

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

Held on March 5, 2018 in New York, USA

PRESENT

Kristian Koktvedgaard (Chair)

Myles Thompson

Noémi Robert

Vânia Borgerth

Nicolaas van der Ende

Mohini Singh

Dr. Conchita Manabat

Robert Perez

Nigel James

Atsushi Inuma

Huseyin Yurdakul

Jim Dalkin

Dr. Bello Danbatta Lawal

Gaylen Hansen

Lucy Elliott

Gayani Perera

Member Organizations

BusinessEurope

Accountancy Europe (AE)

AE

Associação Brasileira de Instituições Financeiras de
DesenvolvimentoBasel Committee on Banking Supervision (Basel
Committee)

CFA Institute

International Association of Financial Executives Institutes

Institute of Internal Auditors (IIA)

International Organization of Securities Commissions
(IOSCO)

IOSCO

IOSCO

International Organization of Supreme Audit Institutions
(INTOSAI)

Islamic Financial Services Board (IFSB)

National Association of State Boards of Accountancy
(NASBA)Organisation for Economic Cooperation and Development
(OECD)Sri Lanka Accounting and Auditing Standards Monitoring
Board (SLAASMB)

Observer Organizations/Observers

Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Committee
Martin Baumann**	U.S. Public Company Accounting Oversight Board
Daniel Sarmiento	Independent, representing Latin America
Megan Ziestman	IESBA Coordination Liaison for IAASB

IESBA Members, Representatives and Staff

Dr. Stavros Thomadakis	IESBA Chairman
Richard Fleck	IESBA Deputy Chair Professional Skepticism Task Force Chair
Michael Ashley	IESBA Member, Part C Task Force Chair and Fees Working Group Member
Sylvie Soulier	IESBA Member and IAASB Coordination Liaison
Don Thomson	IESBA e-Code Working Group Chair
James Gunn	Managing Director, Professional Standards
Ken Siong	Senior Technical Director
Diane Jules	Deputy Director
Geoffrey Kwan	Manager, Standards Development and Technical Projects
John Morrow	Manager, Standards Development and Technical Projects
Szilvia Sramko	Manager, Standards Development and Technical Projects

Public Interest Oversight Board (PIOB)	Maria Helena Pettersson
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APOLOGIES

Obaid Saif Hamad Ali Al Zaabi
Sanders Shaffer
Anne Molyneux
Paul Sobel
Henri Fortin
Wei Weng

Member Organizations

Gulf States Regulatory Authorities (GSRA)
International Association of Insurance Supervisors (IAIS)
International Corporate Governance Network (ICGN)
Institute of Internal Auditors (IIA)
World Bank (WB)
World Federation of Exchanges (WFE)

Observer Organizations

Simon Bradbury	International Monetary Fund
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** Views expressed by the PCAOB Representative represent her views and do not necessarily reflect the views of the PCAOB Board or other Board members or staff.

A. Opening Remarks

Mr. Koktvedgaard welcomed all participants of the meeting. He welcomed, in particular, Maria Helena Pettersson as PIOB observer, and the new representative of IFSB, Dr. Bello Danbatta Lawal, and representative of IIA, Mr. Robert Perez. He also welcomed Daniel Sarmiento Pavas as observer from Latin America, and all the Board Members and the staff of IESBA. Mr. Koktvedgaard informed the CAG that Marie Lang would no longer participate in the CAG as representative of the European Federation of Accountants and Auditors for SMEs (EFAA) due to new commitments. On behalf of the CAG, he conveyed his appreciation for her long service on the CAG.

The Minutes of the September 2017 meeting were adopted, subject to an editorial amendment. Mr. Koktvedgaard noted that during the private session, the CAG members had recognized all the hard work that went into preparing the agenda papers.

B. Professional Skepticism

Mr. Fleck introduced the topic, noting that the Working Group's thinking on professional skepticism (PS) had evolved since the CAG's September 2017 meeting, and that it appreciated the CAG's comments at that time. Mr. Fleck presented a draft consultation paper (CP) for input, noting a plan to release the paper in the April/May time frame. He also advised the CAG on a plan to hold roundtables on PS at a location in the Americas, Europe, and the Far East in the June/July time period. Following the CP and roundtables, he expected a project proposal to be developed late in the year.

He reported that in the course of addressing previous consultations relating to PS, many commentators had expressed a view that PS should apply to all professional accountants (PAs) – not just those who practice auditing – and that the Code should explain the role of PS in relation to non-audit services. Commentators also had noted that the Code should acknowledge that PS enables compliance with the fundamental principles (FPs) and that the three standard-setting boards (SSBs) (IESBA, IAASB and IAESB) should cooperate in addressing the overlapping issues relating to PS.

Mr. Fleck also noted that in developing the CP, the Working Group had taken great care to consider unintended consequences and also to coordinate with the other SSBs.

Mr. Koktvedgaard then opened the floor to discussion. Among other matters, the following were raised:

- Ms. McGeachy-Colby questioned how the WG planned to cover the Africa and South American regions in the roundtable process. Mr. Siong responded that the roundtables are by invitation and representatives from those regions will be invited to attend. Mr. Fleck noted that these regions will also be able to share their views through the CP process.
- Mr. Van der Ende noted that in the IAASB's standards, PS applies only to assurance engagements. He wondered whether Option 1 in the paper was intended to extend that concept of PS to all PAs. Mr. Fleck explained that this was indeed an option in the paper, though the WG expected that option to be discounted. He noted that the WG felt strongly that all options must be included in the paper to enable stakeholders to provide feedback on them.
- Mr. Baumann cautioned that if PS is expanded to apply to all PAs, it could dilute the meaning of the term for auditors. Mr. Fleck responded that the Working Group did not expect the term to be used as defined in the International Standards on Auditing (ISAs), and applying a new term for auditors could cause confusion – these issues were all being considered by the Working Group.

- Mr. James acknowledged the Working Group's intention to present all the options in an unbiased way but noted from the discussion that it seemed to lean towards one or two particular options. He questioned why the Working Group did not then signal its preference for particular options by laying out the pros and cons of each one so that stakeholders have all the analysis presented in a transparent way. Mr. Fleck responded that the CP did present such an analysis but that the Working Group would consider whether it was sufficiently clearly articulated. He emphasized the importance of presenting the options in a neutral way and not pre-empting stakeholder views.
- Mr. Dalkin felt that if the Working Group was leaning more towards the third option, the Working Group should elaborate on it and proceed from there. He also shared his view that PS is fundamentally different for someone working in management compared with someone working as an auditor. If an auditor applied PS as someone in management, there could be more audit failures. Mr. Fleck replied that the Working Group would reflect on the balance of the options and whether there would be merit in giving a steer towards Option 3. He also mentioned that the views of the IAASB would be sought of the behavioral characteristics as these apply to auditors. Nevertheless, he emphasized the importance of not prejudging the outcome of the consultation.
- Ms. Robert was of the view that if Option 3 was the way to go, there should be consideration of linking the new term to the FPs. She did not believe that this new term should be developed in isolation from the FPs. She suggested including a question in the paper on exploring such a linkage. Mr. Fleck responded that there would indeed be a need to consider the linkage issue if the way forward was to develop a new term. However, the question was whether to develop such a term to encapsulate the behavioral characteristics or to develop application material.
- Mr. Hansen noted the fundamental difference in the role of auditors vs. other PAs. Accordingly, he wondered why there should not be consideration of specific requirements for auditors from a public interest perspective. Mr. Fleck responded that the specification of requirements for auditors is within the IAASB's remit. The IESBA's charge was to respond to broader stakeholder calls to address the behavioral characteristics comprised in PS as these apply to all PAs.
- Mr. Iinuma suggested that stakeholders be asked to prioritize the options presented as they are not necessarily mutually exclusive.
- Dr. Manabat was of the view that it was not a matter of "one size fits all" as what may apply to a PA performing an assurance engagement may be different for a PA in business (PAIB). Accordingly, she felt that it is not so much a matter of identifying one term as opposed to focusing on the operative concepts of a diligent mindset and an impartial mindset. Mr. Fleck acknowledged the challenge of identifying a single term that would fit all. He therefore felt that Option 4 could be one way to go. However, the Working Group would reflect on this further.
- Mr. James offered his view that expanding the term to all PAs would water it down for auditors. He agreed with Mr. Dalkin that PS is not the same for those in management as for auditors. He added that there may be behavioral characteristics that are at a similar level as PS, but that it is important that whatever solution is developed does not become a lowest common denominator for auditors. He cautioned that the implications are significant. Mr. Fleck responded that Mr. James had in effect summarized the Working Group's thinking.
- Mr. Yurdakul agreed with Mr. James. He was of the view that all PAs exercise some degree of PS. He felt that the approach to identifying a broader term would depend on personal characteristics and that there should be some differentiation based on the nature of the work. Mr. Koktvedgaard

wondered whether stakeholders understand the term PS and who would need to understand it. Mr. Fleck responded that these divergent views illustrated why the roundtables were necessary. He added that Mr. Koktvedgaard's comments were important as they pointed to the fact that the term PS is used by a wide variety of stakeholders to describe behavioral characteristics expected of all PAs. He noted that if the project is successful, there would be an educational challenge in explaining the issues to stakeholders.

- Ms. Pettersson expressed her appreciation for the Working Group's consideration of the PIOB's concerns on this topic. She stated that she was pleased to see collaboration among the SSBs on the topic and that the initiative was progressing and that all options were being considered. She noted that the PIOB believes the core concept is the same for all PAs, and introducing another term might cause confusion and create a divide between accountants in different capacities. She added that developing application material about how PAs exercise PS in their various capacities would be helpful. She commented that the PIOB was pleased with the idea of roundtables and CP, but was concerned about timeliness. Mr. Fleck responded that the Working Group is well aware of the need for timeliness but that it was important to bring stakeholders along on the journey and obtain their buy-in to the way forward.
- Dr. Thomadakis advised that the IESBA was aiming to be as effective as possible but not at the expense of quality. He added that a good consultation paper would save time rather than lengthen the process. He summarized that there is agreement about two fundamentals: PS contains attributes that should apply to all PAs, and PS is a concept that is "patented" in the ISAs. Accordingly, the IESBA must be careful to not create confusion. He added that this issue is not a matter of terminology but of articulating these points. He noted that he was optimistic that the IESBA would find a way towards a satisfactory resolution. Ms. Pettersson clarified that the PIOB's concern about timeliness was not about the options but about the process.
- Ms. Robert cautioned that the definition of PS in the IAESB standards might cause confusion as this initiative moved forward. Accordingly, she highlighted the need for coordination. Mr. Gunn responded that the IAESB has a project that will consider the definition of PS with respect to IAESB standards. He added that the IAESB has an early view that the concept of PS applying to all PAs has value.
- Mr. Hansen noted that one of the challenges is whether PAs understand the standards as they become more complex. He wondered whether the International Education Standards (IESs) are the entry point for PAs to understand PS, noting that they will not be able to meet public expectations if they do not understand what it means. Mr. Fleck noted that the IESs effectively lay out the entry requirements into the profession and about continuing professional development. He added, however, that it is critical for PAs to understand the entity's business. In this regard, he noted that in the UK there has been a debate about whether PAs should develop an "MBA" mindset.

Some general concern was expressed about the timing of the roundtables vis-à-vis vacation periods in different parts of the world.

WAY FORWARD

Mr. Fleck thanked the CAG Representatives and PIOB Observer for their input, noting that their comments would be considered in the development of the next draft of the CP. Mr. Koktvedgaard noted the CAG's support for the CP and the roundtables.

C. E-Code

Mr. Thomson, chair of the eCode Working Group, updated the CAG on the status of the planned eCode. He reported that the current web-based Code had only modest functionality, and the Working Group looked forward to using available tools to improve the experience, thereby attracting new users.

A goal of the eCode Working Group is electronic features that help users better understand and comply with the Code, providing a tool to use when answering queries. It is important that the features reinforce application of the conceptual framework, with due consideration of relevant facts and circumstances. By increasing the prominence of the FPs, conceptual framework and other material, the eCode will educate users about how to use the Code so they can help themselves.

The nature of users will vary, with some being regular users of the Code, others occasional users, and some very infrequent users. The eCode will be designed to address the needs of each, taking into account efficiency and effectiveness. Enhanced navigability and search filters are key. The Working Group is exploring whether some level of artificial intelligence (AI) is appropriate, and would consider opportunities that reinforce appropriate application of the conceptual framework and compliance with the FPs.

Mr. Thomson addressed adding links to non-authoritative material (such as bases for conclusions and IESBA staff publications).

Representatives expressed general support for developing the eCode, with some noting that it would enhance the Code through its being more readily available. Among other matters, the following were raised:

- Mr. Hansen questioned if the eCode will be free of charge or on some kind of subscription basis. Mr. Thomson responded that this is not a matter for the Working Group to decide but that it would depend on how the eCode develops. Mr. Siong explained that IFAC owns the copyright to the Code but that it is considered a public good. He added that the matter of whether to charge users for access would be discussed further with IFAC. He highlighted that the greater ambition for the eCode is to enhance compliance and consistency of application, recognizing that the Code is complex.
- With respect to the idea of linking the eCode to non-authoritative material, Mr. Hansen cautioned that this could represent a challenge in terms of the need to vet such material. However, he felt that providing such references to users could be very helpful in the right context.
- Mr. Yurdakul was of the view that this initiative would be useful for PAs. He suggested that consideration be given to a similar initiative that the IFRS Foundation has undertaken with respect to IFRS. Mr. Thomson responded that the Working Group would consider this in due course.
- Mr. Koktvedgaard wondered about the merits of establishing a core platform and then enabling jurisdictions to add on functionality specific to their needs and circumstances. Mr. Thomson responded that an issue is that jurisdictions have not all adopted the latest version of the Code. He noted that the IESBA has no legal mandate to require adoption but if the eCode were to facilitate adoption of the latest version of the Code, this would be in the public interest. Accordingly, the Working Group would explore opportunities with national standard setters.
- Mr. Iinuma commented that non-native English speakers look at the Code through their own country website, so he believed it important for the IESBA to cooperate with local jurisdictions. Mr. Thomson replied that this issue is on the working group's radar screen for consideration.

- Mr. Koktvedgaard suggested considering collecting data on the key topics in which users are most interested. Mr. Thomson responded that this could be considered by the Working Group but that it would depend on the platform that is developed.
- Ms. Pettersson commended the initiative, especially in the current environment where young people gravitate around technology. She wondered whether the CAG had any views on integrating AI with training and education. Mr. Thomson responded that AI is being thought about by the working group.

Mr. Thomson thanked the CAG Representatives and PIOB Observer for their input.

D. Future Strategy and Work Plan

Dr. Thomadakis introduced the session, drawing attention to the report-back on the September 2017 CAG discussion and inviting any comments. CAG Representatives noted the report-back and did not raise any comments.

Dr. Thomadakis then outlined the context for the development of the proposed IESBA Strategy and Work Plan (SWP) 2019-2023 consultation paper. He briefed the CAG on the main outcomes of the December 2017 IESBA discussion regarding the results of the strategy survey. Turning to the draft SWP consultation paper, he explained the proposed vision for the Code and the proposed strategic themes. Mr. Siong then guided the CAG through the main elements of the consultation paper, including the criteria influencing the development of the work plan, the pre-commitments and the proposed strategic priorities.

Among other matters, the following were raised:

- Mr. Van der Ende noted that he saw a distinction between “business as usual” initiatives regarding strengthening the Code vs research and development with respect to new topics. He observed that in the medium term, these new topics could become even more important than “business as usual” topics. He noted that several developments around the world can be emerging issues. He was of the view that stakeholder outreach is very important for the IESBA not only to communicate work plan developments but also to understand what disruptions can be relevant to its work. Accordingly, from a strategic perspective, he felt that the IESBA should articulate its approach to emerging issues, noting that responses need not always be changes to the Code but could be the development of off-Code guidance or alerts to auditors. Dr. Thomadakis responded that besides risks from technology disruptions, some issues may not be ready to warrant standard-setting action. He was of the view that priority should be high for projects on technology, professional skepticism, post-implementation review of long association provisions, and communication with those charged with governance (TCWG).
- Ms. Singh highlighted that the issue of timeliness in standard setting was raised in the Monitoring Group’s November 2017 consultation paper on proposals for reform to the governance and oversight of international audit-related standard setting. Dr. Thomadakis shared his perspective that part of the concern among stakeholders regarding timeliness of standard setting might be because certain IESBA projects took a long time to complete, for example, NOCLAR. He acknowledged that regardless of which initiatives the IESBA undertakes or the process it follows, it should remain conscious of the need for timely outputs.
- Ms. Pettersson noted that the PIOB’s concern is not so much about the length of the process but about the prioritization of topics. She suggested that there should be a structure in place that allows

for flexibility and agility. Dr. Thomadakis responded that there are trade-offs, for example, the need for consultation with stakeholders.

- Mr. Koktvedgaard acknowledged that the IESBA is aware of the need for responsiveness, especially in the context of disruptions caused by technology. He added that one stakeholder's view of timeliness may not be the same for other stakeholders. Mr. Hansen noted that the CAG has the ability to communicate with the IESBA. Accordingly, he wondered whether the issue was more an observation about responsiveness. Dr. Thomadakis responded that there is a significant navigational challenge in that not all stakeholders and regions share the same views. Hence, it is necessary to synthesize the input the IESBA receives from stakeholders.
- Ms. Manabat was of the view that any plan should take into account resources and timing, and in particular whether resources would be sufficient. Dr. Thomadakis responded that capacity is a very important consideration. In this regard, he highlighted two types of capacity: Board capacity and stakeholder capacity. He added that the development of the revised and restructured Code demonstrated that there are constraints at the level of stakeholders. He noted that this should be taken into account as the IESBA plans its work program.
- Mr. James suggested going back to fundamental questions, namely whether there is a conflict between aiming for high standards for auditors and going to the "lowest common denominator;" and whether the Code be aspirational in nature vs lowering the bar for everyone. Dr. Thomadakis objected to the comment about lowest common denominator. He stressed that lowering the bar is precisely what the IESBA is trying to avoid. He added that what the IESBA is trying to do is to navigate the priorities in the context of the need for a principles-based Code. Mr. Van der Ende agreed with Dr. Thomadakis, noting the importance of identifying the right priorities.
- With respect to consideration of the concept of materiality as one of the proposed priority topics, Mr. Hansen expressed skepticism about the appropriateness of materiality in the context of independence. He was of the view that it can be used to justify exceptions to requirements. He also wondered whether materiality was being used in the Code in the appropriate way as the concept has a specific meaning in an audit. He indicated that he would support exploring whether there is a need for a different term. Mr. Thompson noted that the same question arose with respect to the use of the term "significance" in the independence standards. Ms. Pettersson agreed with Mr. Hansen that materiality is an important issue.
- With respect to implementation, Mr. Koktvedgaard suggested taking into account different user groups to facilitate implementation of the Code. In relation to future initiatives on technology, he wondered whether the deliverables need to be changes to the Code.
- With respect to tax planning services, Ms. Robert noted that there have been many developments in this area in Europe. She noted in particular that the EU parliament is addressing it following the Panama papers issue, and that it had recently issued a report on the topic. In addition, the EU parliament is also discussing the role of other tax intermediaries such as tax lawyers. With respect to technology, she highlighted that ACCA had done some work recently considering the topic of ethics and trust in the digital age.
- With respect to coordination among the standard-setting Boards, Ms. Robert wondered whether any consideration had been given to postponing finalization of the SWP to enable the timeline for finalization to be aligned with that for the IAASB's future SWP. Mr. Gunn responded that the IAASB

had agreed to adjust the end of its next SWP period to 2023 to align with the IESBA's SWP period. This means that the IAASB's SWP will cover the four-year period 2020-2023.

WAY FORWARD

Mr. Koktvedgaard thanked Representatives for their input, noting that the CAG was overall supportive of the IESBA moving forward to finalize the SWP consultation paper for issuance.

E. Inducements

Mr. Ashley commenced the session with a brief summary of the report-back on the September 2017 CAG discussion. CAG Representatives noted the report-back and did not raise any comments.

Mr. Ashley then presented the significant comments from respondents to the [Exposure Draft](#) and the Task Force's responses. CAG Representatives were generally supportive of the Task Force's responses and proposals.

Amongst other things, the following matters were raised:

- Mr. Thompson suggested that paragraph 250.12 A1 be revised so it is easier to understand as it contained triple negatives. Mr. Ashley agreed to clarify the text as suggested.
- Mr. Hansen queried if facilitation payments as well as charitable donations should be removed from the list of inducements examples.. In particular, he wondered whether the concept of a "facilitation payment" would be readily understood, for example, whether a registration fee paid by a firm to a regulatory body would be considered a facilitation payment. He also wondered whether including charitable donations in the list could discourage such donations. Mr. Ashley agreed that the Task Force would consider removing facilitation payments from the list but explained that charitable donations can be used to influence behavior either positively or negatively.
- Dr. Lawal suggested that the Task Force should consider defining the term "trivial and inconsequential" or providing guidance for it, otherwise there would be room for subjective interpretations. In response, Mr. Ashley noted that whether an inducement is trivial and inconsequential will differ from one context to another. Mr. Siong drew CAG Representatives' attention to guidance on whether a matter is "clearly inconsequential" in the NOCLAR sections of the Code.¹ He also pointed out that the judgement of a PA on whether an inducement is trivial and inconsequential must take into consideration the reasonable and informed third party (RITP) test. He suggested that the Task Force consider explaining the rationale in the Basis for Conclusions.
- Ms. McGreachy-Colby suggested that the new example about returning an inducement as an action that might be safeguard should include timeliness of the return as an important consideration. In response, Mr. Ashley agreed that the Task Force would consider revising the example accordingly.
- Mr. Yurdakul provided the following feedback:
 - He felt that the provisions relating to PAs in public practice should be more stringent given the nature of audit and other professional services. Mr. Ashley noted that respondents were

¹ Part 2, Professional Accountants in Business, Section 260, *Responding to Non-Compliance with Laws and Regulations*, paragraph 260.7 A2; Part 3, Professional Accountants in Public Practice, Section 360, *Responding to Non-Compliance with Laws and Regulations*, paragraph 360.7 A2.

generally supportive of the conforming changes to Section 340.² He reiterated that the Task Force would be recommending the IESBA to consider aligning the independence provisions in Sections 420³ and 906⁴ to the inducements provisions as a future project.

- Mr. Yurdakul queried why only a breach of the FP of integrity was used in explaining the rationale for prohibiting the offering and accepting of inducements with improper intent. He felt that other FPs, such as objectivity, might also be relevant. Mr. Ashley explained that whilst such action by a PA might cause a breach of another FP, it might not always be the case.
- Mr. Yurdakul suggested that the proposed examples in Section 340 could be further refined and that more examples would be helpful. Mr. Ashley noted that the Task Force was comfortable with the proposed examples but welcomed any suggested examples from the CAG Representatives for its consideration.
- Whilst agreeing with the importance of the intent test, Mr. Yurdakul was of the view that it might be difficult to enforce in practice.
- Mr. Dalkin noted that with respect to hospitality, the impact of an inducement might be different for an individual PA compared with a firm. He, therefore, queried if there should be specific guidance such as de minimis levels for individuals and firms. In response, Mr. Ashley acknowledged that the proposals focused primarily on individual PAs as, in most instances, the influence of an inducement is directed at an individual level and not a firm level. He further noted that whilst a firm might need to address an inducement that is directed at the firm level, he did not consider it necessary for the Code to separately address the responsibilities of a firm. In support of the proposals, Ms. Soulier also pointed out that the application of the RIPT test when dealing with perceptions of independence would likely lead a large firm to conclude that an inducement should not be accepted irrespective of its relative value at a firm level. Mr. Ashley agreed that the Task Force would consider explaining this point in the Basis for Conclusions.

Mr. Koktvedgaard asked the CAG Representatives whether they agreed with the proposals that a PA should consider the intent behind the offering of an inducement even if it is trivial and inconsequential. CAG Representatives did not raise any comments in this regard. Mr. Koktvedgaard also noted that in light of the CAG discussion, the CAG considered the proposals to be sufficiently clear in explaining the thought process and the steps that could be taken by a PA when dealing with the offering or accepting of an inducement.

WAY FORWARD

Mr. Koktvedgaard expressed his view that the CAG had been involved at the varying stages of due process for the inducements project and that, unless there are other significant issues raised during the March and June 2018 IESBA meetings, he did not anticipate the CAG would have need for further involvement with this project prior to its finalization.

² Section 340, *Inducements, Including Gifts and Hospitality*

³ Section 420, *Gifts and Hospitality*

⁴ Section 906, *Gifts and Hospitality*

F. Non-Assurance Services

Mr. Fleck introduced the topic, explaining that as part of the NAS initiative, the Board planned to consider a broad range of public interest issues relating to the permissibility of NAS to audit clients. He noted that among other matters, the Working Group would be exploring:

- The general policy objective;
- Whether the Code should continue to have materiality or significance as a consideration for determining whether certain NAS can be provided to audit clients;
- Whether the Code should continue to have different provisions for public interest entities (PIEs) and non-PIEs;
- The nature and extent of the “black list” that should be included in the Code;
- Whether the Code should require TCWG to pre-approve NAS or NAS fees; and
- Whether the Code should include explicit requirements regarding NAS or NAS fees disclosures.

Mr. Fleck noted that there is some overlap between the NAS initiative and the IESBA’s fees fact-finding initiative, and that the two Working Groups are liaising closely. He explained that the IESBA is planning to engage directly with stakeholders on the topic at the three global roundtables in Washington DC, USA (June 11, 2018); Paris, France (June 15, 2018); and Tokyo, Japan (July 12, 2018). The feedback from the roundtables would be reviewed in September 2018 and it is anticipated that the IESBA would consider an outline of a project proposal shortly thereafter.

Representatives expressed general support for the NAS initiative. Among other matters, the following were raised:

MATERIALITY AND SIGNIFICANCE

- Mr. Baumann complimented the Board, noting that the initiative was timely and appropriate. Referring to materiality, he noted that the term is used in different ways in the Code and that his preference would be for it to be used in the same context as in the auditing standards (i.e., when referring to financial statements). He suggested that to avoid confusion, the term materiality should not be used when referring to parts of a system or process, and that another term, for example, “significance” should instead be used. Mr. Hansen echoed Mr. Baumann’s remarks and agreed with his suggestion. Mr. Fleck acknowledged the comment, noting that there are broader issues relating to materiality, beyond NAS, that the Board is planning to explore as part of a separate initiative on the topic of materiality.
- Mr. Dalkin explained that to ensure consistent and appropriate application, the US Government Accountability Office (GAO) deemed it necessary to include an explicit presumption to emphasize that preparing financial statements is a significant NAS. He suggested that in some instances, a hybrid approach that involves both principles-based provisions and explicit prohibitions might be necessary to drive desired behaviors among auditors. Mr. Fleck acknowledged the suggestion, and noted that in some circumstances (e.g., NAS and NOCLAR) the Code already follows such an approach. In the case of NAS, he explained that Working Group will need to consider the extent to which additional prohibitions might be required for clarity and additional specificity, for both PIEs and non-PIEs.

PIE OR NON-PIE PROVISIONS

- Mr. Hansen and Ms. McGeachy-Colby questioned the need to revisit having different provisions in the Code for PIEs and non-PIEs. He noted that at a conceptual level it makes sense that the provisions should be the same, but that there are practical reasons why there should be more stringent provisions for PIEs as many small entities do not have the resources to prepare financial statements. However, he acknowledged that it is an issue when large private entities use their auditors for such NAS. Mr. Fleck responded that the philosophical question of the distinction between PIEs and non-PIEs has been raised at the IESBA. The SMP community would be very concerned if the distinction were eliminated. He agreed that there are some very large private entities, and that conceptually, there is consideration of owner-managed entities (OMEs) vs. non-OMEs. However, he noted that the concept of the OME is not globally recognized but that there would be a need to further reflect on it.

PRE-APPROVAL OF NAS BY TCWG

- Mr. Inuma noted that in many jurisdictions the role of TCWG is defined in the law or regulation of the specific jurisdiction. He questioned whether the IESBA's mandate extends to establishing requirements for TCWG; and whether any established requirements that might be added to the Code would be enforceable. He advised careful reflection about this matter.

BENCHMARKING

- In relation to the Working Group's plans for comparing NAS provisions across G-20 jurisdictions, Mr. James questioned the Board's objective. He wondered whether it would be aspirational in nature, i.e., to understand and assess what is possible versus what is commonly achievable across jurisdictions. He added that the IESBA should consider whether there are actions that it might take to be clear and transparent about its planned approach in order to assuage concerns and lingering perceptions about the Code being a "lowest common denominator" (LCD). Ms. Elliott noted that while the OECD did not have any preconceived notions, there are risks to undertaking a benchmarking exercise in terms of going down to a LCD. She cautioned the IESBA against focusing solely on seeking alignment and also suggested that the Board consider reviewing OECD versus G-20 jurisdictions.
- Mr. Fleck affirmed that it is not the IESBA's intent for the Code to go to a LCD. He emphasized that it is important to be clear that the IESBA is aiming for a globally operable Code at a higher level. He explained that as part of its fact finding, the Working Group is keen on understanding the extent to which the NAS provisions across the G-20 jurisdictions could be aligned or harmonized. He noted that the Working Group's preliminary work suggests that some of the different NAS provisions exist because of varying degrees of granularity in the provisions and variations in the definitions or descriptions of certain services. He added that from an aspirational point of view, where it is possible to align, the Board would do so. Hence, the Board would not necessarily take the easy option but there should be alignment where it makes sense to do so. In this regard, he noted that it would be important to hear stakeholders' views at the roundtables as to what would be in the public interest. He added that there is some pressure to reduce complexity.
- Mr. Koktvedgaard commented that if there is a perception about LCD, the Board should address why it still exists. He explained that in his view, he saw value in the Board anchoring its decisions based on facts about the NAS provisions that are effective across jurisdictions (i.e., information

about G-20 NAS provisions). Mr. Fleck responded that the Board intends the Code to command respect, and that there is a need to reinforce the message that the IESBA is raising the bar.

- Dr. Thomadakis added that four years ago, the IESBA learned about concerns about having an LCD Code and, in response, undertook to completely revise and restructure the Code to address many of the more substantive concerns. For example, he pointed to the NOCLAR standard as being the only one of its kind. Mr. Siong referred to several additional examples. Dr. Thomadakis then explained that in his view the Code is a principles-based Code that also includes specific guidance for dealing with certain issues. He also highlighted the strategic axis of raising bar globally in the proposed IESBA strategy and work plan 2019-2023. He then invited the CAG to point out specific areas in the Code that they believed contribute to perceptions of the Code being a LCD.

GENERAL AND OTHER MATTERS

- Ms. Pettersson noted that the PIOB believes that the NAS initiative is very important and that the issues are sensitive. She was of the view that a possible way forward might involve a combination of different approaches – for example, having clearer and more explicit prohibitions, and having requirements for pre-approval by TCWG and for increased disclosures about NAS. She indicated that she looked forward to the project.
- Mr. Hansen noted that in the US, the Securities and Exchange Commission has emphasized that issuers have some responsibilities as well, and that they tend to be at fault in practice. Accordingly, he suggested that consideration be given to emphasizing management’s responsibilities when a firm provides a NAS to an audit client. Mr. Fleck acknowledged that joint responsibility is important. He added that in the UK, this is well understood among the FTSE 100. Beyond that group, appreciation of this notion tends to decrease.
- Mr. Hansen noted that this initiative was being approached on an engagement basis. He questioned whether the Working Group would be exploring broader issues about audit quality and auditor independence that might arise from the multi-disciplinary consulting and advisory services provided by firms and network firms (i.e., firms’ business model). In particular, he wondered whether the way a firm positions itself and its overall tone or culture changes based on its business model. Mr. Fleck acknowledged the question, noting that it might lead to consideration of whether the IESBA should develop a standard similar to the IAASB’s ISQC 1⁵ but for ethics.. However, he explained that the NAS initiative is not intended to deal with issues or concerns relating to firms’ provision of NAS to non-audit clients.
- Mr. James noted that as part of the IAASB’s Quality Control project (i.e., proposed revisions to ISQC 1), it is exploring “tone-at-the-top” and culture issues at the firm level. He questioned whether the IESBA should also be exploring these issues in the context of the Code. Ms. Zietsman provided a high-level overview of the IAASB’s Quality Control project, in particular the proposed revisions that are being considered for ISQC 1. She indicated that those proposed revisions will address, among other matters, issues relating to tone, culture and compensation and remuneration matters within the firm. The thrust of the proposed revisions goes to the choices that firms make but the overriding concern is audit quality.

⁵ 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*

- Ms. McGeachy-Colby questioned the need for considering revisions to the NAS section of the Code now, given the recent approval of the revised and restructured Code. Mr. Fleck explained that there is a public interest need to address the incremental NAS issues relating to permissibility and that the Working Group did not anticipate having to revisit any of the restructuring or safeguard-related changes that have been made to the NAS provisions in the Code.

WAY FORWARD

Mr. Koktvedgaard noted the CAG's support for the plan for roundtables and for moving forward with the fact finding.

G. Fees

The Fees Working Group Chair, Mr. Ian McPhee, who joined the meeting by teleconference, commenced the session by giving some background on the IESBA's fees initiatives. He explained the Working Group's fact finding activities to date, noting that the Code already has provisions on fees and the Working Group would be considering whether there was a case for changes to the Code. Mr. McPhee also noted that this is an area where hard evidence was difficult to come by and that responses to the fees [survey questionnaire](#) covered the full spectrum of views.

Mr. Ashley then provided an overview of the areas of focus, the questions in the questionnaire, and the early responses.

After the presentation, Mr. Koktvedgaard invited Representatives and observers to share their views on the topic, particularly in relation to the following two key questions:

- Whether a high ratio of non-audit services (NAS) fees to audit fees for an audit client creates threats to compliance with the FPs and to independence.
- Whether a high percentage of the firm's revenue generated from NAS fees would impact the firm's compliance with the FPs and independence.

Among other matters, the following were raised:

- Mr. Thompson noted that the levels of NAS to audit clients and non-audit clients are very different issues, noting that in relation to the former, the EU has introduced a 70% cap and it is still too early to know how that is working out in practice. He noted that there are many academic studies on the topic of fees and most are inconclusive. However, he acknowledged that there is a big perception issue amongst stakeholders. His personal view was that NAS should not be provided to audit clients.
- Ms. Perera reported that in Sri Lanka, the topic of fees has not been discussed. However, what has been observed is that audit quality tends to come down when NAS constitute a large proportion of a firm's business.
- Mr. Van der Ende acknowledged the difficulty of identifying hard evidence. Nevertheless, he had expected at least some suggestions for a proposed way forward. He remarked that he would have expected that even if not some hard evidence, at least some signals would have come from the fact finding activities by now. In this regard, he shared that some Basel Committee constituents had become aware of concerns among some regulators about the adequacy of audit work in some instances, which prompted regulatory inspections. As a result, audit hours and fees went up, which, although not hard evidence in itself, provides a significant indication that auditors had sometimes

agreed a relatively low level of fees. He added that he was unsure what the comparison between NAS and audit fees would achieve. Ms. Pettersson shared Mr. Van der Ende's concern about the lack of clear signals as to how the issues will be addressed. Mr. McPhee explained that the Working Group was still in the fact finding stage and that it would be meeting in April to consider the information gathered and develop its final report to present to the IESBA in June 2018. Mr. Koktvedgaard explained that the ratio of NAS to audit fees had been highlighted as a potential matter for further consideration in Prof. Hay's review of academic literature.

- Mr. Hansen commented that the survey questionnaire raised issues that should be addressed. He was of the view that fees are important in every audit because they influence the allocation of resources. He informed the participants that in his jurisdiction, he had been involved in a number of disciplinary hearings, especially with respect to small listed audits, where it was inconceivable that a quality audit could be performed for the fees charged. He added that essentially, some firms were selling their signatures for a fee. He also highlighted the issue of "cookie cutter" audits where firms did not really understand what the particular audit needed to achieve. He was of the view that when fees are inconceivably low or high compared to the expected level of work, that should be a concern. Also, he thought that if a firm is prepared to do an audit at a low fee in order to secure contracts for consulting services that should be a concern.
- Dr. Lawal noted that he had not seen the questionnaire, so he could only share his personal views. He outlined that the ratio of NAS to audit fees depends on a number of factors, such as the nature of industry, maturity of the market, the expertise of the firm in particular industries, the structure of the market, etc. Therefore, it would be difficult for the IESBA to set fixed thresholds in the Code.
- Dr. Manabat thought that this issue should be approached in a different way. She believed that when discussing audit fees, one has to consider independence and quality. In the context of a global audit and global fees, she wondered how the pie could be shared, as countries differ on their levels of maturity. Since multinational companies operate all over the world, she queried whether the practice is the same everywhere. She also questioned whether outsourcing audit work would impact audit quality and independence.
- Mr. Thompson expressed his view that there is a perception of an issue among stakeholders related to the ratio of NAS to audit fees, and therefore this perception should to be addressed. He also added that it is difficult for the IESBA to address fee-related issues, since fees are subject to business decision and market forces. Mr. Fleck shared that in the UK, the issue of what should be the right level of audit fee has been considered for many years, but that it remained an insolvable problem due to anti-competition laws. Hence, the principles-based approach taken has been to emphasize performing a high quality audit irrespective of the fee charged. He also noted that in the UK, audit committees at large companies often reject the lowest fees on a tender, although smaller companies tend to be more sensitive to the level of fees quoted. He believed that this went back to the issue of governance. He also noted that the EU was facing the same difficulty when setting out the EU Regulation.
- Ms. McGeachy-Colby acknowledged the perception issue. She noted the global survey undertaken by the IFAC SMP Committee, which received over 5000 responses. The responses highlighted downward pressure on audit fees as a significant concern. She expressed the view that there is now a good opportunity for the IAASB and IESBA to collaborate and undertake awareness raising to highlight the robust standards that are already in place related to fees, and to emphasize that fees need to be sufficient for audit quality.

- Ms. Elliott was on the view that different industries have different specificities. She reported that the OECD had revamped its guidelines on insurers' governance, and in that context she believed that audit committees should have a specific role to play in thinking about these difficult questions.
- Mr. Sarmiento Pavas expressed his view that the environment in developed and developing countries is not the same. In particular, he noted that corruption issues are worsening in the latter. He also noted that in Colombia, while there are mandatory standards, the rules on securing a new client are not clear and not all professionals follow them. Therefore, he believed that clearer standards are needed, also for the sake of the supervision, and that the Code should apply in the whole Latin American region. Ms. Borgerth agreed. She reported that in a developing country, it is difficult to obtain quality information to make a judgment on the issues. She noted that it seemed that large audit firms have more stable conditions, but there is less information on fees from smaller firms, hence her difficulty in commenting on the topic.
- Mr. James indicated that it was a challenge for IOSCO Committee 1 to answer the questions in the survey questionnaire because they were so subjective. So, instead, it considered areas relating to fees where the Code potentially could be strengthened. He noted that the concept of low fees is not necessarily wrong; rather, the question is whether it compromises audit quality. He was of the view that auditors should make the basis of the audit fee clear to the audit client. He also highlighted Committee 1's view that if there is a breach of an independence requirement, it should be someone within the firm other than a member of the audit team who should address it. He remarked that some of the safeguards in the Code are not necessarily safeguards but what auditors should do and should be expected to do. He also felt that the cumulative effect of services the firm is providing to an audit client should be considered when looking at the impact on compliance with the FPs and independence, not just the effect of the individual service.
- Mr. Inuma shared the perspectives of Mr. James. He reported that in Japan the audit industry is very competitive, and companies are demanding the firms to lower audit fees every year. He expressed his hope that the provisions of the Code would help address the issue of downward pressure on audit fees.
- Ms. Singh noted that her organization had difficulties obtaining feedback from its members to the survey questionnaire. She added that she shared the concerns expressed by Mr. Hansen.
- Mr. Dalkin noted that setting out fixed thresholds in the Code would be a move away from principles-based standards. He acknowledged that it is hard for standard setters to prescribe levels of fees without being considered as regulators.
- Ms. Pettersson informed the CAG that the PIOB is very concerned about the issues of fees. She indicated that the PIOB's view is that there is a direct relationship between fees and audit quality, since fees affect resource allocation. She also noted the PIOB's observation about the growing trend in consulting fees vs. audit revenues, which is not an accident but a result of firms' business strategy. Ms. Pettersson added that some within the PIOB believe there is a need to discuss the business model issue, as well as how services are being charged.
- Mr. Koktvedgaard queried whether the concern is that a higher level of provision of NAS has a negative impact on audit quality, and whether it is possible to observe a shift in resources in firms from audit to consulting services.

Regarding the fact finding activities, Mr. McPhee noted that the Working Group was surprised by the outcome of the review of academic research in which there was no hard evidence of audit being used as

a loss leader and there are only few indications of audit fees being too low to be able to conduct an adequate audit. He also reported that the academic research also indicated that there are some signs that the provision of NAS is associated with reduced independence. He found it an interesting development that the review of the G-20 benchmarking exercise showed that some jurisdictions had already introduced caps to NAS fees. Mr. McPhee considered that the contribution of the Representatives was really helpful, adding that the key message for him was that what matters is that a high quality audit should be performed irrespective of the fee charged. He indicated that the Working Group would look at, among others, the issue of transparency and fee caps, and whether there is any case to underline the Code's fee-related provisions.

Mr. Ashley reflected that the discussion illustrated the nature of the Working Group's deliberations on the topic. He wondered whether the Working Group should look at various areas of the Code to see whether they needed to be reinforced, such as the specific roles and responsibilities of the firms and individuals. He added that there is also the issue of transparency, for example, whether firms should be disclosing their recovery rates on particular audits.

Mr. Hansen wondered about the application of anti-trust rules at a global level. Mr. Fleck responded that anything that constrains the competitive environment in which the service is provided would be viewed adversely by anti-trust authorities. He also noted that it is difficult to have constraints accepted in a competitive environment in the interest of quality.

Mr. Ashley raised the question of practicality in specifying levels of fees. He noted that in his opinion, transparency and the role of TCWG are both important and helpful to address fee-related issues. Mr. Fleck added that TCWG have an opportunity to have a significant influence in fee-related matters, for example, the number of hours spent on an engagement by the engagement partner, which in turns affects professional skepticism and audit quality. Mr. Hansen agreed and suggested that consideration be given to moving the Code in that direction.

Mr. Siong added that there is an IESBA staff publication that focuses on the issue of level of audit fees. He highlighted that the International Forum of Independent Audit Regulators (IFIAR) has a specific role to play since IFIAR members have the ability to direct their inspections on whether firms are resourcing their audits adequately. He added that standard setters need to work with others who have roles to play in addressing the issues.

H. Report-Back

Mr. Siong reported that the restructuring of the Code has been completed, and subject to the approval of the PIOB, the new Code would come into effect June 2019. He noted that the Board has agreed to a moratorium for new changes not coming into effect for approximately two years from the date of release of the revised and restructured Code. He also noted the new Code provides a platform for the board to move forward with its future strategy.

Mr. Siong informed the Representatives that the restructured text is available on the Board's website. He noted that the aim of the Board is to stimulate global adoption of the latest version of the Code and that the IFAC Compliance Program has an important role in encouraging adoption.

Mr. Hansen asked why the Board decided on introducing a moratorium. Mr. Siong responded that the Board recognized concerns about the volume of changes, especially among the SMPs. He highlighted that the changes to the Code are not just restructuring in nature, but also substantive in various areas.

Representatives and Observers did not have any comments on the report-back.

I. Roll-out Initiative for the Restructured Code

Ms. Jules informed the CAG that a Working Group has been established to support the rollout of the revised and restructured Code. She reported that the Working Group was focused on raising the awareness of all stakeholders about the new Code, not just PAs but also regulators, national standard setters, educators, etc.

Ms. Jules also noted that IESBA has a global outreach program through which IESBA members and Technical Advisors who are active in their own jurisdictions speak about the Board's work. She outlined coordination with the communication team of IFAC with respect to the development of a Global Communication Strategy and Action Plan. She reported that the Working Group's intention is to reach out to the next generation of PAs and use social media more widely besides more traditional ways of communication. She added that the upcoming roundtables would also provide good opportunities to promote the new Code. Mr. Siong further added that the IESBA would reach out to as many stakeholders as possible over the next 12-18 month to raise awareness of the new Code.

Mr. Koktvedgaard encouraged the Representatives to use their social media platforms and leverage their organizations to reach out to more people and take an active part in promoting the Code.

J. PIOB Observer's Remarks

Ms. Pettersson thanked the CAG for the opportunity to participate in the meeting as an observer. She congratulated the participants for sharing their views and suggestions. She noted that the IESBA has an aggressive agenda with difficult subjects. She concluded by indicating that she would be looking forward to the developments and how the challenges would be addressed in the future.

K. Closing Remarks

Dr. Thomadakis thanked the CAG for the rich discussion. He noted that this was a critical period since the future strategic plan was now under elaboration, and that the insights of the Representatives would be important for the next IESBA meeting.

Mr. Koktvedgaard closed the public session.