

Agenda Item

Meeting: IESBA Consultative Advisory Group
Meeting Location: Madrid, Spain
Meeting Date: September 13, 2017

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**Final Minutes of the Public Session of the Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS CONSULATIVE
ADVISORY GROUP (CAG)**

Held on March 6, 2017 in New York, USA

PRESENT

Kristian Koktvedgaard (Chair)

Myles Thompson

Noémi Robert

Vânia Borgerth

Nicolaas van der Ende

Mohini Singh

Anne Molyneux

Marie Lang

Atsushi Ilnuma

Nigel James

Huseyin Yurdakul

Paul Sobel

Jim Dalkin

Lucy Elliott

Gayani Perera

Henri Fortin

Member Organizations

BusinessEurope

Accountancy Europe (AE)

AE

Associação Brasileira de Instituições Financeiras de
Desenvolvimento

Basel Committee on Banking Supervision (Basel
Committee)

CFA Institute

International Corporate Governance Network (ICGN)

European Federation of Accountants and Auditors for SMEs
(EFAA)

International Organization of Securities Commissions
(IOSCO)

IOSCO

IOSCO

Institute of Internal Auditors (IIA)

International Organization of Supreme Audit Institutions
(INTOSAI)

Organisation for Economic Cooperation and Development
(OECD)

Sri Lanka Accounting and Auditing Standards Monitoring
Board (SLAASMB)

World Bank (WB)

Observer Organizations

Simon Bradbury	International Monetary Fund (IMF)
Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Committee
Martin Baumann	U.S. Public Company Accounting Oversight Board

IESBA Members and Staff

Richard Fleck	IESBA Deputy Chair
Helene Agélii (by teleconference for Part C)	IESBA Member
Lisa Snyder	IESBA Member
Sylvie Soulier	IESBA Member
Ken Siong	Technical Director
Diane Jules	Deputy Director
Kaushal Gandhi	Manager, Standards Development and Technical Projects
Geoffrey Kwan	Manager, Standards Development and Technical Projects

Public Interest Oversight Board (PIOB)	Maria Helena Pettersson
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APOLOGIES

Dr. Juan-Maria Arteagoitia
Erik Bradbury
Obaid Saif Hamad Ali Al Zaabi
Jean-Luc Michel

Sanders Shaffer
James Pelletier
Jaseem Ahmed
Gaylen Hansen

Wei Meng

Member Organizations

European Commission (EC)
Financial Executives International (FEI)
Gulf States Regulatory Authorities (GSRA)
International Association of Financial Executives Institutes –
Europe, Middle East, and Africa Region (IAFEI-EMEA)
International Association of Insurance Supervisors (IAIS)
IIA
Islamic Financial Services Board (IFSB)
National Association of State Boards of Accountancy
(NASBA)
World Federation of Exchanges (WFE)

IESBA

Dr. Stavros Thomadakis	IESBA Chairman
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A. Opening Remarks

Mr. Kokvedgaard welcomed all participants to the meeting. He welcomed in particular, Ms. Pettersson as the PIOB Observer, and the new Representative for the IIA, Mr. Sobel.

The minutes of the September 2016 meeting and the December 2016 and January 2017 CAG teleconferences were approved as presented.

B. Professional Skepticism

Mr. Fleck introduced the topic, noting the objectives of the session to obtain CAG input on:

- A revised professional skepticism (PS) project proposal developed by the IESBA PS Working Group (WG) to describe the linkage between the fundamental principles (FPs) in the Code, and PS as defined in the International Standards promulgated by the International Auditing and Assurance Standards Board (IAASB); and
- Proposed application material to emphasize the importance of professional accountants (PAs) obtaining an understanding of the facts and circumstances known to them when exercising professional judgment, in the context of applying the conceptual framework.

LINKAGE BETWEEN FPs AND PS

Among other matters, the following were raised regarding the proposed project proposal and the related proposed application material to explain the linkage between the FPs and PS:

- Messrs. Baumann, Fortin, Sobel, Thompson, van der Ende, Yurdakul and Ms. McGeachy-Colby expressed support. Ms. Lang also expressed support, but noted that in her view there is a need for actions beyond standards to make a difference in the application of PS among auditors.
- Referring to the continuing PCAOB and International Forum of Independent Audit Regulators (IFIAR) inspection findings regarding a lack of PS by auditors, Mr. Baumann felt that there are a number of efforts that can be taken to enhance auditors' application of PS. He highlighted, for example, strengthening the tone at the top, drilling PS throughout the firm through quality control, revising ISA 540¹ in relation to management estimates, etc. Mr. Fleck noted that words alone will not solve all the issues. However, the significance of the proposed additions to the Code is that they help avoid the situation where firms argue that there is nothing in the Code that directs them to take, or precludes them from taking, certain actions.
- Mr. Thompson asked for clarification about the proposed linkage between confidentiality and PS. Mr. Fleck responded that if the auditor is trustworthy with confidential information, this would more likely be conducive to the client providing information which would support the application of PS.
- Mr. Sobel questioned whether the use of the words "questioning mindset" might create confusion for readers. Mr. Fleck explained that the Task Force had used the words "questioning mindset" to make the link to the concept of PS as defined in IAASB standards.
- Mr. Fortin wondered whether users might be confused with having a description of independence in the Code that refers to only two of the FPs (integrity and objectivity) alongside the proposed application material explaining the linkage between all the FPs and PS, given that PS is also a

¹ International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

component of the description of independence. Mr. Yurdakul felt that PS is more closely related to professional competence and due care.

- Mr. Koktevdgaard asked about the link between IESBA Code and IAASB's standards, and wondered whether the standards of IAASB, IESBA and the International Accounting Education Standards Board (IAESB) should be standalone or inter-dependent. Mr. Fleck responded that the Code must have general application regardless of the auditing standards used. Mr. Koktevdgaard also wondered whether the reference to "discrediting the profession" in the proposed application material was overly centered on the profession and whether the focus should instead not be on the broader public interest.
- Ms. McGeachy-Colby supported the WG's decision to withdraw its December 2016 version of the proposal, which included a requirement for all PAs to apply a "critical mindset." Although she supported the WG's current proposal, she was concerned about the proposed timeline and wondered whether it was overly aggressive. In this regard, she noted that there are already three IESBA Exposure Drafts open for comment. Mr. Fleck acknowledged the concerns but noted the limited nature of the issues and of the text involved.

EXERCISE OF PROFESSIONAL JUDGMENT

CAG Representatives supported the proposed application material. Among other matters, the following were raised:

- Mr. Dalkin noted that given the need to exercise professional judgment, different PAs might form different conclusions about the same set of facts and circumstances. He wondered whether the conceptual framework included a consideration of the concept of the reasonable and informed third party (RITP) test in that context. Mr. Fleck responded in the affirmative. He explained that the RITP test is required when applying the conceptual framework, in particular when considering significant judgments made and overall conclusions reached as part of addressing threats.
- Referring to the bullet point that reads "The accountant's own preconception or bias might be affecting the accountant's judgment," Ms. Elliott asked whether bias in that context relates only to the PA's own bias or whether it also relates to bias in the information provided. Mr. Fleck explained that the WG intended to refer to the PA's own "preconceptions or bias" and that this is a response to concerns that PAs may have a general tendency to accept the information from clients at face value without carefully thinking about it.
- Mr. Fortin drew attention to the phrase "known to the accountant" used in the requirement and suggested that it also be used in the application material. Mr. Fleck noted that the WG would further consider this comment.

MATTERS RELATING TO A LONGER TERM PS PROJECT

- Ms. Petterssen noted that the PIOB does not believe that it is in the public interest to narrow the application of PS to auditors and assurance practitioners only. The PIOB is of the view that the concept of PS is relevant to all PAs, and that PAs who prepare financial and other information also have a responsibility to apply PS in their work. She added that the PIOB appreciates the challenges in coordinating the work of the PSWG, but that it is in the public interest for guidance on PS to be made available to all PAs.

- In response to a request for clarification from Mr. Koktevdgaard, Ms. Petterssen explained that PIOB members had discussed the topic of PS among themselves and are of the view that there is opportunity to address PS in a broader way sooner than later. Ms. Molyneux thanked Ms. Petterssen for clarifying the PIOB's position and indicated that she believed the public interest is about the broader profession as opposed to just auditors.
- Mr. van der Ende also agreed with Ms. Petterssen but believed that the level of PS should be higher for auditors. He suggested a "building blocks" approach whereby all PAs would be required to exercise PS but at varied levels depending on the type of professional activity performed.
- Mr. Yurdakul was of the view that PS should apply to all PAs but the level should be higher for auditors. He noted that the concept of PS is abstract and therefore not easy to observe. He suggested that the IESBA should focus on how to make PS observable. He also suggested the need to undertake further steps to reinforce the implementation of PS requirements.
- Mr. James asked whether the WG had considered the issue from a different perspective, i.e., taking the concept of "critical mindset" holistically, not only from auditors' perspective but also from the perspective of other PAs. He wondered whether there are aspects of PS that apply more broadly and believed that this is more a challenge for IESBA to address. He illustrated his point by attempting to parse the IAASB's definition of PS into key elements such as "an attitude," "being alert to conditions which might indicate something," etc., which he felt were not necessarily reflected in the FPs. He therefore wondered whether some of those elements might be "add-ons" to the FPs. Mr. Fleck responded that in light of discussions with IAASB representatives on the PSWG, the WG had consciously avoided doing anything that would detract from the IAASB definition of PS.
- Ms. Lang felt that a longer-term initiative to consider PS as a wider concept would be a challenging journey for the standard-setting boards (SSBs). She inquired about the IESBA's plan for progressing such an initiative, including coordination with the PSWG and the other SSBs. She also wondered:
 - Whether the short term proposals might muddy the waters vis-à-vis the longer term initiative; and
 - Whether there might be an opportunity to involve others outside of the SSBs.
- Mr. Fleck acknowledged Ms. Lang's comments. He summarized some of the concerns raised by some IAASB members about the possibility of extending the applicability of PS beyond auditors, noting that these concerns present challenges for the PSWG and the SSBs in agreeing to an objective, scope and timeline for a longer-term PS project. He also noted that similar to the IESBA, the IAASB had prioritized certain actions in the short term aimed at enhancing PS in the audit and assurance context only. He noted that the WG's short-term proposals are necessary to supplement the very limited material in the extant Code. With respect to the suggestion to involve others beyond the SSBs, he observed that it is already challenging to achieve a coordinated approach among the SSBs. Nevertheless, the consultation and outreach process will ensure that the views of stakeholders are taken into account. Regarding the comment that there is a need for actions as opposed to words, he noted that there has to be a starting point, and that others have to take responsibility for their own actions or inaction.
- Mr. Siong noted that in his view there is not necessarily a conflict between the public interest imperative of enhancing auditors' application of PS and the public interest imperative of

emphasizing the responsibilities of other PAs in applying a degree of professional skepticism in executing their professional duties.

- Mr. Baumann noted that academic research well recognizes that management is inherently biased in its role preparing the financial statements. He added that auditors have a fundamental role to play in addressing this bias and, therefore, the concept of PS is uniquely suited to auditors.
- Mr. Dalkin indicated the need for caution in considering whether to broaden the applicability of PS to all PAs. He noted that PS is a “term of art” that has a specific meaning in the audit and assurance context. He supported the WG’s approach as proposed and expressed support for the use of a different term to convey the expectations of PAs who are not auditors or assurance practitioners.
- Mr. Koktevdgaard asked about the PSWG's timeline for the LT project. Mr. Fleck responded that there was none yet as there is work to be done in terms of how the IAASB would see the way forward.

SUMMARY AND WAY FORWARD

Ms. Fleck summarized the views that CAG Representatives as follows:

- CAG Representatives supported the PS project proposal and the related proposed application material, subject to some editorial suggestions.
- CAG Representatives believe that addressing the application of PS (however described) by all PAs as a long-term initiative is important.

CAG Representatives concurred with this summary.

Messrs. Fleck and Siong thanked CAG participants for their input, noting that this would be shared with the IESBA at its meeting the following week.

C. Review of Part C

Deputizing for the Task Force Chair, Ms. Agéllii, who participated in the meeting via teleconference, Ms. Snyder introduced the topic by providing a status update on the review of Part C. She then led the Representatives through the Task Force’s proposals relating to the topic of inducements.

BRIBERY AND CORRUPTION

Ms. Snyder explained that the proposed Section 250² addressed illegal bribery and corruption through the inclusion of a requirement for PAs to comply with all applicable laws and regulations. The focus of the requirements and application material in the proposals was therefore on inducements not covered by legislation. Ms. Snyder also explained the Task Force’s decision not to include a definition of bribery and corruption within the proposals.

In addition to seeking Representatives’ views, Mr. Koktevdgaard requested that Representatives indicate whether they felt there was a need for a definition of bribery and corruption. Among other matters, the following were raised:

² Proposed Section 250, *Gifts, Hospitality and Other Inducements*

In Favor of a Definition of Bribery and Corruption

- Mr. James felt that the IESBA, as a global standard setter, has a responsibility to attempt to devise a definition of bribery and corruption. He felt the Task Force's concern that a definition in the Code could conflict with national definitions was unwarranted as the Code differed from local laws and regulations in several aspects. When such a conflict arises, there is an expectation for PAs to follow national legislation. He suggested that while a perfect definition might not be feasible, an "aspirational" definition could be included within the proposals, with an emphasis on jurisdictions to address any conflicts that this definition might create with national laws and regulations.
- Messrs. Inuma, Thompson, van der Ende, and Yurdakul expressed agreement with Mr. James that the IESBA should take the lead in devising a definition. Mr. van der Ende noted that the Basel Committee had included caveats to address conflicts between its standards and national standards.

Against a Definition of Bribery and Corruption

Messrs. Baumann, Bradbury, Dalkin, Fortin and Sobel, and Mss. Borgerth, Elliott, Lang, Molyneux, Perera, Robert and Singh felt that a definition was unnecessary. The following comments were noted:

- Mr. Dalkin believed there was no need for a definition given possible problems arising from conflicts with national definitions. Ms. Robert supported this view.
- Ms. Borgerth felt that since bribery and corruption are known terms, even from a non-native English speaker's perspective, a definition would not add any value.
- Ms. Elliott supported the inclusion within the proposals of references to the NOCLAR standard and jurisdictional definitions of bribery and corruption.
- Ms. Robert felt that it would not be within the IESBA's mandate to write legislation.
- Ms. Molyneux queried the scope of the OECD definition of bribery and corruption. Ms. Elliott indicated that the OECD definition related specifically to bribery of foreign public officials.

USE OF THE TERM "INDUCEMENTS"

Ms. Snyder explained that IESBA members had raised concerns regarding the use of the term "inducements" in both the title of the section and the requirements and application material. In particular, there was a view that it carried a negative connotation. After consideration of alternatives to "inducements," the Task Force concluded that there is a need for a collective term within the proposals. Hence, the Task Force proposed to retain the term "inducement" and add supporting guidance. This guidance would explain that "inducement" is a neutral term and that while an inducement is intended to influence another individual's behavior, the intention is not always inappropriate.

In addition to editorial suggestions, Representatives provided the following views:

- Ms. Molyneux conveyed some surprise regarding the use of "inducement" as a neutral term. She felt that the term has a negative connotation and is used to instigate unethical behavior.
- Ms. Lang also believed that "inducement" has a negative connotation. However, she added that the classification was irrelevant as the real issue is whether an inducement is being made with an intent to adversely influence another individual. Ms. Robert and Mr. Sobel agreed.

INTENT AND REASONABLE AND INFORMED THIRD PARTY (RITP) TESTS

Ms. Snyder explained that a key tenet in the proposals is the need for a PA to assess whether there is an actual or perceived improper intent behind the offering of an inducement. A PA should not offer an inducement with an actual or perceived improper intent and should not accept an inducement with a perceived improper intent. Factors to evaluate the intent have been included in the proposals. These factors serve a dual purpose: first to evaluate the intent behind an inducement and then, once the PA has established that the inducement is not being made with an adverse intent, to evaluate the level of any threats to the PA's compliance with the FPs that might be created by the inducement.

Ms. Snyder added that in order to assess perception, the Task Force had initially suggested that an "anyone" test be used. Such a test would require a PA to consider how any individual might perceive the intent accompanying an inducement. The IESBA did not agree with the use of such a test as, unlike the RITP test, it has not been established. After further reflection, the Task Force had concluded that the "anyone" test not only would be difficult to enforce but also could forbid any inducements, since an individual somewhere might view an inducement as being made with adverse intent. The Task Force therefore decided to revert to the RITP test to assess perceived intent.

The following matters were raised, among others:

General

- Mr. Inuma suggested the need for additional guidance to judge the materiality of any threat to compliance with the FPs that might accompany an inducement.
- Ms. Lang suggested consideration of whether an inducement might appreciate over time and how the increased value might affect any perceived intent.
- Mr. Fortin felt that the RITP test should be used to assess whether an inducement might affect the PA's ability to perform his or her duties impartially, regardless of the actual or perceived intent.

Use of the RITP Test

- Mr. Fleck noted that when assessing what it means to act in the public interest, lawmakers make this judgment from the viewpoint of an average member of the public. Thus, by using the RITP test to assess the perception of intent behind an inducement, a view of what an average member of the public would perceive would be attained, which would be in line with the perspective of lawmakers.
- Ms. McGeachy-Colby and Mr. Dalkin also expressed support for the RITP test.

Intent Test

- Ms. Robert was of the view that since the factors to assess intent and to evaluate threats were the same, intent could be classified as a threat and evaluated along with the other threats.
- Mr. James expressed the view that the need to assess the intent behind an inducement related to the decision to treat inducement as neutral. If an inducement were viewed negatively, there would automatically be a need to consider threats to compliance with the FPs. He noted that other sections within the Code commenced with a negative proposition regarding the ethical dilemma followed by guidance to address threats that might be created by the situation.

TRIVIAL AND INCONSEQUENTIAL

Ms. Snyder explained that after consideration of research that indicated that inducements of relatively small value could influence behavior, the proposals required a PA not to offer or accept an inducement with an actual or perceived inappropriate intent, even if it is trivial and inconsequential. However, should the PA establish that there is no actual or perceived adverse intent, it is not necessary to evaluate whether there are any threats to compliance with the FPs if the inducement is trivial and inconsequential, both individually and in aggregate.

Representatives did not express any specific views on the Task Force's proposals. Mr. Inuma noted that from his non-native English speaker's perspective, the words "trivial" and "inconsequential" are essentially the same.

IMMEDIATE OR CLOSE FAMILY MEMBER (ICFM)

Ms. Snyder explained that the Task Force was of the view that inducements offered or accepted by an ICFM could influence, or be perceived to influence, a PA. While the Code is not enforceable on non-PAs, the extant provisions require a PA to evaluate possible threats to compliance with the FPs as a result of an ICFM offering or accepting inducements. Based on this, the proposals include requirements and application material addressing how a PA should consider the offering or accepting of inducement by an ICFM.

Ms. Molyneux suggested that it might be beneficial for the IESBA to consider whether the current glossary definitions for "immediate family" and "close family" are too narrow. She elaborated that in certain regions of the world, relatives who would not fall within the current definitions of "immediate family" and "close family" would still be considered ICFMs.

Mr. Koktvedgaard wondered whether the OECD guidance contained definitions for ICFM. Ms. Elliott indicated that she was not aware of any definitions. Ms. Molyneux noted that the IAS 24³ definition of immediate family member is used as a starting point for the ICGN's principles. Even then, however, she viewed that definition as quite narrow.

CONFORMING CHANGES TO THE CODE

Ms. Snyder explained that the Task Force was developing conforming changes for the rest of the proposed restructured Code, including provisions for PAs in public practice (PAPPs) and the independence sections. Notable conforming changes include indicating that the counterparty offering or receiving an inducement would be a client and amended examples appropriate for the PAPP-client relationship. She also explained that the conforming amendments to the PAPPs provisions would be applicable to PAPPs in their relationships with clients outside of audits, reviews and other assurance engagements.

Representatives had no comments.

WAY FORWARD

Ms. Snyder summarized the future milestones for Phase 2 of the Part C project and thanked the Representatives for their input.

³ International Accounting Standard (IAS) 24, *Related Party Disclosures*

D. PIOB Consultation on its Future Strategy

Ms. Petterssen gave a presentation regarding the PIOB's consultation to develop its strategy for 2017-2019. Among other matters, she gave an overview of the feedback received from respondents to the PIOB's strategy consultation paper. She then highlighted the main suggestions from respondents, including the timely identification of threats to the public interest, strengthening the PIOB's oversight of the SSBs, the importance of supporting accounting education, adoption and implementation considerations, and the need for enhanced PIOB transparency and communication.

She indicated that the PIOB had been discussing whether to make its views public but that there was a concern not to duplicate work and create bureaucracy while improving transparency. She noted that the PIOB was aiming to publish the summary of respondents' feedback to the consultation paper by the end of March 2017. She also highlighted more detailed discussions between IFAC and the Monitoring Group regarding the future of the oversight and governance system.

Mr. Koktvedgaard thanked Ms. Petterssen for her update.

E. Technology and Innovation

Mr. Koktvedgaard and Ms. Soulier welcomed and introduced Ms. Jeanne Boillet, EY Global Assurance Innovation Leader.

Ms. Boillet began the session by highlighting the major trends in technology and innovation affecting the global accountancy profession, including the primary driving forces. She noted that it is important, at a time of technological disruptions, to identify and amplify the weak signals rather than the noise, and to recognize the interconnectedness between megatrends and primary forces. She then expounded on how the digital revolution is impacting industries. She noted that in his book, *The Fourth Industrial Revolution*, Prof. Claus Schwab had described how the fourth industrial revolution is fundamentally different from the other three revolutions. This is because of the convergence of emerging technologies which also increase change at an accelerated pace. Ms. Boillet then spoke about the impact on the finance function of digital developments such as big data and blockchain as well as the transformation of the people model such as the growing reliance on the contingent workforce. She also highlighted key changes to the audit profession due to digital transformation. She outlined in particular how auditors and audit firms are responding to those changes.

Among other matters, participants raised the following:

- Mr. Dalkin asked about the impact that cyber security breaches have on financial reporting, noting that in his view the current guidance in the standards is not sufficiently clear. He also asked if the technological developments mean audit in the future will cover 100% of the data, and if the standards support this change in approach. Ms. Boillet responded that more cyber security tests will be carried out systematically as part of audit engagements in the future. With respect to data analytics, Ms. Boillet noted that the data capture phase is problematic, but once this aspect is resolved, the capabilities are expected to be exceptional.
- Mr. van der Ende asked how auditing and ethical standards should be enhanced to ensure that the new emphasis on the source of the data could be properly managed. Ms. Boillet agreed that boundaries are transforming, as there is an increasing move towards a more globalized world. She noted that one of the key issues is how to formalize the audit trail in the system. She believed that auditors have not yet caught up with changes in their clients' businesses in this respect.

- Given the speed of change in technology, Mr. James asked how regulators could be better prepared for what is taking place in the marketplace. Ms. Boillet suggested that regulators could accelerate their discussions with audit firms and ask the latter to demonstrate how their investments in technology will improve audit quality. She is of the view that audit firms have a certain responsibility to educate stakeholders on audit developments.
- Ms. Lang made a number of observations, including the impact on the audit profession of new business software, digitalization of tax returns in the UK, the need to cater for younger accountants with specific skill sets and the importance of robust information made immediately available through digital platforms. She also encouraged Representatives and IESBA Staff to review the results of a survey by the Association of Chartered Certified Accountants on “Ethics and trust in a digital age” when it becomes available.
- Ms. Singh asked how pollution of unstructured data could be avoided and how the use of cloud technology would lead to enhanced standardization of information. Ms. Boillet noted that there are already analytics that would review unstructured data and that there is continual improvement in these technologies. She also noted that cloud technology will increase the speed and precision by which firms service their clients.
- Mr. Fleck recommended that CAG Representatives review a recently released report issued by the Institute of Chartered Accountants of Scotland and the UK Financial Reporting Council, which discuss the skills, competencies and sustainability of the audit profession in the future. He noted that among other things, the report recommends that national standard setters, regulators and firms work together on addressing the issues.
- Ms. Soulier made a number of observations from the perspective of ethical standards. She asked whether, given the new players in the marketplace, the Code sufficiently covers all the relevant service providers of tomorrow. She also asked whether the Code’s focus on employees is adequate if contingent workers are replacing traditional employees. Further, Ms. Soulier asked how innovation and technology can be linked back to the FPs. In particular, she gave the example of potential threats to confidentiality caused by social network developments.
- Mr. Koktvedgaard queried how one can be assured that the artificial intelligence used is ethical and whether proficiency in obtaining big data will result in better assurance. He also asked whether assurance can be provided on information that is immediately disseminated, the ethics of a contingent worker and the ethical dimensions of outsourcing entire functions such as taxation.

Ms. Boillet agreed that at present there are more questions than solutions. She concluded that the speed of technological development is faster than expected and therefore the audit profession and regulators must address the issues in a timely manner.

Mr. Koktvedgaard thanked Ms. Boillet on behalf of the CAG for her stimulating and informative presentation, noting that it has provided much food for further discussion.

F. IESBA Strategy Survey

Mr. Fleck introduced the topic, noting that there are a large number of projects the IESBA could undertake. However, it would be necessary to find a way to prioritize the issues and achieve a balance given resource constraints. Accordingly, the CAG’s input is important from a public interest perspective. Mr. Siong then outlined the proposed approach to, and content of, the survey.

Representatives generally supported the approach to the survey. Among other matters, the following were raised.

GENERAL

- Ms. Molyneux felt that the list of stakeholders seemed to be skewed towards the profession. She suggested aiming for a balance that would reflect the views of users of the profession's services. She noted that the development of the next strategy and work plan (SWP) seemed to be a long process and wondered whether this was too long given the pace of change in the marketplace. She also commented that there was nowhere in the survey that asked stakeholders whether there are some IESBA activities that could be discontinued. Mr. Fleck responded that it was not necessarily inefficient to make an early start to seek input from stakeholders. He added that if new developments arise, the IESBA would need to appropriately respond to them.
- Mr. Fortin wondered whether there is a mechanism to address emerging developments. Regarding levels of importance for the identified topics, he felt that there is not much difference between "unimportant" and "very unimportant" in the responses to the questions. Mr. James agreed and suggested another approach in terms of asking respondents to list, say, their top five priorities.
- Mr. van der Ende suggested including a caveat in a cover note to the survey to flag that the survey is being undertaken in context of the Monitoring Group's review of the SSBs' processes. As a result, there could be (a) an increase in Board and staff resources, and (b) a change in the process of developing future SSB strategies. He also suggested moving away from the paradigm of resource limitations and wondered to what extent the questions in the survey were aligned with those of the other SSBs. He suggested a building blocks approach given the increasing difference between PAs working for large entities and PAs working in SMEs/SMPs. He therefore questioned whether the level of requirements in the Code might differ and, if so, whether the questions could be targeted to specific groups.
- Ms. Petterssen noted that the PIOB shares some of the views expressed by Mr. van der Ende regarding timeliness and alignment with other SSBs. Mr. Fleck noted that issues relevant to the IESBA might not necessarily be relevant to the IAASB as the scope of IAASB's remit, focusing primarily on auditors, is narrower. However, the IESBA is prioritizing coordination with the IAASB, hence the appointment of Ms. Soulier as Board liaison to the IAASB.
- Ms. McGeachy-Colby wondered whether the IFAC SMP Committee was included in the list of stakeholders whom to approach for the survey. She felt that where there is a need to recognize the importance of coordination among the SSBs, it is with respect to specific areas where SMP perspectives could be obtained.
- Ms. Lang wondered how the Code would be expected to be used in 2025. Mr. Fleck cautioned against trying to predict the future. Ms. Lang suggested that the list of targeted stakeholders include the European Federation of SMEs and business ethics associations. With respect to the point regarding limitations on resources, she suggested that there be an indication as to how much resources the various items in the survey would require. In addition, she noted that some national standard setters might already have addressed some of the issues and, if so, it might be possible to leverage some of their work. She also suggested that it might be useful to know what issues national standard setters are addressing at the jurisdictional level. Mr. Fleck cautioned that one needs to take into account cultural differences. Mr. Dalkin noted that INTOSAI had itself gone

through an exercise of reviewing jurisdictional developments at a more granular level but had to retreat to a broader approach.

- Ms. Lang suggested indicating upfront in the survey that the IESBA will accept any responses, even if stakeholders do not respond to all the questions. Regarding the issue of principles vs rules, she cautioned against tying up resources on issues that cannot be resolved.
- Mr. Koktvedgaard wondered if strategy period could be aligned with the IAASB's. Fleck noted that the IESBA Planning Committee had already considered this and would be discussing the matter with the IESBA in due course.
- Mr. James highlighted the challenge for IOSCO of completing such surveys. He wondered whether the option of a freeform response could be provided. Regarding the issue of resource limitations, he felt that this seemed inconsistent with IFAC's commitment to support the SSBs as needed. Regarding the timing of the survey, he felt that the survey would be adding to the current workload of stakeholders and therefore the timing could present a challenge for them to provide input. Mr. Fleck noted the issue of translation as well, which exacerbates the burden. However, he noted that the IESBA would consider whether the release of survey could be deferred.
- Ms. Robert expressed her support for a pause in the release of new standards to enable stakeholders to digest all the recent and upcoming changes to the Code.

COMMENTS ON SPECIFIC ITEMS

- Ms. Molyneux wondered whether the proposed initiative on tax avoidance was necessary if it is legal. Mr. Fleck noted that the Planning Committee had discussed whether the IESBA should preempt or prejudge what should be the right position on this issue. The Planning Committee believed that the IESBA should not do so, but should instead seek stakeholders' views on the prioritization of the topic.
- Regarding the topic of non-assurance services (NAS), Mr. Iinuma wondered how this differed from the Safeguards project. Mr. Fleck explained the difference between the two, i.e., the Safeguards project only addresses the appropriateness, clarity, and effectiveness of safeguards in the Code, not their permissibility.
- Mr. Iinuma suggested that the post-implementation review of the long association standard include a review of the effects of mandatory firm rotation (MFR) where it has been implemented. Mr. Fleck noted that the IESBA will clarify that the long association post-implementation review will include MFR.
- Ms. Lang highlighted the EFAA's initiative on understanding the extent of pressure in business. She suggested covering this in the NOCLAR post-implementation review. Mr. Fleck highlighted the comment at the EFAA February 2017 conference on pressure in Brussels that PAs who had support from within their organizations or others were more likely to resist pressure. Accordingly, he wondered whether there is more that could be done to explain that access to support among peers, the right culture and tone at the top, etc., can be highly valuable in ensuring greater compliance with the Code.
- Mr. Baumann made a number of suggestions with respect to some of the items in the survey:
 - Regarding C2 addressing managed and outsourced services, he wondered whether the phrasing of the question suggested that certain behaviors are condoned. In particular, he felt

that management responsibility should always belong to management. In addition, with respect to the matter of outsourcing, he noted that while auditors can rely on the work of third parties, they cannot outsource any aspect of their audits to them.

- Regarding A3, he noted the need to distinguish between legal tax avoidance and aggressive tax advice to clients. Mr. Fleck explained that there is an ethical question to be explored.
- Regarding C6 addressing communication with TCWG, Mr. Baumann wondered what the term “holistic framework” meant. He also wondered whether it should be the IAASB or IESBA who should have responsibility for setting standards in this area. Mr. Fleck explained why the issue had been raised.
- Regarding C1 addressing technology and innovation, Mr. Baumann felt that the first question (i.e., whether new ethics standards would be needed to address changes in behavior) is a very significant one.
- With respect to the NAS topic, Mr. James felt that the IESBA’s objective should be to establish what the goals should be. Because there is no clear standard, he noted that different jurisdictions are dealing with NAS in different ways. Accordingly, he felt that there is an opportunity for the IESBA to establish what it believes should be the benchmark.
- Ms. Robert expressed support for a post-implementation review of the restructured Code.

Mr. Fleck thanked Representatives for their constructive input, noting that this would be considered by the IESBA as it finalizes the survey.

G. Fees

Mr Koktvedgaard introduced and welcomed Prof. David Hay, Professor of Auditing at the University of Auckland, New Zealand.

Prof. Hay began his presentation by noting that the IESBA had commissioned him to conduct an overview of research papers on fee-related matters with four areas of focus, namely: (i) level of audit fees; (ii) relative size of fees and fee dependence; (iii) ratio of non-audit to audit fees; and (iv) audit services by firms that have a significant non-audit business. Prof. Hay noted the scope of his review of academic research was limited to research papers between 2006 and 2016 that relate to audit fees. He then outlined his main findings.

LEVEL OF AUDIT FEES

Prof. Hay noted that the summary of research indicates that there is evidence that audit fees are affected by big events but this is not generally identified as an area of concern. He pointed out that in some cases, new engagements are being charged lower fees (“low-balling”) but this is not usually a concern on its own. He noted that “low-balling” is difficult for researchers to identify as they do not have access to the total population of audit fees charged by firms and, as such, research mostly focused on fees charged that are publicly available. In this regard, Prof. Hay noted that the research findings are mixed about the relationship between “low-balling” and lower audit quality and that there is not much evidence to suggest a concern.

RELATIVE SIZE OF FEES AND DEPENDENCE

Prof. Hay noted that some academic studies suggest a correlation between higher audit fees and fee dependence, while others relate higher audit fees with a premium for more complex audits (i.e., higher

risks). He indicated that the more recent academic studies tend to support the argument that higher fees correlate to higher risks. There are very few academic studies that focus on the relationship between the level of audit fees charged and independence of the office and the engagement partner. However, he cited one study that seemed to indicate public perceptions about a loss in independence in appearance. Prof. Hay noted that overall the summary of research did not suggest that there are significant concerns about independence and compliance with the FPs because of the relative size of fees and dependence.

RATIO OF NON-AUDIT TO AUDIT FEES

Prof. Hay noted that the summary of research did not indicate a relationship between high non-audit fees and independence of mind, in particular for audit clients that are public companies. On the other hand, he noted that there is consistent evidence that high non-audit fees lead to public perceptions about loss of independence in appearance. He explained that the research findings suggest that where the level of non-audit services charged to an audit client is high, there seems to be a negative impact on the share price of that audit client. He noted that some investors and analysts appear to have access to information that enable them to form conclusions about certain issues. He suggested the need for more research to understand those issues better. He added that, in his view, auditors should at least be required to publicly disclose when they are providing non-audit services to audit clients, because this information seems to be relevant to investors and might have market implications.

AUDIT SERVICES BY FIRMS THAT HAVE NON-AUDIT SERVICE BUSINESS

Prof. Hay pointed out there are not many research studies that address this issue and that there is insufficient information about this area to draw a conclusion.

FUTURE RESEARCH TOPICS

Prof. Hay summarized a number of possible future research topics that he had identified during his review of research work. However, he noted that research of this nature will take a long time to complete.

MATTERS RAISED

The following matters were raised, among others:

- Mr. Dalkin asked whether Prof. Hay had identified any correlation between independence and the provision of non-audit services and whether the research studies included both public and non-public companies. Prof. Hay confirmed that the evidence of threats created by the provision of non-audit services relates to loss of independence in appearance. He further noted that the research papers include both public and non-public companies. Mr. Dalkin noted that the results for non-public companies would be interesting as there are much more consulting services provided to non-public companies in certain markets.
- Mr. Koktvedgaard asked whether Prof. Hay could identify the top three issues from his extensive literature review relevant to standard setting. Prof. Hay noted that perceptions about the loss of independence in appearance due to high non-audit fees charged is, in his view, the top issue. He also highlighted the concerns about loss of independence of mind due to high non-audit fees, and fee dependence due to high audit fees. Prof. Hay believed that the other matters he had summarized appear to be issues (i.e., “low-balling” and audit firms providing a higher level of non-audit services in comparison to audit services), but that there was insufficient information in the academic studies to form a conclusion.

- Mr. Fortin noted that the role of those charged with governance (TCWG) is in part to ensure that fees charged by an audit firm are appropriate. He suggested that it might be useful to undertake a future study to understand the circumstances in which TCWG play a positive role in mitigating the risks. Prof. Hay noted that this was outside the scope of his summary of research project. However, he agreed that where there is improved governance in this area, for example, more independent audit committees, audit quality seems to be higher.

Ms. Snyder commented that the Fees Working Group had reviewed Prof. Hay's report. It will be conducting stakeholder outreach to obtain more information and evidence before making recommendations to the IESBA. Ms. Petterssen noted that the PIOB had raised the issue of fees and that it appreciated that the IESBA would further explore the topic.

Mr. Koktvedgaard thanked Prof. Hay for his presentation.

H. Report Backs

Mr. Siong drew CAG Representatives' attention to the report backs on the September 2016 CAG discussions for the Structure of the Code (Structure), Safeguards and Long Association projects. He noted that the IESBA had recently reached a significant milestone in the Structure project and released three Exposure Drafts (EDs) in January 2017 (i.e., Structure ED-2, Safeguards ED-2 and the Applicability ED). IESBA staff had also developed a compilation of the restructured Code, and made it available on the IESBA website for information.

Mr. Siong then explained that in December 2016 the IESBA had agreed in principle Phase 1 of the Safeguards and Structure projects. As a result, the IESBA had established a new structure and drafting convention for the Code, and enhancements to the conceptual framework underpinning the Code.

Mr. Siong outlined the timeline for completing the Structure project, noting the IESBA's plan to approve the restructured Code in December 2017. He noted that subject to the PIOB's approval, the IESBA anticipated that it would release the final restructured and upgraded Code by end of Q1 2018, with a proposed effective date of June 15, 2019. This effective date gave due regard to the need for adequate time for adoption and implementation activities, including translation, and the fact that the restructured Code will contain substantive changes in a number of areas.

Mr Koktvedgaard strongly encouraged CAG member organizations to respond to the EDs and suggested that they encourage other stakeholders to do likewise.

There were no comments from CAG Representatives.

I. PIOB Observer's Remarks

Ms Pettersson thanked the CAG for the opportunity to present the PIOB's comments. She noted that the PIOB appreciates the scope definitions for the Structure and PS projects. She also noted that the PIOB is aware of issues relating to independence in appearance arising from firms' provision of non-audit services to audit clients and related fees charged. She appreciated that the IESBA would consider the topics of PS and fees as priorities in its future SWP, especially in the context of coordination with the IAASB.

J. Closing Remarks

Messrs. Fleck and Koktvedgaard thanked the Representatives for their valuable contributions during the meeting, in particular in relation to the PS, Part C and Strategy Survey discussions.

Mr. Kuktvedgaard noted the next CAG meeting will be on September 13, 2017 in Madrid, Spain and that staff will inform the CAG of the dates for the 2018 meetings in due course. He then closed the meeting.