss matters with the new partner. He felt that a degree of interaction could be permissible as long as there would be no influence on the audit outcome. Ms. Orbea noted that the TF had given consideration to situations when interaction between the rotated and the incoming KAP could be beneficial. Revised wording in paragraph 290.150 reflected this.
- Mr. James felt that there was a need to define certain words used, notably "limited" as related to "limited discussion" and "directly" as related to "directly influence." He added that the objective of the cooling-off period should be taken into account when considering which activities should be permissible during cooling-off.
- Mr. Waldron was of the view that consideration should be given to how interaction could take place between the rotated and incoming partner when deciding which activities are permissible. He pointed out that, in practice, it could be quite possible for the incoming partner to raise a question with the rotated partner as they walk past each other in the office.

- Mr. Baumann agreed that the rotated partner should not be able to influence the audit outcome. However, he noted that there could be situations where the LAEP rotates off an audit and takes a key responsibility for industry practice within the audit firm. He felt that it could be impractical to prevent any interaction in this situation and doing so could adversely impact audit quality. Hence, he sympathized with many of the comments made.
- Mr. Sylph noted that the Board wanted a consistent application of rules. Many of the issues raised related to the largest firm networks. However, outside of these networks, smaller firms may have no option but to rely on the expertise of rotated partners due to resource constraints. He therefore felt that consistent global application would be challenging.

At Mr. Koktvedgaard's invitation, Ms. Blomme briefed Representatives on the key elements of the recently agreed audit reform regulatory package in the EU.

#### OTHER SENIOR PERSONNEL

Ms. Orbea explained that the TF had considered whether the time served by an engagement team member on an audit prior to becoming a KAP should be taken into account when addressing rotation requirements. The TF's view was that it would not be possible to identify a clear starting point when familiarity concerns would arise. Hence, it would not be practical to set a limit on the time that could be served on an engagement that would encompass time served prior to becoming a KAP. In other words, it would not be possible to identify when the 'clock should start'.

The TF had recommended to the Board that rotation requirements for other senior personnel and consideration of time served on an audit client prior to becoming a KAP be addressed on a principles basis. Ms. Orbea then asked Representatives for their views.

Mr. James expressed the view that, from his own personal experience, he had never known a situation where an individual's relationship with an audit client prior to becoming a KAP had been taken into account when rotation requirements were being considered. He wondered whether the new principles would be noted by audit teams going forward, adding that he felt that stronger wording could be appropriate. Ms. Orbea acknowledged Mr. James's view, noting that there was the possibility to reconsider the position if it were felt that the objective of the new principles was not being achieved.

#### STRENGTHENING OF FRAMEWORK OF PRINCIPLES

Ms. Orbea informed that the entire framework of principles in paragraph 290.150 had been reviewed as the TF felt that there was a need for an improved overarching set of principles applicable to all audits within which mandatory partner rotation for audits of PIEs would reside. The underlying concern was that since audits of non-PIEs were not subject to mandatory partner rotation, users may assume that there was no need to consider safeguards (which could include rotation) to mitigate any familiarity threat. The Board had considered the TF's suggestions and provided feedback that had been incorporated in the latest draft proposals.

The following matters were raised:

- Ms. Blomme noted that while mandatory partner rotation for audits of non-PIEs had been considered by the TF and deemed inappropriate, rotation now appeared to be suggested for such audits within the proposed revised wording. Ms. Orbea responded by noting that this is intended to be guidance and not a requirement.

- Ms. de Beer expressed the view that the minimum rotation period of one year was too low, even if the decision to rotate was a voluntary one. Ms. Lang agreed with Ms. de Beer and felt that the proposed revised text appeared somewhat confusing. Noting that if any decision to rotate was voluntary, Ms. Lang wondered why a mandatory minimum period would be necessary. Ms. Orbea explained the TF's view that, should rotation be used as a safeguard, it would be beneficial to provide guidance on an appropriate minimum rotation period.
- Mr. Fukushima expressed the view that as some of the safeguards being suggested would be required in most audit engagements, regardless of any long association concerns, they should not be considered incremental safeguards. He noted that this had been mentioned in IOSCO's comment letter on the Board's January 2013 strategy survey. He was of the view that some of the safeguards duplicated requirements of ISQC 1<sup>6</sup> and suggested that the TF reconsider the nature of the safeguards as part of this project and not as part of a future project.

#### INVOLVEMENT OF TCWG

Ms. Orbea explained the TF's and the Board's deliberations concerning the involvement of TCWG in partner rotation decisions, and the Board's proposals that the concurrence of TCWG be obtained with respect to the exception provisions in extant paragraphs 290.152 and 290.154. Representatives had no comments on this matter.

#### TIME-ON PERIOD

Ms. de Beer asked what consideration had been given to the adequacy of the current seven-year time-on period. Ms. Orbea explained that at the inception of the project, the TF had researched current engagement periods in a large number of jurisdictions and surveyed stakeholders regarding their views as to what the maximum length of the time-on period should be. The findings from the research showed that most of the jurisdictions covered in the research had a seven-year maximum. A few jurisdictions had a lower maximum period, but also allowed the maximum period to be extended if deemed to be beneficial to audit quality. In view of the findings, the TF has proposed, and the Board has agreed, that there was no need to amend the current seven-year maximum.

#### WAY FORWARD

The CAG will meet via teleconference on June 30, 2014 to consider a revised draft of the proposals prior to the Board considering it with a view to approval for exposure at the July 2014 IESBA meeting.

#### **E. Emerging Issues and Outreach**

Mr. Hannaford introduced the topic, outlining the background to the Board's Emerging Issues and Outreach initiative and the formation of the Emerging Issues and Outreach Committee (EIOC). He drew attention to the agenda material setting out the Terms of Reference and working processes for the EIOC that the Board had agreed. Mr. Koktvedgaard noted that he had an observer role on the EIOC and was of the view that Representatives could provide strategic advice to the Board under this initiative.

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<sup>6</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Mr. Dalkin expressed support for the concept of identifying emerging issues. He noted that Representatives may be aware of potential emerging issues and wondered whether they were expected to raise those issues at the CAG. Mr. Hannaford responded in the affirmative, noting that the Board would welcome the CAG advising it of these matters during such sessions.

Ms. Blomme requested clarification as to how matters identified under this initiative would flow into the standard-setting process. Mr. Hannaford explained that the purpose of the initiative was to identify potential emerging issues to present to the Board, which would then determine any appropriate action.

#### MG ROVER CASE

Mr. Hannaford briefed Representatives on the MG Rover case in the UK. He noted that the EIOC did not intend to discuss the merits of the case itself, but rather to seek the CAG's views as to whether there were any ethical issues arising from the case that would merit consideration by the Board, particularly with regard to the meaning of the concept of acting in the public interest.

The following matters were raised:

- Ms. de Beer felt that there was a need to consider what it means to act in the public interest, noting that the PIOB had done some work in that regard. She suggested that there may need to go back to the definition of a public interest entity (PIE). However, she noted that it would not be advisable to make piecemeal changes to the Code but that it would be better to consider the bigger picture.
- Mr. Bluhm was of the view that there may be merit in considering the topic further as there is potential for a regulator to make decisions based on the precedent set by the case without an agreed definition of the public interest. Ms. Blomme agreed, noting that references to the public interest seem to be often made now that the Code is very much based on the concept of the public interest. While acknowledging the difficulty of defining the public interest, she felt that there is a need to consider what could be done to develop something useful that could be used to frame the concept.
- Mr. Hannaford noted that the Board had not yet considered whether to initiate a work stream to explore new guidance on the meaning of acting in the public interest. He added that the Board had not debated whether it agreed with the conclusions of the UK Financial Reporting Council (FRC) in the case.
- Mr. Dalkin wondered whether some individuals in the firm should have a public interest responsibility and not others. He felt that this question would merit further consideration. Mr. Hannaford noted that in the MG Rover case, the UK FRC appears to have attributed responsibility to both the firm and specific individuals within the firm.
- Ms. Lang noted that at the commencement of the engagement, the sale of MG Rover was considered to be in the public interest, as jobs were initially saved. However, as the engagement progressed a handful of individuals profited from the subsequent transactions and ultimately several thousand jobs were lost. She wondered whether the actions of the PAs involved were only coming under scrutiny because the venture was unsuccessful, adding that had it ultimately been a success, no questions might have been raised.
- Mr. Hannaford agreed, noting that a failed transaction would likely attract more attention than a successful one. He added that the case highlights whether there is a need to explain what it means to act in the public interest.

- Ms. Blomme expressed a view that the UK FRC appeared to be judging the validity of transactions that took place several years ago, when a different economic and business environment existed, under current day expectations that were not applicable at the time.
- Mr. Bhave suggested that the EIOC consider whether the defendants could have been prosecuted under the Code and, if so, whether the fines levied on the defendants would have been different under the Code than those imposed under the ICAEW Code. Mr. Thompson noted that the ICAEW has ethical standards based on the IESBA Code but that it was easier to take action against standards than against a code.
- Mr. Dalkin wondered whether the EIOC had considered how to avoid becoming political on such issues, i.e., determining that there is an ethical issue because someone had lost his or her job.

#### AGGRESSIVE TAX AVOIDANCE

Mr. Hannaford summarized the topic, noting that it had similarities with the MG Rover case in that it raised questions about the meaning of PAs acting in the public interest.

The following matters were raised:

- Mr. Koktvedgaard wondered whether a PA could be held liable if he or she fails to give the best advice to the client. In this regard, Mr. Hansen expressed a view that PAs must provide the best tax advice to their clients.
- Mr. Hannaford noted that tax avoidance was different from tax evasion, the latter being illegal. Mr. Sylph noted that not only is tax avoidance advice legal, but also governments often use tax incentives to attract companies to invest in their jurisdictions. He felt that it would be difficult for the Board to address this issue as it had no influence on how jurisdictions choose to set tax laws. Nevertheless, he highlighted that IFAC was examining the issue separately.
- Ms. Blomme commented that this is a hugely complex issue, involving not only the ethical aspects but also a variety of legislation, cross-border complexity, a wide range of stakeholders, etc. She noted that FEE had set up an expert group to consider the topic in consultation with NGOs. She added that given the complexity of the topic there was a need for a more holistic approach to consider the issues from different perspectives. She felt that developing a universal solution would be hugely challenging.

#### EU AUDIT REFORM

Mr. Hannaford outlined the recent regulatory developments in the EU concerning audit reform. He indicated that the relevant Task Forces had appropriately considered the developments and their potential implications, particularly the Non-Assurance Services and Long Association projects.

No specific comments were received from Representatives on this topic.

#### OTHER MATTERS

Mr. Hannaford opened the floor to suggestions for potential emerging issues that may warrant consideration by the Board.

The following matters were raised:

- Ms. de Beer wondered whether the Board had performed a review of who its key stakeholders are and whether there is a need for a more systematic approach to outreach in this regard, as

opposed to merely carrying out general outreach activities. Mr. Hannaford noted that Mr. Holmquist had already been reaching out to key stakeholders such as IFIAR and IOSCO. Nevertheless, Mr. Hannaford agreed that there is a need to undertake an assessment of the scope and focus of the Board's outreach activities. He invited suggestions on outreach from Representatives. Mr. Sylph noted that outreach meetings had taken place with not only IFIAR and the EC, but also the European Audit Inspection Group, IOSCO and several other regulatory bodies and other stakeholders. He indicated that Mr. Holmquist had been on an aggressive campaign to promote the Code, which the Board would continue.

- Mr. Hansen highlighted the issue of the impact of low audit fees on audit quality given the continuing global economic challenges. He suggested it might be worth discussing the topic with the IAASB from the perspective of audit quality. Mr. Waldron noted that research indicated that some investors were willing to pay for good quality audits.
- Mr. Dalkin suggested consideration of issues identified from peer reviews and regulatory inspections to determine whether there are common issues that may need to be examined by the Board. Mr. Hannaford noted that the EIOC planned to do that.
- Mr. Koktvedgaard expressed a view that the increased prevalence of outsourcing of audit work could be an issue. However, he acknowledged that it was not clear whether this should be a matter for the IAASB or the IESBA to address.

#### WAY FORWARD

The EIOC will report Representatives' feedback to the Board at the April 2014 IESBA meeting. The next Emerging Issues session with the CAG will be at the September 2014 CAG meeting.

#### F. **Structure of the Code**

Mr. Thomson introduced the topic, summarizing the Structure of the Code Working Group's (WG's) preliminary report and recommendations, the updated report of research findings, a possible approach to restructuring Section 290, and the project proposal.

The following matters were raised:

#### DISTINGUISHING REQUIREMENTS

Ms. de Beer expressed support for restructuring the Code and making clear what the requirements are, as distinct from the guidance. She wondered whether the Board had considering issuing separate standards rather than a single Code as the concept of individual standards is familiar to users. Mr. Thomson responded in the affirmative, noting that the Board had considered separate standards to help both those who are more interested in independence and those who are not concerned with independence. He noted that the Board was at the same time conscious of the need to maintain the Code as one package so that users do not ignore certain parts.

#### RESPONSIBILITY

Mr. Dalkin highlighted the US GAO's experience of providing examples in its code of ethics which then became de facto rules. He advised the Board to take this into consideration as it considers how to further improve the Code.

Mr. Koktvedgaard asked how the responsibility recommendations relate to ISQC 1. Mr. Thomson replied that paragraph 290.12 already references ISQC 1 and the proposals reinforce the fact that a firm should have policies and procedures that enable relevant individuals to know their responsibilities.

Mr. Fukushima expressed support for categorizing the requirements into three groups: for the firm, for the engagement partner and for the engagement team. He acknowledged that there is variation in size of firms and engagement teams. However, he pointed out that ISQC 17 is clear in placing responsibilities on the firm, and that the International Standards on Auditing (ISAs) are clear in placing responsibilities on the engagement partner or engagement team. He felt that such an approach would increase usability and help with consistent application of the Code in practice. Mr. Thomson noted that the Working Group has discussed this matter and was moving towards clarifying that it is the firm that has the responsibility to identify the individuals who should take responsibility in the particular circumstances. He nevertheless noted that the Working Group would take Mr. Fukushima's comments into consideration.

Mr. Baumann reported that the PCAOB had issued a Concept Release on firms' supervisory responsibilities, and is continuing to look at this area. The PCAOB is not only looking at independence but more broadly at how a firm goes about documenting and implementing its supervisory responsibilities. He added that the PCAOB was moving down the path of having clearer delineation of how responsibility should be carried out. He was of the view that this should improve the quality of accountability and performance.

#### CLARITY OF LANGUAGE

Representatives had no comments on the Clarity of Language proposals.

#### ELECTRONIC CODE AND REORGANIZING THE CODE

Mr. Fukushima wondered who would benefit from an electronic Code as firms integrate the Code into their in-house systems and national standard setters integrate the Code into their ethics standards. Mr. Thomson noted that there are some PAs who are still required to confirm that they are complying with international standards. Accordingly, it would be important to make the Code accessible and easy to navigate for them. He added that reorganization goes hand in hand with repackaging and that some people may be working from the Code. So increased usability may flow through from an e-Code. Mr. Kwok noted that an e-Code is not simply ~~be a digitization of the Code~~. ~~It could, for example, but should~~ allow content to be searched according to a user's needs, ~~for examplesuch as~~, what are the requirements applicable to audits of PIEs, or what are the requirements applicable to those in the chain of command. In addition, he suggested that an e-Code might allow for explanations of Board deliberations to be attached to particular provisions.

Ms. Blomme noted that some jurisdictions use the IESBA Code. In addition, the Code is used for cross-border audits in some jurisdictions.

#### COMPLEMENTARY MATERIALS

Representatives had no comments on the Complementary Materials proposals.

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<sup>7</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

#### EXAMPLES OF RESTRUCTURING

Mr. Koktvedgaard wondered how the description of independence (paragraph 290.6) and PIEs (paragraph 290.25) are reflected in the examples, and how all of these articulate without seeing the front end. Mr. Thomson replied that given that the entire Section 290 is being restructured, the focus at this stage is on presenting examples which illustrate the overarching principles. Neither paragraph 290.6 nor paragraph 290.25 has been selected for this purpose.

Ms. Blomme suggested that cross references between requirements and guidance, similar to the approach taken in the ISAs, would be helpful.

Mr. James asked when the CAG would be expected to provide input on final proposed illustrative examples. He felt that a conference call may not help. Ms. de Beer agreed with Mr. James, noting that this is a fundamental project and that it is important to obtain the buy-in of all stakeholders. Mr. Thomson explained that work was already underway to restructure the Code to accelerate the process after the project proposal is approved and that the Consultation Paper will include examples of restructured sections for comment in due course. He added that the timing is driven by the need to move the initiative forward as quickly as possible, noting that the CAG would have the opportunity to consider the draft Consultation Paper in September.

#### PROJECT PROPOSAL

Mr. Koktvedgaard noted that if the Board is to approve the Consultation Paper in July it would require a CAG conference call in June, which is not ideal given requests for CAG conference calls on other topics.

(Post-meeting note: The timeline presented to the Board in April 2014 proposed that the CAG would consider the draft Consultation Paper in September 2014, followed by Board consideration in October 2014).

Mr. Thomson thanked Representatives for their input.

#### G. Part C

Mr. Gaa introduced the topic, providing background to the project and proposed changes to Section 320 (Preparation and Reporting Information). He noted that a report-back on the September 2013 discussion of proposed Section 370 on the issue of pressure to breach the fundamental principles will be presented in September 2014.

Representatives did not comment on any matters in Section 320 other than whether the Code should incorporate enhanced guidance to help PAIBs better understand their responsibilities relating to the fundamental principles when facing the misuse or abuse of discretion under the applicable financial reporting framework.

#### GENERAL COMMENTS

The following matters were raised:

- Mr. Dalkin did not doubt that the issue of misuse or abuse of discretion under the applicable financial reporting framework exists but thought it is a financial reporting or auditing issue, rather than a matter for the Code. Mr. Gaa emphasized that the issue in Section 320 is not about violating generally accepted accounting principles (GAAP).

- Mr. Waldron supported enhanced guidance for PAIBs, where it makes sense, because the issue starts with the business.
- Mr. Hansen similarly supported enhanced guidance for PAIBs but questioned whether it is possible to mislead while complying with the applicable financial reporting framework. Mr. Gaa replied that it is possible to mislead without violating accounting standards.
- Mr. Dalkin noted that he had difficulty identifying a situation where a PAIB would not violate GAAP but still abuse discretion and create misleading information. Mr. Gaa replied that big bath accounting would be an example. He added that fraudulent reporting may involve the techniques in categories (d) (i.e. misuse or abuse of discretion under the applicable financial reporting framework while complying with it) and (e) (structuring real transactions with the intention to mislead).
- Mr. Baumann encouraged strengthening the Code for PAIBs as preparers are at the frontlines in the provision of financial information that is true and fair. He noted that there is ongoing debate as to whether the “Repo 105” transaction in the recent Lehman Bros. case was fraudulent or not. With respect to the academic study that cited the views of CFOs surveyed that among the percentage of those entities they believe misuse discretion under GAAP, the magnitude of the misrepresentation would be around 10% of EPS, he felt that most courts would view this as fraud. He felt that the circumstances described in the academic study are not what this project should be addressing. Mr. Gaa replied that the CFOs surveyed were not addressing their own company’s practices for methodological reasons and were asked specifically about manipulation that does not violate a financial reporting framework.
- Mr. Baumann noted that he agreed with the views of the PCAOB’s Standing Advisory Group about the need to study ways in which the auditor can better identify fraud. He added that management bias is a fraud indicator under both ISAs and PCAOB standards.
- Mr. Koktvedgaard suggested that it might be helpful to look for any motivations to misstate information that are omitted from paragraph 320.11. Mr. Gaa replied that the Task Force would do so, because it might reveal a gap in the current standards in Part C.

Mr. Gaa thanked the Representatives for their comments.

#### **H. Future IESBA Strategy and Work Plan**

Mr. Siong gave a brief update on the responses received on the IESBA’s consultation paper on its proposed Strategy and Work Plan, 2014-2018. He highlighted the main comments received, including broad support for the proposed strategic themes and the four work streams that were added to the Board’s agenda in 2012 (i.e. Long Association, Non-Assurance Services, Structure of the Code, and Part C). He then outlined the forward timeline for the finalization of the SWP.

The following matters were raised:

- Ms. de Beer and Mr. James suggested reaching out to other stakeholders as the responses appear to have come mainly from the large firms.
- Mr. James expressed a concern that the Board appears to be pushing through projects without considering the Code as a whole.
- Mr. Baumann noted that joint audits are not contemplated in the Code. He was of the view that this should be taken up by both the IESBA and the IAASB with regard to the role of auditors in

such audits as he was unclear what a joint audit meant. He noted that the audit of BCCI was a joint audit and that most joint audits he knew of had been failures. He felt that there was a big standards vacuum in this area. Ms. Blomme noted that joint audits are common in France and that they are an option for member states in the EU.

- Mr. James shared Mr. Baumann's concerns, noting that it is not in the public interest for different countries to develop their own standards on joint audits. Ms. Blomme noted that this would have to be done through the International Standards on Auditing (ISAs) and that it would be more difficult with the Code as EU member states adopt different approaches to setting ethics requirements.
- Koktvedgaard wondered what success criteria the Board would like to be measured against in 2018. Ms. de Beer agreed, noting that a measure would be the degree of global uptake of the Code.
- Mr. James suggested consideration of a post-implementation review process such as with respect to the Breaches standard and the proposed one addressing NOCLAR. He felt that it would be useful for the Board to have such a tool available to assess how effectively the standards are being implemented in practice.

Mr. Siong thanked Representatives for their comments, noting that these will be further considered by the Planning Committee when analyzing the responses to the consultation paper.

#### WAY FORWARD

A CAG teleconference was scheduled for April 4, 2014 to consider the significant comments received on the consultation paper and the Planning Committee's analysis and recommendations. The IESBA was scheduled to consider the feedback on the consultation paper and the CAG's input at its July 7-9, 2014 meeting with a view to approving the final SWP.

#### I. **PIOB Observer's Remarks**

Mr. Bhave thanked Representatives for a very interesting meeting, noting that there had been good participation all around. He commented that the Board's projects are not easy, as PAs can be working within the law but not doing the right thing. He felt that this is what the Code should be addressing. He noted that if ethics were limited to compliance with the law, the Code would be a much shorter document.

Mr. Bhave also noted a question about the length of time it takes the Board to complete a project but also a concern about whether projects are being rushed. Accordingly, he felt it was important to find the right balance.

Finally, Mr. Bhave noted that the PIOB is generally satisfied that due process is being followed.

Mr. Koktvedgaard thanked Mr. Bhave for his remarks.

#### J. **Closing Remarks**

Mr. Koktvedgaard thanked the Board members and staff for their hard work, and all the Representatives for their participation and contributions. He then closed the meeting.