



Agenda Item

A-3

Meeting: IESBA Consultative Advisory Group

Meeting Location: New York, NY

Meeting Date: March 6, 2017

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

Held on December 7, 2016 via Teleconference

PRESENT

Member Organizations

Kristian Koktvedgaard (Chair)

BusinessEurope

Nicolaas van der Ende

Basel Committee on Banking Supervision (Basel Committee)

Marie Lang

European Federation of Accountants and Auditors for SMEs (EFAA)

Gayani L Perera

Sri Lanka Accounting and Auditing Standards Monitoring Board

Paul Sobel

Institute of Internal Auditors (IIA)

Takashi Sudo[^]

International Organization of Securities Commissions (IOSCO)

Lucy Elliott

Organisation for Economic Cooperation and Development (OECD)

Observer Organizations

Dawn McGeachy-Colby

IFAC Small and Medium Practices (SMP) Committee

Lillian Ceynowa^{**}

U.S. Public Company Accounting Oversight Board

IESBA Members, Technical Advisors and Staff

Dr. Stavros Thomadakis

IESBA Chairman

Richard Fleck

IESBA Deputy Chair

Patricia Mulvaney

IESBA Member and Working Group Member

Tone Maren Sakshaug

IESBA Technical Advisor and Working Group Member

[^] Mr. Sudo was a replacement for Mr. Inuma during the December 7, 2016 CAG teleconference,

^{**} Views expressed by the PCAOB Representative represent her views and not necessarily the views of the PCAOB Board or other Board members or staff.

James Gunn	Managing Director, Professional Standards
Ken Siong	Technical Director
Diane Jules	Deputy Director

IAASB Members and Staff

Annette Köhler	IAASB Member and IAASB-IESBA-IAESB Working Group Chair
Schuyler Simms	IAASB Manager, Standards Development and Technical Projects

Public Interest Oversight Board (PIOB)

Chandu Bhawe

APOLOGIES

Noémi Robert
Myles Thompson
Vânia Borgerth

Mohini Singh
Matthew Waldron
Dr. Juan-Maria Arteagoitia
Erik Bradbury
Dr. Obaid Saif Hamad Ali Al Zaabi
Anne Molyneux
Sanders Shaffer
Jean-Luc Michel

Atsushu Inuma^
Nigel James
Huseyin Yurdakul

Jim Dalkin
Jaseem Ahmed
Sherif Ayoub
Gaylen Hansen
Henri Fortin
Wei Meng

Member Organizations

Accountancy Europe (AE)
AE
Associação Brasileira de Instituições Financeiras de Desenvolvimento
CFA Institute
CFA Institute and IAASB CAG Chairman
European Commission (EC)
Financial Executives International (FEI)
Gulf States Regulatory Authorities (GSRA)
International Corporate Governance Network (ICGN)
International Association of Insurance Supervisors (IAIS)
International Association of Financial Executives Institutes – Europe, Middle East, and Africa Region (IAFEI-EMEA)
IOSCO
IOSCO
IOSCO
International Organization of Supreme Audit Institutions (INTOSAI)
Islamic Financial Services Board (IFSB)
IFSB
National Association of State Boards of Accountancy (NASBA)
World Bank (WB)
World Federation of Exchanges (WFE)

Observer Organization

Simon Bradbury International Monetary Fund (IMF)

A. Opening Remarks

Mr. Koktvedgaard welcomed Representatives and thanked them for taking the opportunity of this meeting to provide input to the IESBA Professional Skepticism Working Group (WG) on its proposals in advance of the December 2016 IESBA meeting. He welcomed in particular Mr. Bhave as the PIOB Observer, Dr. Thomadakis, IESBA Chairman, and Mr. Fleck, IESBA Deputy Chair and Chair of the WG. He also welcomed as observers Ms. Ceynowa from the PCAOB and McGeachy-Colby of the IFAC SMP Committee.

B. Professional Skepticism

Mr. Fleck introduced the topic, outlining the objectives of the session. He outlined the background to the proposals developed by the WG. He then introduced a project proposal and a two-part short-term (ST) proposal to add:

- New application material to explain the linkage between PS as defined in the IAASB standards and the fundamental principles and independence; and
- A new requirement for all professional accountants (PAs) to apply a critical mindset when applying the conceptual framework to assist in complying with the fundamental principles.

Mr. Fleck briefed the CAG on the comments the WG had received on the proposals, including from the IAASB-IESBA-IAESB PS Working Group (PSWG). He noted that the proposals also incorporated input from the Safeguards and Structure of the Code Task Forces. He added that the IESBA Planning Committee had considered the proposals and was of the view that, if approved by the IESBA, they should be released in a stand-alone exposure draft rather than being subsumed in the upcoming exposure drafts relating to the Safeguards and Structure of the Code projects. Mr. Fleck then sought views about each component of the WG's two-part proposal and the project proposal.

Representatives complimented the WG on its progress to-date and the IESBA's coordination efforts with the IAASB and IAESB, as well as other IFAC committees, including the IFAC SMP Committee and the IFAC Professional Accountants in Business (PAIB) Committee. Among other matters, the following were raised:

PROJECT PROPOSAL AND CRITICAL MINDSET

- Mss. Ceynowa, Lang and McGeachy-Colby and Mr. van der Ende suggested that the project proposal provide more context about the project and clarify the objective of the WG's proposals. In particular:
 - Ms. Ceynowa suggested that the project proposal clarify the issue that the project would be addressing.
 - Mss. McGeachy-Colby and Lang and Mr. van der Ende suggested that the project proposal explain how the ST project would interact with a longer term initiative that the IESBA might explore in the future. Ms. McGeachy-Colby also questioned whether there was a commitment not to revisit the proposed requirement for PAs to "apply a critical mindset," if approved by the IESBA, once the longer-term initiative is launched.
 - Mr. van de Ende suggested that the project proposal clarify what was intended when it explicitly stated that the proposals are not intended to preempt a longer-term discussion about whether the IAASB's definition of PS should be reconsidered.

Mr. Fleck explained that the PSWG was still developing the longer-term strategy, including whether the definition of PS in the IAASB standards should be changed and, if it ought to apply to all PAs, how that change should be approached. He indicated that this would be a much larger project, likely requiring considerable research and analysis, and unlikely to be completed within the next 2-3 years. The ST proposals were intended to be a timely response to fill a gap in the Code in the meantime. Nevertheless, he agreed that the project proposal would benefit from setting out more clearly the interaction between the ST and longer-term initiatives. He also noted that the IAASB was contemplating changes to the ISAs, so the statement in the project proposal about not preempting a longer-term review of the definition of PS was meant to signal that the ST initiative would not hamper that review.

Mr. Fleck added that the WG's ST proposals were intended to:

- Explain how the ethical considerations in the Code regarding compliance with the fundamental principles relate to the proper application of PS. He noted that explaining this linkage would enable assurance practitioners to better appreciate the full relevance of PS in the Code and would be responsive to stakeholder feedback on the IAASB's ITC and the feedback from some Representatives during the March 2016 IESBA CAG discussion; and
- Improve on the robustness of the conceptual framework by stating in an explicit way an expectation that the public has of all PAs (including those who prepare financial statements).

Mr. Fleck explained that the planned timing for the ST project was aligned with the anticipated completion of the proposed restructured Code.

- Mr. Sobel was supportive of the ST proposals. However, he wondered whether it was appropriate for the scope to cover PAs given that non-PAs in firms can also undertake engagements performed by PAs.
- With specific reference to the proposed requirement to apply a critical mindset:
 - Ms. Ceynowa wondered why the requirement might address stakeholders' concerns about auditors' application of PS when performing financial statement audits.
 - Ms. Ceynowa and Ms. Lang, and Mr. van de Ende suggested that the impact assessment section of the project proposal better explain the anticipated effects of the proposed changes. In particular, they questioned whether there was value to changing the Code to include the proposed new requirement and whether it would be sufficiently impactful to drive a change in auditor behavior if the WG did not anticipate any significant increase in costs.

Mr. Fleck responded that the impact assessment was in effect articulating what was already expected of PAs in that the proposed requirement would lead them to think more carefully about the circumstances in a way that would meet the public's expectations. He noted that it was too easy under the extant Code for PAs to accept information at face value. He added that it was about changing the mindset which, although such a change might not necessarily lead to much in the way of extra work, could lead to a different conclusion.

- Ms. McGeachy-Colby noted that a PA's good-faith reliance on information, for example, in the context of providing tax services, does not mean that the PA makes no appropriate follow up. She wondered how far a PA would be expected to go to demonstrate a critical mindset. Mr. Fleck responded that the proposal was only about asking PAs to apply their minds to the situation, for example, that the right questions have been asked and that the PA is satisfied with the outcome.

Accordingly, it was more about the PA's state of mind and whether the PA has a sustainable position having thought about the situation.

- Ms. Elliott generally supported the direction of the proposals. With respect to the application material referring to preconception or bias affecting a PA's judgment, she noted that this notion is very important. However, she wondered whether it might not only be the PA's bias but also bias in the source of the information.
- Ms. Ceynowa asked whether the WG had considered the impediments to the application of PS such as the effect of pressure, workload and trust. Mr. Fleck responded that the PSWG had given much consideration to the issue of impediments and how these arise. He noted that this issue was on the agenda but as part of the longer-term initiative.
- Mr. Sudo added that in his view it would be difficult for PAIBs to understand how to apply the proposed requirement to apply a critical mindset. He suggested that the WG provide examples to illustrate how PAIBs would apply the proposed requirement.

OTHER MATTERS

- Ms. Ceynowa noted the references to the WG's coordination efforts with others in the agenda materials, in particular the IAESB, the IAASB and IAASB CAG and suggested that the IESBA and the WG also coordinate with the IAESB CAG. She drew attention to the recent discussion of PS at the IAESB CAG, noting that some points were raised at that meeting that might be of relevance to the WG's future considerations.
- With respect to the reference to the implications for PAs in the public sector, Ms. Elliott suggested that the WG liaise with INTOSAI for input.

Mr. Fleck and Dr. Thomadakis thanked the Representatives for their thoughtful comments and the constructive discussion.

C. PIOB Observer's Remarks

Mr. Bhave complimented the WG and the CAG on a successful teleconference, noting that the discussion had been helpful from his perspective. He acknowledged the preliminary stage of the project and expressed support for the IESBA's consideration of a project proposal at its next meeting. He also noted the PIOB's interest in the project given its relevance to the public interest.

D. Long Association

Mr. Fleck gave a brief update on recent developments concerning the Long Association project. He reported on discussions that he and Dr. Thomadakis had had with the PIOB leadership in relation to the PIOB's concerns regarding the appropriateness of certain provisions in the Long Association document that the IESBA had closed off at its September 2016 meeting. He outlined the two main areas that the PIOB was concerned about, namely the "jurisdictional provision" and the permission the Code would be granting for an engagement partner or engagement quality control reviewer to provide consultation on technical or industry-specific issues to the engagement team after two years have elapsed during their cooling-off period.

As a result, Mr. Fleck indicated that the IESBA would be considering some changes to the provisions at its meeting the following week to seek to address the PIOB's concerns. Subject to its deliberations on these issues, the IESBA would also be considering the matter of whether to re-expose the document.

Mr. Fleck added that the CAG would be briefed on the outcome of the IESBA's deliberations at a teleconference to be arranged in early January 2017. He noted that the urgency in resolving the issues stemmed from the importance of packaging the proposed restructured long association provisions in the Exposure Draft of Phase 2 of the Structure project to ensure that the restructured Code can be finalized by the end of 2017.

Mr. Kockvedgaard concurred with Mr. Fleck regarding the urgency of the matter and the need to align the finalization of the Long Association project with the restructuring of the Code. Dr. Thomadakis noted that the IESBA discussion the following week would be critical and would require both careful management within the constraints of due process and the understanding of all parties involved.

E. Closing Remarks

Mr. Kockvedgaard thanked the Representatives for their contributions. He noted that IESBA staff would schedule the teleconference in January 2017 and that the next physical CAG meeting would be on March 6, 2017 in New York. Mr. Kockvedgaard then ended the teleconference.