

Agenda Item

A1

Meeting: IESBA Consultative Advisory Group
Meeting Location: New York, USA
Meeting Date: March 4, 2019

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

Held on September 10, 2018 in New York, USA

PRESENT

Kristian Koktvedgaard (Chair)

Noémi Robert

Vânia Borgerth

Mohini Singh

Paul Sobel

Nigel James

Takeshi Hirai

Huseyin Yurdakul

Jim Dalkin

Gaylen Hansen

Inanc Yazar

Henri Fortin

Wei Meng

Member Organizations

BusinessEurope

Accountancy Europe (AE)

Associação Brasileira de Instituições Financeiras de
Desenvolvimento

CFA Institute

Institute of Internal Auditors (IIA)

International Organization of Securities Commissions
(IOSCO)

IOSCO

IOSCO

International Organization of Supreme Audit Institutions
(INTOSAI)

National Association of State Boards of Accountancy
(NASBA)

Organisation for Economic Cooperation and Development
(OECD)

World Bank (WB)

World Federation of Exchanges (WFE)

Observer Organizations/Observers

(By Invitation)

Daniel Sarmiento Pavas

Dawn McGeachy-Colby

IFAC Small and Medium Practices (SMP) Committee

Simon Bradbury

International Monetary Fund

Barbara Vanich U.S. Public Company Accounting Oversight Board
Megan Ziestman IESBA Coordination Liaison for IAASB

IESBA Members, Representatives and Staff

Dr. Stavros Thomadakis IESBA Chairman
Richard Fleck IESBA Deputy Chair and Professional Skepticism Working Group Chair
Liesbet Haustermans (via teleconference) IESBA Member and Part 4B-ISA 3000 Working Group Chair
Ian McPhee (via teleconference) IESBA Member and Fees Working Group Chair
Sylvie Soulier IESBA Member and IAASB Coordination Liaison
James Gunn Managing Director, Professional Standards
Ken Siong Senior Technical Director
Diane Jules Deputy Director
Geoffrey Kwan Manager, Standards Development and Technical Projects
Szilvia Sramko Manager, Standards Development and Technical Projects

Public Interest Oversight Board (PIOB) Jane Diplock

APOLOGIES

Myles Thompson
Nicolaas van der Ende
Prof. Hysen Cela
Obaid Saif Hamad Ali Al Zaabi
Dr. Conchita Manabat
Sanders Shaffer
Anne Molyneux
Dr. Bello Danbatta Lawal
Gayani Perera

Member Organizations

AE
Basel Committee on Banking Supervision (Basel Committee)
European Federation of Accountants and Auditors for SMEs (EFAA)
Gulf States Regulatory Authorities (GSRA)
International Association of Financial Executives Institutes
International Association of Insurance Supervisors (IAIS)
International Corporate Governance Network (ICGN)
Islamic Financial Services Board (IFSB)
Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

A. Opening Remarks

Mr. Koktvedgaard welcomed all participants of the meeting. He welcomed, in particular, Ms. Jane Diplock as PIOB observer, Mr. Takeshi Harai and Ms. Inanc Yazar, the new representatives of IOSCO and OECD respectively. He noted that Prof. Hysen Cela, the new representative for EFAA, was not able to attend the meeting. Mr. Koktvedgaard also welcomed Ms. Barbara Vanich, alternate representative of PCAOB; Mr. Daniel Sarmiento Pavas, representative of the Inter-American Accounting Association (IAA) which has been recommended to the PIOB for approval as a new IESBA CAG member organization; and the Board Members and staff of the IESBA.

Mr. Koktvedgaard also bid farewell to and thanked Mr. Atsushi Iinuma of IOSCO, Ms. Lucy Elliot of OECD and Mr. Martin Baumann of PCAOB for their contributions to the CAG meetings.

The CAG approved the minutes of the March 2018 public session and the minutes of the March 2018 joint IESBA-IAASB public session as presented.

B. Fees

The IESBA Fees Working Group's (WG) Chair, Mr. Ian McPhee, commenced the session by reporting on the WG activities since the March 2018 CAG meeting. He then presented the key areas of the WG's [final report](#) that was submitted to the IESBA in June 2018.

Representatives generally agreed with the outcome of the fact finding activities and the recommended ways forward in the final report. Among other matters, the following were raised:

- Mr. James asked whether the Global Public Policy Committee (GPPC) was involved in the discussion on the business model. He suggested to provide this information to GPPC as well. Mr. McPhee informed the Representatives that the future Task Force (TF) will reach out to several stakeholders with its recommendations. Mr. Hansen was of the view that the business model issue cannot be addressed solely by the IESBA because of the regulatory dimension and linkage.
- Mr. Hansen had the understanding that there is a lack of information on this topic but he believed that continuing outreach and examination of the issues is the right way to proceed. He was of the view that the conclusions in the final report are appropriate. However, he had some concerns related to the issue of non-assurance services (NAS). Regarding the recommended way forward related to the responsibility of PAIBs, he noted that the new CFOs often receive kudos for achieving reductions in audit fees, which he found counter-productive. He suggested considering some guidance material and education to help address this issue. Mr. McPhee agreed that PAIBs in a management position often put too much pressure on reducing audit fees. He indicated that the TF and the Board would review this issue in due course.
- Mr. Hansen also remarked that nowadays significant new financial reporting standards involve lots of judgment to apply them. He raised the question regarding the extent to which it would be appropriate for firms to be involved in those services. He added that from a public interest standpoint, while auditors should not be involved in entities' transition to the new standards, their assistance could help improve financial reporting. Accordingly, this issue was a "double-edged sword." Later in the session, he also noted his concern about the extremes of very low and very high fees, and he suggested that the TF address the extremes.
- Regarding pre- approval of NAS by those charged with governance (TCWG), Ms. Meng noted that in her view liability lies with the auditor with respect to complying with the provisions on independence, not with TCWG. Related to public disclosure, she queried, in case of the listed

companies, who would be responsible for the disclosure, the entities themselves or someone else. Mr. McPhee responded that the WG's intention was only to understand the issue of transparency better, as greater transparency could go part way to addressing the issue.

- Mr. Dalkin remarked that if the Board were to set up minimum fees in some jurisdictions, that could be considered anti-competitive. Therefore, he suggested that the TF focus on minimum audit quality rather than what the appropriate level or minimum level of fees should be. Mr. McPhee highlighted the recommendation in the final report that the TF would focus on audit quality while reviewing fee-related provisions. He added that the TF would also consider the responsibility of the engagement partner.
- Ms. Vanich emphasized the importance of the role of the TCWG in establishing fair fees to support a high quality audit. Mr. McPhee agreed, noting that boards of directors often see the audit as a commodity.
- Ms. Vanich also highlighted the impact of technology at larger firms and the evolution of the charging rate model, which may now include an apportioned cost for intellectual property in addition to the usual formula of "rate multiplied by hours." She believed there is also pressure for firms to charge for more effective use of technology. Mr. McPhee agreed with Ms. Vanich's comments, noting that it would be important to manage the risks relating to technology.
- Ms. Vanich suggested considering coordination with the IAASB in relation to the provisions of proposed revised ISQC 1 regarding how firms address incentives and pressures in relation to engagement team members' performance evaluations.
- Mr. Fortin raised the question as to how the IESBA's long-term plans to deal with the issue of the audit firm business model. He suggested that the IESBA should work with the IAASB to address this issue. Mr. Koktvedgaard remarked that the business model is a broader issue than solely an IESBA issue, and not an integral part of this project. He asked the Representatives whether they agreed. Representatives did not raise any further comments.
- Related to the level of fees, Ms. Robert noted that the emphasis on adequate resources is important in this area. Therefore, she saw the revision of ISQC 1 as a great opportunity. She suggested coordinating the Fees project with the review of ISQC 1. Mr. McPhee informed the CAG that the TF would follow the revisions of ISQC 1 and the relevant auditing standards.
- Ms. McGeachy-Colby appreciated the WG's proposal to update the IESBA Staff publication on fees. She suggested providing some guidance also that would resonate with TCWG. She also agreed with Mr. Hansen's comments regarding the new financial reporting standards, adding that providing advice to clients in relation to such new standards can enhance financial reporting quality. Finally, she requested the IESBA to consider including a representative of the IFAC SMP Committee in the TF. Mr. McPhee responded that the TF will not confine its work to consideration of auditors' involvement in advising clients on changes to financial reporting standards but would consider broader issues of principle. He also noted that the TF would consider how best to engage with the SMP community.
- Mr. Pavas remarked that the issue of enhancing fee-related provisions is important for the Latin-American region, especially for the non-PIE and SMP communities.
- Mr. Koktvedgaard queried if the WG considered the issue of fees in a network context, especially how to ensure that the allocation of audit fees at the group level preserves audit quality. Mr. Siong

acknowledged the question, noting that this is an issue for further reflection and engagement with the IAASB in the context of the revision of ISQC 1.

Ms. Diplock noted that the issue of business model has been around since the formation of the PIOB and has been the “elephant in the room” since the days of Enron. She wondered how it is going to be addressed if it is not part of the Fees project. Referring to the NAS Working Group’s briefing note from the global roundtables, she suggested that the blacklist and business model issues might be relevant to the Fees project. She added that the three matters that the PIOB had asked the IESBA to consider addressing are fee restrictions in relation to NAS, the black list for NAS, and business model.

Responding to Ms. Diplock’s concerns Dr. Thomadakis remarked that the project proposals tabled at the meeting for CAG discussion indeed include significant matters raised by the PIOB. Regarding the issue of the business model, he noted that stakeholders as well as the PIOB have already realized that this is not a project just for the IESBA but that a broader coalition of standard-setting Boards (SSBs) and other parties including the PIOB should be engaged in this matter. Accordingly, this would require a more coordinated effort in order to be effective. He explained that the IESBA, instead of having an a-priori model, is currently working on the issue in an inductive way (for example, via the projects on fees and NAS), rather than a deductive way. Reacting to Dr. Thomadakis response, Ms. Diplock noted that in an ideal situation, standards setters and regulators together could indeed come up with the model that Dr. Thomadakis mentioned. However, she encouraged the IESBA to aim to produce some tangible outcomes related to the issue of business model.

PROJECT PROPOSAL

Mr. McPhee briefly presented the [Fees Project Proposal](#) that had been submitted for discussion and approval at the September 2018 IESBA meeting. There was general support from the CAG Representatives for the draft project proposal.

Regarding the future work of the TF, Mr. Koktvedgaard asked that consideration be given to addressing the issue of the networks’ responsibility for fees. Reflecting on Mr. Koktvedgaard request, Mr. Hansen asked if there are rules in the Code on responsibilities for fees. He suggested that the TF consider exploring this issue, and also consider developing some guidance similar to the provisions relating to audit committees in the Sarbanes-Oxley Act in the US.

C. Non-Assurance Services

FEEDBACK FROM THE ROUNDTABLES

The NAS Working Group (WG) Chair, Mr. Fleck, presented the WG’s activities since the last CAG meeting. He also summarized the main outcomes of the [4 global roundtables](#) related to NAS.

Among other matters, the following were raised:

- In general, Mr. Koktvedgaard noted that the roundtables were really useful. Ms. Robert also shared her view that the discussions at the roundtables were really open, and that there was general consensus on the way forward. Mr. Fleck acknowledged that the roundtables had accelerated the process of collecting views and that they might help obviate the need to re-expose any proposed changes to the Code.
- Related to the issue of disclosure, Mr. Hirai queried to which stakeholders the companies would intend to present the information concerning NAS. Mr. Yurdakul added that if the disclosure is in the context of the financial statements, it should be an issue for the national regulators. Mr. Fleck

agreed. He added that even though different countries have different disclosure regimes, the general view from the roundtables was that it is not the IESBA's role to tell TCWG what to communicate to stakeholders. Rather, it is a matter of company law and corporate governance.

WG ASSESSMENTS AND PROPOSALS

Mr. Fleck presented the WG's assessments and proposals on the issues related to the review of the NAS provisions in the Code.

Among other matters, the following were raised:

- Mr. Hansen suggested that the project focus on the self-review threat. He expressed concern about terms such as "routine and mechanical" in the Code as he felt that these allow room for self-review threats.
- Regarding the issue of materiality Mr. Hansen recommended not to use a term that is related to the financial statements, but rather consider using a term such as "inconsequential", but not "trivial." Mr. Fortin also added that the term "materiality" is more in the realm of financial statements, but he believed that "trivial and inconsequential" as a term is not well-defined yet.
- Mr. Fleck responded that in his understanding, there is already agreement that "materiality" as a term should be limited to the financial statements context. So far, many other terms have come up, such as "trivial and inconsequential." He referred to the relationship between the entity and the auditor which he felt should not be evaluated in a quantitative manner, but rather assessed in terms of whether the professional activity adversely affects the auditor's independence or perceived independence.
- In relation to the issue of having a list with the prohibited NAS ("blacklist"), Mr. Hansen asked the WG to differentiate properly between prohibited and permissible services. He referred to the example of providing education to entities regarding the application of new financial reporting standards, which in his view should be permissible, but not developing a system related to financial reporting for the entity, which should be prohibited. Mr. Fleck responded that if an auditor were to provide training and education to an audit client, that should be evaluated in terms of the relationship created between the firm and the client, not in terms of the self-review threat. He added that self-review goes to the core of the meaning of an audit. Mr. Yurdakul concurred, noting that self-review is an important principle.
- Mr. Fortin also added that a black list can be counterproductive. However, as the WG proposed that prohibitions would be also enhanced even though there would be no black list, he felt that this was not a clear message. Mr. Yurdakul noted that it is sometimes difficult to enforce prohibitions due to the different interpretations taken by firms. Similarly, he felt that it is difficult to judge what an acceptable level is as it can change on a case by case basis. Mr. James added that there is a need to have clear understanding of the types of services covered. He emphasized that it is important for auditors to have clear lines regarding what is permissible to ensure consistent application, believing that it is important to address areas of ambiguity.
- Mr. Fleck acknowledged the apparent contradiction in mentioning no black list but stating that prohibitions would be enhanced. However, the WG was very clear that using the concept of a "black list" could lead to different interpretations. Therefore, the WG intended to give clear descriptions of the services addressed. He also added that the project would aim to prohibit any kind of NAS involving a self-review threat and, hence, there would be no subjectivity involved.

- Regarding achieving transparency, Mr. Sobel noted that IESBA has no remit for creating rules for TCWG. Instead, he encouraged the WG to influence professional accountants to achieve greater transparency. Mr. Fleck responded that even though it is not within the remit of the IESBA to mandate disclosure by entities, there are options the WG can further explore, for example, auditors could provide information that TCWG might be able to use for disclosure purposes, or the WG could initiate discussion with the IAASB regarding the inclusion of some NAS-related information in the auditor's report. However, he believed that the latter would probably be a distant option.
- Mr. Koktvedgaard questioned whether there are any prohibitions on disclosure of fees in audit reports. He understood that it is not mandated but queried whether there are any rules that prohibit it.
- Mr. Pavas asked whether the project would intend to define the term NAS and what kind of effect NAS could have on the audit. Mr. Fleck noted that it is important for firms to assess the implications of NAS on independence on a qualitative basis. He also indicated that project would seek to clarify the difference between non-audit services and NAS.

PROJECT PROPOSAL

Overall, Mr. Fleck summarized that the aim of this project is to create an enhanced and harmonized global framework with respect to the provision of NAS to audit clients. Mr. Koktvedgaard questioned the Representatives whether they would support the [Project Proposal](#) and whether any other specific issues should be included in the project proposal. Representatives supported the project proposal. The following matters were raised, among others:

- Mr. Hansen was of the view that services creating an advocacy threat should not be provided. He referred to litigation services as an example.
- Mr. Koktvedgaard queried whether a cooling off period would be considered if there is a self-review threat. Mr. Hansen also noted that the issue of cooling-off related to providing NAS comes up often among stakeholders. Reflecting on this question, Ms. Soulier noted that this issue is more or less addressed in the Code as part of client acceptance.
- Mr. James referred to a previous letter from IOSCO Committee 1 that sought clarification of the concept of management responsibility, in the sense that when management accepts responsibility, in reality they often act according to the auditor's advice. He believed that this also creates an independence issue and has not yet been properly addressed.
- Mr. Fortin asked whether the issue of ratio of NAS to audit fees and the review of the safeguards will be covered in the project. He also wondered whether self-interest is a relevant consideration, in addition to self-review.

Mr. Fleck thanked the Representatives for their various comments and suggestions. He informed participants that the feedback received from the CAG would be duly considered by the WG.

Ms. Diplock queried how the project will ensure that the enhanced prohibitions would not leave discretion on the auditor's side and be enforceable, and whether permissibility would already be specified in the Code or whether this would be left to the auditor's discretion. She believed that the dilemma is how to formulate prohibitions without creating a blacklist at the same time. She noted that it is in the public interest to be clear with prohibitions. Mr. Fleck responded that if materiality is removed as a consideration and prohibition of NAS where there is a self-review threat is introduced, there would be no more discretion

on the auditor's side. He added that in his view, the difficulty is in the assessment of the services by individuals. Therefore, the WG aimed to create clarity in the definitions of the services.

Dr. Thomadakis also shared the view that the description of the services should be clear. He added that the IESBA has always faced the issue of being principles-based when dealing with NAS. On the other hand, there are calls to remove materiality as a consideration, and to prohibit NAS where there is self-review.

WAY FORWARD

Representatives made no comments on the report-back and supported the NAS Project Proposal.

D. Alignment of Part 4B of the Code with ISAE 3000 (Revised)¹

The Alignment of Part 4B with ISAE 3000 (Revised) Working Group's (WG) Chair, Ms. Haustermans, commenced the session by presenting the background to the initiative and the key elements of the [project proposal to align Part 4B of the Code with ISAE 3000 \(Revised\)](#).

Representatives were supportive of the project proposal and the following comments were made:

- Mr. Koktvedgaard asked whether the project would open any new issues or aimed only at making the necessary changes in the Code to align it with ISAE 3000 (Revised). Ms. Haustermans confirmed that the aim of the project is to align Part 4B of the Code with the revised terms and concepts in ISAE 3000 (Revised).
- Ms. Robert suggested that the WG limit the amendments to the Code since the revision and the restructuring of the Code have just been finalized recently.

Ms. Haustermans outlined the forward timeline for the project, with a first read of the proposed changes to Part 4B scheduled for the December 2018 IESBA meeting.

Mr. Koktvedgaard thanked Ms. Haustermans for the presentation.

E. Professional Skepticism

Mr. Fleck introduced the topic by noting that this work stream, broadly speaking, is to remind professional accountants (PAs) of the fundamental nature of their relationships with clients and their responsibilities in relation to financial information and their professional activities. He also noted stakeholders' concerns about extending the term "professional skepticism" across the entire accountancy profession given the view that it is a term of art in relation to audit and assurance engagements. In addition, discussions from the recent global roundtables have developed the Working Group's thinking considerably, resulting in more substantive options that cover the profession as a whole.

The CAG Representatives noted the report-back and did not raise any comments.

Mr. Fleck reported on the Working Group's activities since the March 2018 CAG meeting. He also highlighted the key themes drawn from responses to the May 2018 Consultation Paper, [Professional Skepticism – Meeting Public Expectations](#) (CP), noting in particular the following:

- There was broad support for the initiative and the direction of travel.

¹ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

- The term “ professional skepticism” should be reserved for the audit and assurance context.
- Most agreed that the fundamental principles provide a sound foundation for the behavioral characteristics identified in the CP. They also supported the development of application material to promote the fundamental principles.
- A number of commentators suggested the focus should be on behavior and desired outcomes instead of on new terms.
- There were divergent views on promoting the concept of scalability.
- There was general support from the global roundtables for an overarching statement of purpose.

RESPONSES TO QUESTIONS 1 TO 4 IN THE CONSULTATION PAPER

Mr. Fleck provided a summary of the feedback received for Q.1 to Q.4 in the CP, including the following:

- There was general support for the proposition that the public expects information with which a PA is associated to be capable of being relied upon for the intended use.
- There was general support for the behavior articulated in paragraph 10 of the CP and that such behavior should be expected of all PAs. However, some suggested that concepts including “questioning mindset” and “public interest” should be included. There were also mixed views on introducing the concept of scalability.
- There was clear support that the fundamental principles should drive the desired behavior and if such behavior is not being displayed by PAs at large, more guidance may be necessary. Mr. Fleck further pointed out that changes to the Code will not be effective without appropriate education and leadership from firms and organizations.

Amongst other matters, the following were raised:

- Mr. Fortin sought clarification about the scope of the new project in light of the overwhelming response from the consultations to reserve the term “professional skepticism” for the audit and assurance context. He also queried whether there is a need for an overarching statement of purpose in addition to the fundamental principles. Mr. Pavas also sought clarification about the objective of the project. Mr. Fleck confirmed that for the purposes of this project, the term “professional skepticism” will be left to auditing and assurance standards. He explained that the project will address more the behavioral characteristics expected of PAs, reflecting more a development of what is required today, i.e., that PAs not be associated with misleading information. He added that the project now aimed to address the overarching articulation of what is expected of all PAs and to give the term “professional” some substance. He further noted that the project aimed to fill the gap between what PAs understand “being a PA” to mean on the one hand, and the fundamental principles and the conceptual framework on the other hand.
- Ms. McGeachy-Colby highlighted the importance of education and training. In this regard, she suggested that consideration be given to including case studies when developing implementation support materials. Mr. Fleck agreed that there is a need to bring ethics standards to life. He added that while it is unlikely that the IESBA itself will develop the educational materials, it will work closely to support the International Accounting Education Standards Board (IAESB) in this regard.
- Ms. Zietsman also noted that the IAASB had received similar calls for educational or other implementation support material. She suggested that the IAASB’s draft Exposure Draft on ISA 220

which contains some discussion on the impediments to the exercise of professional skepticism might be helpful as a reference. She also agreed with the importance of firms instilling the right culture and highlighted the section of the draft IAASB Exposure Draft on ISQC 1 relating to firm leadership and governance.

- Ms. Robert generally agreed with the Working Group's analysis of the feedback from the CP and the roundtables. She also reiterated AE's view not to add any new terms but to focus on developing the fundamental principle of integrity, which she felt was somewhat more overarching compared with the other fundamental principles. Mr. Fleck agreed that integrity is in some sense an overarching principle but noted that the proposed project will look more broadly into public expectations and professionalism.
- Mr. Hansen acknowledged that this is not a simple project. He was of the view that the Working Group should not avoid using the term "professional skepticism" entirely. Mr. Fleck responded that the project's aim of changing the mindset and behavior of PAs cannot be achieved in the short term. He noted that the output of this project will need to be supported by the appropriate training and education programs as well as organizations, particularly firms, assuming responsibility for promoting the right culture.
- Ms. Meng expressed the views that the motivations for an individual to be a professional accountant will also contribute to that individual exercising professional skepticism. She added that to drive the desired behavior, there would need to be requirements in the Code.

Mr. Fleck also explained that it would be beneficial to have an overarching statement of purpose, whether a mission statement or an oath, an idea that was first brought up during the roundtable in Washington DC and then further developed at the other roundtables. He used the example of the Hippocratic Oath in the medical profession as well as the affirmations required in the legal profession. He noted that an annual public affirmation of such a statement of purpose might serve as a useful reminder to PAs of their overarching responsibilities as professionals.

Amongst other matters, the following were also raised:

- Ms. Diplock noted that from a public interest perspective, irrespective of whether the overarching statement is in the form of an oath, affirmation or other methods of reinforcing the behavior expected of PAs, it would need to be fundamental to the PAs and be universally applied. Mr. Fleck agreed but clarified that the Working Group had not yet concluded on how to address this aspect.
- Mr. Fortin wondered whether the scope of the project was now broader with the proposed statement of purpose. He expressed some hesitation about going down the path of establishing an "oath" because he could not envision such an oath being positioned above the fundamental principles. Mr. James queried whether an annual oath would be sufficient in achieving the desired impact, drawing an analogy to whether annual declarations of independence have transformed professional behaviors and attitudes within firms. He reiterated IOSCO's view set out in its response to the CP that the focus should be on impacting the mindset and behavior of PAs on a day to day basis. Accordingly, he expressed some reservation about whether this approach would go to the heart of the issue. Mr. Fleck clarified that the oath or affirmation is only one aspect being considered by the Working Group and that the focus of the initiative is on outcome. Mr. Fleck also noted the importance of an ethical corporate culture and education in effecting desired behavior but pointed out that the IESBA cannot make PAs act in a certain way.

- Similar to discussions about demonstrating independence of mind and independence in appearance, Mr. Hansen queried how the performance of a PA against an oath can be assessed. Mr. Fleck clarified that the aim is not about enforceability or assessing a PA's performance against an oath. Rather, the objective is to imbue in the PAs' mind some overarching objective they should be aspiring to and to remind them that they are professionals with certain responsibilities.
- Ms. McGeachy-Colby noted that many firms already require their staff to make annual declarations of independence and confidentiality.
- Ms. Robert suggested that the Working Group review other jurisdictions' use of an oath or similar affirmation statement. She also noted that the implementation of an oath in the Netherlands has had some positive impact on the profession.
- Mr. Hansen noted that it is important to keep reminding PAs of the importance of the behavior expected of PAs.

RESPONSES TO QUESTIONS 5 TO 10 IN THE CONSULTATION PAPER

Mr. Fleck summarized the responses to Q.5 to Q.10 in the CP, including the five options for clarifying the behavior expected of all PAs as articulated in the CP. He noted in particular the following:

- There was little to no support to require PAs to exercise professional skepticism as defined in the auditing standards, or to redefine the term "professional skepticism." It was also generally agreed that the use of the term in contexts other than audit and assurance would undermine the role and importance of professional skepticism in audit and assurance engagements.
- There were mixed views to whether a new term and definition should be developed or whether the focus should be on the core values and behavioral characteristics expected of all PAs. The general consensus from the global roundtables was that simply producing a new term would not be sufficient on its own. As a result, the Working Group was looking more broadly into behavioral characteristics.
- There was broad support for the IESBA to develop new application material that would "bring to life" the fundamental principles in the Code, as well as non-authoritative guidance material.
- There was clear support for additional material in the Code to address bias, pressure and other impediments to the proper exercise of professional judgment.

Based on the information and comments received, Mr. Fleck noted that the Working Group had formed the overall view that professional skepticism has become more or less a general term used by stakeholders to exhort PAs to fulfill their duty to the public by meeting the responsibilities of their role and by demonstrating those behavioral characteristics expected of them. Against this background, Mr. Fleck pointed out that the Working Group was proposing a new project title, "Professional Accountants – Setting Expectations," to better reflect this overall view. He also outlined key elements of the project proposal, including the scope of the project, coordination matters and anticipated timeline. Regarding the project scope, he explained that it will also include addressing the importance of firms and organizations in setting the right culture, as well as exploring the feasibility of developing an overarching statement of purpose at the front of the Code. Mr. Fleck further noted that the Working Group had not yet concluded whether the focus should be on core values and behavioral characteristics or whether it should be on the purpose and role of a PA, subject to a review of wording used in the IAESB's standards.

There was general support from the CAG Representatives for the draft project proposal. Among other things, the following were raised:

- Mr. James reiterated that the focus of the project needs to be about changing mindset and behavior. He therefore suggested that the proposed title be revised to reflect this as the true fundamental issue is about driving behavioral change.
- Mr. Sobel acknowledged Mr. James' comment but noted that it is not necessary for the CAG to agree on a title at this juncture. He also pointed out that it is difficult to divorce values and characteristics from purpose and role, and suggested that all these elements are needed. Mr. Fleck clarified that the latter is an option being reviewed by the Working Group.
- Mr. Hansen expressed his confidence that the Working Group would develop an appropriate title that takes into consideration Mr. James' comment. Mr. Fleck stressed the importance of having the right title and pointed out that terms such as "driving behavior" may be misleading as they imply operational activities that cannot be achieved by the project. Mr. Hansen also encouraged the Working Group to not disregard views from academia such as those from Messrs. Steven Glover and Douglas Prawitt. Mr. Fleck reassured the CAG that all stakeholders' views would be duly considered.
- Ms. Vanich suggested that it may be useful for the Working Group to consider the work of the bank examiners in the US as they have made strides in driving a culture of compliance within financial institutions post-global financial crisis.
- Dr. Thomadakis expressed the view that there should be a focus on mindset and not just on behavior, given that the Code as a whole is about changing behavior. As such, the title of the project proposal should include the term "mindset." Both Messrs. James and Fleck agreed.
- Mr. Bradbury raised a concern with the potential challenge for the Board and the CAG in 12 months' time as the forward timeline indicates that this would be when all four projects (NAS, Fees, Alignment of Part 4B with ISAE 3000 (Revised), and this project) would be expected to have reached the Exposure Draft stage. Mr. Fleck clarified that the proposed timelines were only indicative.
- Mr. James queried if the Working Group had any plans to share with the IAASB relevant concerns raised by respondents to the CP or from the global roundtables. Mr. Fleck confirmed that the chairs of all three SSB Working Groups on professional skepticism already had held a teleconference as part of their coordination activities, and that the Working Group had passed on all relevant comments such as those from IOSCO. He further noted that coordination amongst the three Working Groups would continue. However, given that the project had moved away from using the term "professional skepticism", he did not anticipate any major concerns from the IAASB regarding the forward direction.
- Mr. Fortin asked if any new material relating to auditing and assurance engagements would be developed as part of this project. Mr. Fleck pointed out that the IESBA had approved application material on the relationship between the fundamental principles and professional skepticism in December 2017. In moving forward, Mr. Fleck further noted that the Working Group would review this recently approved material to determine if any enhancements would be necessary.
- Ms. Diplock noted that the work stream is of significant public interest in light of the recent negative attention on auditors and the profession in general. She expressed the view that, irrespective of

the title of the project, there is general consensus that it should be about changing the behavior of PAs for the better. Against this background, Ms. Diplock supported the project proposal.

WAY FORWARD

Mr. Koktvedgaard noted that Ms. Diplock's feedback was helpful as a closing comment for the session as it highlighted the importance of the project.

F. Future Strategy and Work Plan

Mr. Koktvedgaard opened the session by wondering how to ensure that the Code reaches the right audience. To this end, he showed extracts of illustrative audit reports for some listed entities in different jurisdictions, noting that these indicate that different jurisdictions have different approaches to referring to compliance with relevant ethical requirements, whether with respect to the IESBA Code or other national ethical regimes. He added that CAG member organizations have a role to play in promoting use of the IESBA Code more widely around the world.

Representatives had no comments on the report-back for the March 2018 CAG discussion.

Dr. Thomadakis then introduced the topic, providing background to the consultation paper (CP), [*Proposed IESBA Strategy and Work Plan, 2019-2023*](#) (SWP) and an overview of the general themes from responses to the CP together with the IESBA Planning Committee's (PC's) related reflections. He also outlined the proposed SWP actions and related priorities based on the PC's analysis of the responses to the CP. Mr. Siong then briefed the CAG on the key points for consideration arising from the responses regarding the key topics to be prioritized, including technology and service delivery models, the definitions of the concepts of a listed entity and a public interest entity (PIE), tax planning, and materiality. Mr. Siong also briefed the CAG on respondents' suggestions for other topics that could be prioritized.

Amongst other matters, the following were raised:

- Regarding the topic of materiality, Mr. Hirai noted that it would be important to provide more guidance in the Code. He added that the terms "materiality" and "significance" mean the same thing when translated in Japanese. Regarding the topic of Long Association, he expressed the view that long association with an audit client can influence an auditor's behavior. He emphasized the importance of a post-implementation review of the revised long association provisions. Regarding the related topic of mandatory firm rotation, he expressed interest in seeing how this develops around the world and how it affects independence and audit quality. Mr. Hansen remarked that the US SEC has added to its agenda a review of its rules regarding loans to affiliates, which may include consideration of materiality. Accordingly, he suggested that consideration be given to monitoring the related SEC developments.
- Regarding the definition of a PIE, Mr. Hansen wondered whether another approach to the definition could be to take a user perspective. He noted that users will have different motivations with respect to general purpose financial statements. For private companies, users may be more focused on the balance sheet, e.g., for collateral purposes, as opposed to revenue or cash flow. Mr. Fortin noted that the definition of a PIE is very important. He suggested considering outreach to the International Accounting Standards Board (IASB) with respect to IFRS for SMEs. He also suggested that new forms of fund raising be taken into account.
- On the topic of tax planning, Mr. Hansen wondered whether tax planning can be differentiated from aggressive tax avoidance. Ms. Yazar noted that the OECD has done much work in the area of

international tax policy. She indicated that she would consider how best to support the IESBA's work in this area. She also agreed with Mr. Hansen that it would be valuable if the IESBA could provide clarity between tax planning and tax avoidance. Ms. Diplock highlighted the PIOB's interest in the tax planning topic. She suggested engaging with policy makers in the EU when exploring the issues. Mr. Fortin observed that revenue mobilization and base erosion are a huge problem in many countries.

- Dr. Thomadakis responded that many different legal regimes exist around the world, so a principles-based approach is needed to the topic. He emphasized the necessity of taking an ethical angle in order to address behaviors. He also highlighted the issue of tax competition among jurisdictions.
- On the topic of technology, Ms. Diplock supported this as a very important priority, noting the importance of keeping up with the "wave." She suggested that consideration be given to taking a risk-based approach to the topic. She also expressed appreciation for the PC's work, noting that many of the issues the PIOB was concerned about are getting the "sunlight," especially NAS and professional skepticism. She added that the PIOB would be monitoring the progress of these work streams closely.
- Regarding the topic of technology, Mr. Kuktvedgaard wondered whether some of the issues are rather old dilemmas in "new wrapping." He also wondered what success would look like in five years' time, and what the expected outputs from the various projects might be. In addition, he wondered how best to approach dealing with new issues, as some could require interpretations, new guidance, or new training material. In this regard, he wondered what the role of the IESBA IAESB should be.
- Ms. Yazar was of the view that on technology, the question is more about capacity to provide foresight and strategically position the IESBA on impact and changes to the Code. Dr. Thomadakis responded that there is a need to avoid rushing into a project on technology but to take stock of what others are doing and to gather an understanding of the developments and issues. He added that on the basis of that understanding, the IESBA can consider whether to develop non-authoritative outputs. He agreed with Ms. Diplock's comment regarding considering taking a risk-based approach. He shared a concern that this topic could grow beyond the IESBA's current resources. Accordingly, there would be a need to reserve some spare capacity. He also highlighted technology as an area in which there should be coordination with the IAASB.
- Mr. Gunn suggested thinking about topic prioritization and sequencing along two axes: the Code's ability to change or impact behavior vs. public interest risk. For example, on Technology, there is a high public interest risk but currently low impact as the impact is yet to be fully ascertained; and on Materiality, there is a high public interest risk and a high impact on behavior.

In closing, Mr. Siong outlined the forward timeline, noting that the final draft of the SWP had been scheduled for approval at the December 2018 IESBA meeting. Dr. Thomadakis thanked the Representatives for their input.

G. Report-Back

Ms. Jules noted that the new 2018 IESBA Handbook has been released. She highlighted the new structure as well as some of the key features of the revised and restructured Code. She also noted that the revised and restructured Code will come into effect in June 2019.

Ms. Jules provided a brief summary of the new inducements provisions which are now finalized and have been included in the new IESBA Handbook. She drew attention to the report-back on the March 2018 CAG discussion relating to the revision of the inducements provisions in the Code. Representatives did not have any comments on the report-back.

Ms. Jules provided an update of the IESBA's "rollout" initiative which was established to support adoption and implementation of the revised and restructured Code, including development of a series of resources and tools that can be downloaded from a recent revamped IESBA webpage (www.ethicsboard.org/restructured-code). In this regard, Mr. Siong noted firms have found Q & As, such as those produced for the Long Association provisions, to be very helpful. Ms. Jules noted that widespread adoption of the Code around the world cannot be achieved without the support of stakeholders such as the CAG, including through actions to promote the Code.

Ms. Jules also brought to Representatives' attention the development of the eCode, a web-based tool aimed at making the Code more accessible and user-friendly, with Phase 1 due to be launched in June 2019.

H. PIOB Observer's Remarks

Ms. Diplock expressed her appreciation of the work produced by the various Working Groups and was pleased to note that many of the issues raised by the PIOB are being addressed. She noted that the PIOB looked forward to the outcomes of these work streams, particular for matters relating to NAS and professional skepticism as both these issues are critical to the credibility of the profession.

She congratulated Mr. Koktvedgaard for an inclusive and well-managed meeting and thanked all participants for their contributions. She also wished Mr. Koktvedgaard all the best with his future endeavors when his second term as the CAG Chair expires at the end of June 2019.

I. Closing Remarks

Mr. Koktvedgaard thanked all Representatives for their contributions during the meeting. He also confirmed that both meetings in 2019 will be held in New York. Mr. Koktvedgaard then closed the meeting.