

**Meeting:** IAASB Consultative Advisory Group  
**Meeting Location:** New York  
**Meeting Date:** September 15–16, 2015

## Agenda Item A.1

**Draft Minutes of the Public Session of the Meeting of the  
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD  
CONSULTATIVE ADVISORY GROUP (CAG)**

**Teleconference**

**Held on June 10, 2015**

**[Marked from CAG Input Since July 16, 2015 Email]**

### **PRESENT**

#### **Members**

Matthew Waldron	Chairman
Mohini Singh	CFA Institute
Marie Lang	European Federation of Accountants and Auditors for SMEs (EFAA)
Jean-Luc Michel	European Financial Executives Institutes (EFEI)
Noémi Robert	Fédération des Experts Comptables Européens (FEE)
Myles Thompson	FEE
John Kuyers	Information Systems Audit and Control Association (ISACA)
Patricia Miller	Institute of Internal Auditors (IIA)
Michael Stewart**	International Accounting Standards Board (IASB)
William Hines	International Actuarial Association (IAA)
Sandy Shaffer	International Association of Insurance Supervisors (IAIS)
George White	International Bar Association (IBA)
Anne Molyneux	International Corporate Governance Network (ICGN)
Seiya Fukushima	International Organization of Securities Commissions (IOSCO)
Lucy Elliott	Organisation for Economic Cooperation and Development (OECD)

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\*\* Views expressed by the IASB Representatives represent his views and do not necessarily reflect the view of the IASB.

Gaylen Hansen National Association of State Boards of Accountancy  
Yoseph Asmelash United Nations Conference on Trade and Development

**Observers**

Harrison Greene Basel Committee on Banking Supervision  
Dawn McGeachy IFAC Small and Medium Practices Committee

**IAASB/IESBA**

Charles Landes IAASB Deputy Chair  
Brendan Murtagh IAASB Working Group (WG) Chair  
Kathleen Healy IAASB Technical Director  
Ken Siong IESBA Technical Director  
Sara Ashton IAASB Senior Technical Manager  
Beverly Bahlmann IAASB Senior Technical Manager  
Diane Jules IAASB Senior Technical Manager  
Bradley Williams IAASB Senior Technical Manager

**Public Interest Oversight Board** Nic van der Ende

**APOLOGIES**

**Members**

Conchita Manabat Asian Financial Executives Institutes (AFEI)  
Fang Han AFEI  
Vânia Borgerth Associação Brasileira de Instituições Financeiras de Desenvolvimento  
Kristian Koktvedgaard\* BUSINESSSEUROPE  
Juan Maria Arteagotia European Commission  
Dr. Obaid Saif Hamad Ali Al Zaabi Gulf States Regulatory Authorities  
Jaseem Ahmed Islamic Financial Services Board (IFSB)  
Jim Dalkin International Organization of Supreme Audit Institutions (INTOSAI)  
Nigel James IOSCO  
Kazuhiro Yoshii Japan Securities Dealers Association

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\* During IAASB CAG meetings, Mr. Koktvedgaard participates in the capacity of both an IAASB CAG member and the International Ethics Standards Board for Accountants (IESBA) CAG Chair.

Gamini Wijesinghe	Sri Lanka Accounting and Auditing Standards Monitoring Board
Irina Lopez	World Bank
Xiaoma Lu	World Federation of Exchanges

**Observers**

Martin Baumann***	U.S. Public Company Accounting Oversight Board
Simon Bradbury	International Monetary Fund
Norio Igarashi	Japanese Financial Services Agency

**IAASB**

Prof. Arnold Schilder	IAASB Chairman
James Gunn	Managing Director of Professional Standards

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**June 10, 2015**

**Welcome**

OPENING REMARKS

Mr. Waldron welcomed the Representatives and Observers. Mr. Waldron also welcomed Mr. Nic van der Ende from the PIOB as well as Mr. Landes, the IAASB Deputy Chair and Mr. Murtagh, the IAASB WG Chair, and Staff. He also welcomed the public observers to the meeting, in particular those listening on behalf of the Representatives and Observers. Finally, he thanked the WG for their efforts to progress the papers to facilitate this discussion with the CAG.

**Responding to Non-Compliance or Suspected Non-Compliance with Laws and Regulation (NOCLAR) (Agenda Item A)**

To:

- (a) *OBTAIN* Representatives' and Observers' views on the IAASB's project proposal regarding limited amendments to its International Standards in response to the International Ethics Standards Board for Accountants' (IESBA) Exposure Draft (ED) regarding responding to NOCLAR; and
- (b) *OBTAIN* Representatives' and Observers' views on the draft IAASB ED prior to its planned issuance in July 2015.

Mr. Murtagh introduced the topic, noting that the purpose of the project was to consider the implications on the IAASB's International Standards<sup>1</sup> of the IESBA's project to develop new standards for its *Code of Ethics for Professional Accountants* (IESBA Code) regarding responding to NOCLAR. He highlighted that the IESBA had recently issued revised proposals in a second ED in May 2015. The comment period for this second ED closes on September 4, 2015.

Mr. Murtagh provided some background about the NOCLAR project, in particular that the professional accountant would have the right to disclose an identified or suspected NOCLAR to an appropriate authority if the professional accountant determines that such disclosure is an appropriate course of action in the circumstance. Mr. Murtagh noted that the IAASB considered the implications of these proposals on the International Standards and agreed at its March 2015 meeting that there was a need to address any actual or perceived inconsistencies to alleviate the potential for questions among stakeholders regarding the clarity of the interaction between the International Standards and the auditor's (or practitioner's) ethical obligations. He explained that the Board also was of the view that it should consider issuing an ED of any warranted limited amendments to its International Standards on an expeditious basis and before the close of the comment period on the current IESBA's ED on NOCLAR, because stakeholders would benefit from an opportunity to consider both the IESBA's and the IAASB's proposals at the same time. Mr. Murtagh noted that the IAASB will therefore be asked to approve the project proposal and the ED at its June 2015 meeting.

Mr. Murtagh then explained that the three objectives of the project are to:

- Identify any actual or perceived inconsistencies of approach or scope between the NOCLAR

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<sup>1</sup> The IAASB's International Standards comprise the International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standards on Related Services (ISRSs), and International Standards on Quality Control (ISQCs).

proposals and the International Standards, including ISA 250;<sup>2</sup>

- Develop amendments to the International Standards to address such inconsistencies to the extent considered appropriate to enable the International Standards to continue to be applied effectively together with the IESBA Code or to clarify and emphasize key aspects of the proposed revised IESBA Code in the International Standards; and
- Make other recommendations, as appropriate, including identifying other areas where further improvements may need to be considered in due course (for example, under a future IAASB Work Plan).

He explained that the scope of the limited amendments were to ensure that the International Standards and the IESBA Code will be able to operate in conjunction with each other without conflict once the NOCLAR standards become effective, and clarify and emphasize key aspects of the NOCLAR proposals in the International Standards. He explained the WG's process to review implications of the proposals as described in Agenda Item A in terms of "Category 1", "Category 2" and "Category 3."

The Representatives and Observers commented as follows:

#### FEEDBACK ON THE PROJECT PROPOSAL AND THE NEED FOR THE SUGGESTED AMENDMENTS

- Messrs. Asmelash, Fukushima, Hansen, Hines, Kuyers, Michel, Stewart and White and Mmes. Elliott, McGeachy, Miller, Molyneux and Singh expressed support for the project proposal and the proposed limited amendments, citing the need for having consistency between the IESBA's NOCLAR standards and the International Standards. Ms. Molyneux in particular supported the need for consideration of any potential inconsistencies between the NOCLAR proposals and ISQC 1.<sup>3</sup> Notwithstanding his support for the WG's suggested amendments, Mr. Fukushima cautioned the IAASB should be mindful of its limited resources in moving forward with the ED and considering a move away from limited amendments. In his personal view, he noted that the IAASB should largely be focusing its efforts on other important ongoing projects, such as Group Audits and Quality Control.
- While acknowledging the need for having consistency between the IESBA's proposals and the IAASB's International Standards, Mr. Thompson questioned whether the proposed changes were necessary at this time. In particular, he expressed the view that ISA 250 and the IESBA's NOCLAR proposals would not be inconsistent even without the proposed amendments, and making relatively minor changes would potentially result in significant implementation challenges for accounting firms and others who need to keep up with those changes. Mmes. Lang, McGeachy and Robert agreed, noting the costs to translate and implement the changes needed to be taken into account. With respect to questions raised about whether ISA 250 would be consistent with the IESBA's NOCLAR proposals if not amended, Mr. Murtagh noted that the WG was of the view that the suggested changes would usefully provide greater clarity about the interaction between the standards, thereby enhancing the consistency between them. He also noted that the WG believes that the proposed changes would not result in undue audit costs or present any negative impact in terms of implementation, as the suggested changes are not intended to ~~significantly~~ alter requirements within the International Standards, but instead provide additional guidance. Ms. Healy agreed with Mr. Murtagh, and further

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<sup>2</sup> ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

<sup>3</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*

explained that with respect to implementation, the IAASB is planning to align the effective dates of the IESBA's NOCLAR standard and the amendments to the International Standards to minimize the implementation efforts needed related to the IAASB's changes. Ms. Robert cautioned that there are some jurisdictions that use the IAASB's International Standards, but not the IESBA Code. Ms. Healy agreed.

- With respect to the accelerated timing for the project, Mr. Thompson cautioned against this approach, noting that the IESBA's NOCLAR proposals are still subject to further revisions, and suggested that it would therefore be preferable to propose amendments based on the IESBA's finalized NOCLAR standards. Ms. Lang and Mr. Asmelash agreed, and Mr. Michel noted it would be important to allow time for the IAASB to consider any further implications of changes arising from the IESBA finalizing the NOCLAR proposals. Mr. Fukushima suggested that the project proposal should more clearly and prominently articulate the reason why the accelerated approach is necessary and appropriate.
- Mr. Hines questioned whether the WG considered the possibility of using other means, rather than amendments to the standards, to address the matter of consistency between the IESBA's NOCLAR proposals and International Standards. Mr. Asmelash agreed, and suggested that the IAASB consider a practice alert or similar mechanism to "sign post" the actual or perceived inconsistencies. Mr. Murtagh responded that, while other mechanisms may be used, the WG was of the view that it was necessary to acknowledge the interaction in the standards themselves.

#### FEEDBACK ON THE SUGGESTED IMPROVEMENTS

- Mr. White pointed out that the only reference in extant ISA 250 that pointed out the auditor's right to report a NOCLAR to the appropriate authority even when it is not required by law or regulation to do so was in paragraph A19 of extant ISA 250. He suggested that the requirement in paragraph 28 of the proposed ED should be amended to also refer to the ethical right, as this is, in his view, one of the more substantive changes in the IESBA's NOCLAR proposals. Messrs. Fukushima and Greene and Ms. Elliott agreed. Mr. Fukushima added that his interpretation of the IESBA's NOCLAR proposal is that if the professional accountant identifies a NOCLAR, there is a responsibility to disclose something if it is determined to be in the public interest to do so, even if it goes beyond what is required by the law or regulation,<sup>4</sup> rather than "a right" to disclose. He suggested that the IAASB should reassess the amendments to ISA 250 to better align them with this aspect of the IESBA's NOCLAR proposal. Mr. Greene agreed, and suggested that a new requirement should also be established to refer to the circumstances where law or regulation requires disclosure of NOCLAR, to reiterate that this is a requirement rather than an option.
- Mr. Waldron invited Mr. Siong to provide his reactions, in his capacity as the Technical Director of the IESBA. Mr. Siong noted that the IESBA did not explicitly use the term "permission" in the NOCLAR proposals. Rather, it focused on establishing that, if the practitioner determines that disclosure of the matter to an appropriate authority would be an appropriate course of action in the circumstances, this would not be considered a breach of the duty of confidentiality under the IESBA Code (i.e., confidentiality under the Code would then not be a barrier to the practitioner making such disclosure). He explained that there is a robust requirement in the NOCLAR proposals for the auditor to determine

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<sup>4</sup> See May 2015 IESBA ED, *Responding to Non-Compliance with Laws and Regulations*, Proposed Changes to the IESBA Code of Ethics for Professional Accountants, Proposed Section 225, Responding to Non-Compliance with Laws and Regulations, paragraph 20. Available at: <http://www.ifac.org/publications-resources/responding-non-compliance-laws-regulations>

whether and, if so, the nature and extent of further action needed in the circumstances, ~~which~~ For example, this may include disclosure to an appropriate authority, versus simply referring to the auditor as having a right to override confidentiality to make such a disclosure.

- Mr. Fukushima noted that there are other opportunities for the proposed ED to be further aligned to the IESBA's NOCLAR proposals to achieve consistency to the International Standards. For example, he suggested that the WG review the scope of the NOCLAR proposals and compare it to paragraphs 6 and 8(a) of ISA 250. He believed the scope of the laws and regulations covered by the IESBA proposals is consistent with paragraph 6 of extant ISA 250. However, the phrase "including laws and regulations other than those described in paragraph 6" in the first sentence of proposed new paragraph 8(a) of ISA 250 would now introduce an inconsistency with the IESBA's proposals. Mr. Siong clarified that it is not the IESBA's intention to introduce a difference in scope relative to the laws and regulations that are covered by the NOCLAR proposals. The IESBA's intent is that the scope of the laws and regulations covered under the NOCLAR proposals would be the same as the scope of laws and regulations covered under ISA 250.
- Ms. Miller noted the IIA intends to respond formally to the IESBA ED to point out what the IIA believes are some ambiguities in the proposed language that could create challenges for its members in practice. Like others, she noted that finalizing the IAASB's amendments would need to take into account changes to the IESBA's proposals as a result of feedback on exposure.
- Messrs. Greene and Stewart asked for clarification about the plans for the items in Category 2 (additional guidance material that may be considered useful, but were not considered to be of sufficient importance by the WG to warrant their inclusion in the ED as proposed amendments). Mr. Murtagh explained that Category 2 items are for the IAASB's consideration and that the IAASB's deliberations at its June 2015 would consider whether some or all of those items are of sufficient importance to be included in the ED. Mr. Stewart asked about whether those matters would be included in the Explanatory Memorandum that accompanies the ED (as is contemplated in relation to Category 3. Mr. Murtagh responded that no specific decision has been made, but that his preliminary view is that they would not be included in the explanatory memorandum.
- Mr. Stewart questioned the WG's rationale for not including new guidance in the ED about how incidents of NOCLAR are communicated to the group engagement team. Mr. Murtagh explained that the WG was of the view that, in the context of NOCLAR, the extant guidance was sufficient, and that the issue would be better dealt with the IAASB's broader work on the topic of Group Audits and potential revisions to ISA 600.<sup>5</sup>
- Mr. Hansen suggested there may be a need for more fundamental issues in ISA 250 to be considered. For example, he noted a potential issue may arise when accounting firms identify uncertainties as it relates to legal matters with respect to NOCLAR and conclude there is no NOCLAR, but there may be implications for the financial statements or the disclosures therein. Ms. Robert also suggested the need for a more holistic approach that that may potentially lead to ~~included~~ a full review of ISA 250, as part of the IAASB's future Work Plan.

#### EXPOSURE PERIOD

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<sup>5</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- Messrs. Hansen, Hines, White and Mmes. Molyneux and Singh expressed support for having a 90-day exposure period.
- However, Mr. Greene suggested the need for more time to appropriately consider the amendments being suggested. Ms. McGeachy suggested a 90-day exposure period is not sufficient for small and medium practices (SMPs). Mr. Stewart added that the timing of the proposed shortened exposure period could be an issue in light of summer holidays in the Northern Hemisphere.

#### WAY FORWARD

Mr. Murtagh summarized that there is general support for the project, and while the majority favor the approach that has been taken, some have suggested a more holistic approach may be required. He noted the concerns over the 90-day comment period and the expectation that there would be close communication between the IESBA and IAASB in finalizing the standards to address the concern raised over the potential for the finalization to be a circular process. Messrs. Landes and Murtagh thanked the Representatives for their comments, and indicated that their views would be reported to the IAASB at its June 2015 meeting.

#### PIOB Remarks

Mr. van der Ende congratulated the CAG on a productive teleconference and the value that such teleconferences have to the process. He indicated that, based on his observation, the majority of the CAG was of the view that there should be consistency between IAASB standards and the IESBA's NOCLAR proposals, a view that the PIOB would share. However, he noted the impression there were some uncertainty or concern in relation to what is intended by the IESBA's NOCLAR proposals, which in turn impacts views about how this consistency should be achieved. He also noted that it was important that the IAASB clearly communicate to the PIOB and other stakeholders whether it intends to take a multi-tiered approach (i.e., limited amendments first to be followed by more fundamental changes). Reacting to Mr. van der Ende's comment, Ms. Healy re-emphasized that the IAASB's current 2015-2016 Work Plan does not include a project to consider more fundamental revisions to ISA 250. She explained that the purpose of inventorying and tracking the matters that go beyond the scope of the limited amendments (i.e., Category 3) within the Explanatory Memorandum is to help inform the IAASB's future deliberations about whether those matters should be factored in and the need for a broader revision of ISA 250 considered as the IAASB determines its standard-setting priorities in 2017 and beyond.

#### Closing Remarks

Mr. Waldron thanked the Representatives and Observers for their contributions and closed the meeting.