Draft Minutes of the Meeting of the
International Ethics Standards Board for Accountants
Held on February 20-22, 2006
New York, United States

	Members	**Technical Advisors**
Present:	Richard George (chair)	Heather Briers
	Frank Attwood	
	Ken Dakdduk	Lisa Snyder
	David Devlin	Andrew Pinkney (Day 1 in part, Day 2-3)
	Mark Fong (Day 1-2, Day 3 in part)	
	Akira Hattori (Day 1-2)	
	Geoffrey Hopper	Sylvie Soulier
	Thierry Karcher (Day 1-2)	Jean-Luc Doyle
	Neil Lerner (Day 1-2)	Tony Bromell
	Pekka Luoma (Day 1-2)	Jouko Ilola (Day 1-2, Day 3 in part)
	Barbara Majoor	Ursula Holdinga
	Michael Niehues	
	Russell Philp	Tiina-Liisa Sexton
	Jean Rothbarth	
	Volker Rohricht	Tim Volkmann
	Robert Rutherford	David Hastings
	David Winetroub	Peter Hughes
	IFAC Technical Staff	
Present:	Jan Munro	
	PIOB Member	
	Michael Hafeman	
Regrets:	Christian Aubin	Stephen Chan

1. Introduction and Administrative Matters

Mr. George opened the meeting and welcomed all those attending. In particular he welcomed new members Barbara Majoor, Michael Niehues and Robert Rutherford, new technical advisors David Hastings and Ursula Holdinga, returning members Jean Rothbarth and David Winetroub. He also welcomed Michael Hafeman, a member of the Public Interest Oversight Body who would be observing the meeting. He reported that Christian Aubin had sent his regrets.

Minutes of the Previous Meeting

The minutes of the public session of the October 2005, Ethics Committee were approved as presented.

December 2005 Consultative Advisory Board Meeting

Mr. George reported that the Ethics CAG has met on December 1, 2005. At the meeting there had been a preliminary discussion of the independence project and initial feedback had been considered by the Independence Task Force. He noted that the Ethics CAG had not yet selected a chair from amongst its members and, accordingly, it had been agreed that he would continue to chair the CAG on an interim basis until such time as a chair was appointed.

Financial Stability Forum

Mr. George reported that he had attended a Financial Stability Forum in February. The center piece of the discussion was the desirability of the convergence of national and international accounting standards. It was noted that there was a parallel with independence standards and, in particular, the difficulty of complying with numerous differing independence standards.

It was noted that if the revised Section 290 benchmarked favorably against the standards of other jurisdictions and regulators this should provide a solid foundation for an acceptable global independence standard such that the focus would be on audit quality. A further point was made that it might be useful to review the research on the relationship between audit quality and independence and, in particular, instances of diminished audit quality resulting from impaired independence.

Planning Committee

Mr. George reported that the Planning Committee had met in January 2006 to discuss operational and strategic matters. He noted that given changes in the Board membership, the Planning Committee now comprised Richard George (chair), Frank Attwood, David Devlin, Mark Fong, Geoff Hopper and Volker Rohricht. In addition to the items which are presented under Agenda Item 5, the Planning Committee had discussed the following:

- *Interpretation Policy* – The existing interpretation policy addresses the old Section 8 and is out of date. The IAASB is also considering the need for an interpretation mechanism. To ensure consistency in IFAC processes, the Planning Committee will

consider any proposals of the IAASB and will, if possible, present a proposal for discussion at the June IESBA meeting.

- *Clarity* – The IAASB is in the process of re-writing its standards to improve their clarity. In October 2005, the IAASB issued an exposure draft which outlines the conventions to be used by the IAASB for drafting future ISAs. In summary:
  - each ISA will state the objective to be achieved in relation to the subject matter of the ISA;
  - each ISA will specify requirements designed to achieve the stated objectives. These requirements are to be applied in all cases, where they are relevant to the circumstances of the engagement, and are identified by the use of the word "shall";
  - the present tense will no longer be used to describe actions taken or procedures performed by the professional accountant; and
  - each ISA will contain application material which provides further explanation and guidance supporting proper application of the standards.

  Mr. George reported that the Planning Committee had some preliminary discussions on to the implications of the IAASB clarity principles to the Code. The Committee was of the view that it would be useful to consider a portion of the Code re-written to apply the Clarity principles. The Committee will develop such a document, consider what the implications would be for the Code and present a proposal for the consideration of the IESBA at a future meeting.
- *Convergence* – The IESBA discussed convergence, and member body implementation of the Code, at its June 2005 meeting. Also input on this matter was obtained from Forum participants in October 2005. The Planning Committee considered the IESBA discussion and forum input. The Planning Committee recognizes that unless a member body adopts the Code in its entirety on a word for word basis it is difficult to say whether they member body has an equivalent standard. The Planning Committee proposes to draft a position paper for the consideration of the IESBA. It was noted that it might be useful to ask member bodies when responding to exposure drafts whether they would adopt the proposed amendment without change and if change was anticipated the reason for such a change. It was also noted that it would be used to ask the Ethics CAG members whether the organizations they represent would support the proposals in a proposed exposure draft – and if they would not support the proposals what changes would be necessary to gain this support.

2. Network Firm

Mr. Attwood, Network Firm Task Force chair, presented proposed changes to the exposure draft to modify the definition of a network firm. He noted that of the approximately 30 comment letters received all were supportive of a change to the existing definition. The vast majority of respondents were supportive of the direction taken by the IESBA, with many noting that definition should be aligned with the EU 8th directive wording.

EU 8th Directive Wording
Mr. Attwood noted that the Task Force had considered whether the definition should be aligned with the EU 8th directive wording. The Task Force had analyzed each element of the 8th directive wording and was of the view that each of the elements is consistent with the intent of the IESBA definition and background material. The Task Force was of the view that the definition should be aligned to the 8th directive wording. The Task Force recognized that in places the IESBA ED wording is somewhat more direct but is of the view that in the interests of convergence the definition should be aligned. The Task Force also noted that the explanatory material in the Code can provide additional clarification on the definition. After discussion, the IESBA agreed with the recommendation of the Task that the definition should be aligned with the EU 8th directive wording.

Definition
A question was raised as to what was meant by a "larger structure" and "aimed at co-operation". It was noted that paragraph 290.14 provides some elaboration of a larger structure noting that the larger structure may or may not be a legal entity. It was suggested that the Task Force elaborate this point.

Consistent application of definition within the network
It response to a question from IESBA, Mr. Attwood noted that the proposed changes to paragraph 290.15 were made in response to a comment on exposure that the decision as to which entities were within the network should be made at the global level. In considering this comment the Task Force was of the view that while it was important that there was consistent application through out the network, it was not necessary that the decision be made at the global level. It was agreed that this paragraph be clarified so that:

- The application of the network firm definition is consistent and if entities with the larger structure had the same fact pattern they would all be deemed to be network firms or not network firms, depending upon the fact pattern; and
- If entity A is a network firm of entity B, then B would also be a network firm of A.

Profit or cost sharing
The term "incidental" was questioned. It was noted that costs are not shared incidentally and the issue was rather whether the costs were material. It was agreed the term "incidental" would be deleted. It was also agreed that an association with another otherwise unrelated entity to jointly develop a product would not, in itself, create a network relationship.

Common quality control policies and procedures
The reference to ISQC 1 was discussed. It was noted that, as drafted, the reference was not particularly helpful. It was agreed that the reference should be deleted and replaced with the concept that the network has developed common quality control policies and procedures. The Task Force was also asked to consider whether there should be some examples of common quality control policies and procedures.

Disclosure of being part of an association
It was noted that respondents had commented that the disclosure in 290.19a should be suggested rather than required. The IESBA agreed with the Task Force recommendation in this area but requested the Task Force reconsider the proposed disclosure. It was agreed that it would be preferable if the Code contain an example of disclosure as this would assist users of the Code.

Other points
The Task Force was asked to consider the following:
- The clarity of the intent of paragraph 290.14x;
- Whether the description of sharing a common business strategy should be expanded to state that the common strategy should be developed by or agreed to by the entities within the larger structure; and
- Providing a better linkage between 290.18 and 290.19

3. Independence

Mr. Karcher gave a presentation on the French Code of Ethics. The IESBA discussed the new French provisions and it was noted that it would be beneficial if national governments and regulators relied upon the Code of Ethics as the appropriate high standard for practitioners in other jurisdictions.

Ms. Rothbarth, Independence Task Force chair, provided background on the work to date of the Task Force. She reminded the IESBA that while the Task Force had been working on this topic for a year, at the October meeting the IESBA directed the Task Force to step back and reconsider positions which should be articulated in position papers.

Ms. Rothbarth reminded the IESBA on decisions which had already been taken by the IESBA namely:
- Section 290 will be split to cover separately financial statement audit engagements and other assurance engagements;
- When the final changes to Section 290 are issued a “user-friendly” guide will also be issued;
- The language in Section 290 should be more direct and more in line with the remainder of the Code; and
- Section 290 will not identify discussion with the audit committee as a safeguard it will, however, note that such discussion is useful.

Partner rotation
Mr. Dakdduk presented the Task Force’s recommendations for changes related to partner rotation. He noted that the extant Section 290 requires rotation of the engagement partner and the individual responsible for the engagement quality control review after a period of seven years with a time-out period of two years. Section 290 does provide some flexibility when the individual’s continuity is especially important to the engagement and when, due to the size of the firm, rotation is not possible. He indicated that the Task Force had benchmarked the position in Section 290 with other jurisdictions and had considered this benchmarking in formulating their recommendations.

The Task Force was of the view that Section 290 should continue to acknowledge that prolonged service on the audit engagement team may create a familiarity threat but it may also create a self-interest or self-review threat. The IESBA questioned whether a self-interest threat was created and concluded that it was not. It was noted that the threat was familiarity with the client management and it was also with the accounting and reporting issues faced by the client. A question was raised as to whether the definition of familiarity threat appropriately captured both of these elements. It was concluded that the definition of familiarity threat was appropriate and the discussion of the need for partner rotation should refer to familiarity with both client management and the accounting and reporting issues.

Mr. Dakdukk stated that the Task Force was of the view that the extant position in the Code to rotate the engagement partner and the individual responsible for the engagement quality control review continued to be appropriate and struck the right balance with the need for a fresh look and audit quality. Other individuals would be subject to the overall threats and safeguards approach. It was noted that when the extant position was benchmarked against other jurisdictions it did not seem to go far enough. In particular other jurisdictions required rotating other key audit partners on the assignment. It was agreed that the partner rotation requirements should be expanded to address other than just the engagement partner and the individual responsible for the engagement quality review. It was noted that it was important to capture those who had significant influence over the audit and were responsible for key decisions or judgments. It was further noted that there should be some flexibility on the rotation of these additional individuals if their rotation would be detrimental to audit quality.

The IESBA considered whether a change in management would lessen the need to rotate partners. The IESBA agreed with the Task Force recommendation that such a change would not lessen the need for rotation on audits of listed entities because there was also a need for a fresh look at the accounting and reporting issues. It was further agreed that for non-listed entities changes in management would be a factor that should be considered in assessing the significance of a threat to independence.

Mr. Dakdduk stated that in considering the period of time after which rotation should occur, the Task Force had considered the balance between the need for a fresh look and the need for qualified accountants. In particular, the Task Force recognized the increasing complexity of accounting and reporting issues and the increasing number of accounting and reporting standards. With these factors in mind, and with due regard to the benchmarking to other jurisdictions, the Task Force recommended rotation after seven years. The IESBA agreed with the recommendation of the Task Force.

In considering the “time-out” period, Mr. Dakdduk noted that the Task Force had considered whether two years was sufficient and had benchmarked the period to other jurisdictions. On balance, the Task Force was of the view that two years was an appropriate period. The Task Force was of the view that the Code should be clarified with respect to what activities can be performed in the time-out period. The Task Force was

recommending that, recognizing there might be a need for transitioning to the new partner, there should be no meaningful activity on the audit engagement and, consequently, the two year time-out period should start only after any meaningful activity had ended. The IESBA agreed with the Task Force recommendation that the time-out period should be two years but was of the view that no meaningful activity should take place after the seven year period had ended and any transitioning should be complete before the end of the seven year period.

Mr. Dakdduk reported that the Task Force had discussed the flexibility contained in the Code with respect to rotation. The Task Force was of the view that flexibility should only be provided in very rare circumstances where the individual's continuity was important to the quality of the audit. With respect to the flexibility for small firms where rotation may not be possible, Mr. Dakdduk reported that the Task Force had not reached a consensus in this area with some Task Force members having the view that, with appropriate safeguards, public policy is best served if some flexibility is provided – other Task Force members were of the view that rotation should be required irrespective of the size of the firm. The IESBA discussed this issue noting that the only argument for providing such flexibility was from a public policy perspective. It was also noted that if there was insufficient depth in the firm to rotate the partners this could have implications for audit quality. The IESBA discussed whether there were any safeguards, other than rotation, which could address the familiarity threat. The safeguard of an external review by a regulator was discussed. It was noted that such a review was after issuance of the audit report and might be several years later. Therefore, on balance, the majority of IESBA members did not view this as an effective safeguard. The IESBA directed the Task Force to remove the flexibility for rotation for small firms.

Partner Remuneration

Mr. Karcher presented the Task Force's deliberations on the issue of partner remuneration. He noted that the issue had been raised by the Ethics CAG and that Task Force was of the view that the Code should address the threat created by remunerating for the selling of non-audit services. The Task Force noted that there were other elements of remuneration systems which could create a threat to independence including meeting specific targets for audit engagements and client retention. Mr. Karcher further noted that the Task Force had considered whether the guidance should apply to only the engagement partner and had also considered the types of entities for which the guidance would apply: listed audit clients, all audit clients or all assurance clients.

The IESBA discussed the issue noting that remuneration schemes should be structured such that they do not call into question audit quality. However, it needs to be acknowledged that there is a financial interest in being a successful auditor. It was further noted that other jurisdictions which had addressed this had done so through addressing remuneration for selling of non-audit services. It was noted that the empirical studies have not revealed a correlation between remuneration for selling of non-audit services and audit failure.

The IESBA directed the Task Force to have regard to the SEC and APB requirements and propose an amendment to the Code to provide guidance with respect to compensation of the selling of non-audit services.

The IESBA discussed the individuals who would be captured by this guidance and whether it should apply to listed audit clients, all audit clients or all assurance clients. It was noted that applying the requirements to all of the engagement team might be somewhat broad and accordingly the Task Force should address the engagement partner, the individual responsible for the engagement quality control review and other key audit partners. With respect to the types of client to be addressed, the IESBA noted that one of the criteria for distinguishing whether there should be additional restrictions for listed audit clients was whether the threat was only a threat in appearance/perception. It was further noted that restricting the guidance to only listed audit clients could be quite cumbersome. Accordingly, the IESBA directed the Task Force to draft guidance that applied to all assurance engagements.

Public Interest Entities

Mr. Bromell presented the Task Force's deliberations on the application of the Code to Public Interest Entities. He noted that the rationale for applying differential requirement to listed entities is in terms of the perceived threats to independence. The Task Force has considered how other jurisdictions have addressed this issue. Many jurisdictions have developed a definition of a public interest entity. While the definitions vary, the existence of a wide range of stakeholders is a common feature. He noted that the Task Force was of the view that, for a global standard, it was impracticable to create a detailed definition of a public interest entity which would be suitable in all jurisdictions. The Task Force had also considered whether the differential requirements should be extended to all significant public interest entities and require member bodies when implementing the Code to defined a public interest entity. On balance the Task Force was of the view that it would be preferable to require member bodies to define a public interest entity and auditors would have a rebuttable presumption that the differential requirements apply to those entities.

The IESBA discussed the recommendation of the Task Force noting:

- The concept of a rebuttable presumption was not clear or appropriate;
- It would be useful if the Code explicitly indicated that the additional restrictions were necessary because of the perceived threat to independence;
- Agreement that it was not possible to establish a single definition for a public interest entity which would be appropriate for all jurisdiction;
- It would be useful to have greater clarification on the meaning of wide range of stakeholders. The wider public interest in listed entities is because a wider group of individuals uses the financial statements;
- It would be useful to provide guidance for member bodies with respect to the types of matters which would be considered in determining whether an entity was a public interest entity including matters such as size and employment;
- The proposed criterion of financial stability of the economy was not seen as particularly helpful.

The Task Force agreed to consider the input of the IESBA in developing guidance on the types of entities which would be considered to be public interest entities.

The Task Force discussed which of the stricter listed entity provisions should also be applied to public interest entities. The following points were noted:

- This is an area which would often be governed by national regulators;
- If the distinction is made based on perception it is difficult to cherry pick from the requirements; and
- There is a distinction between listed entities and other public interest entities – with listed entities there are generally cross border issues with stakeholders in many jurisdictions, while other public interest entities tend to be jurisdiction specific.

It was agreed that the guidance should contain a presumption that all of the additional restrictions for listed entities would also apply to other entities of significant public interest, but there might be some room for member bodies to not require a specific restriction if that can be justified in the particular jurisdiction. It was further agreed that the Task Force should specifically consider the application of the Code to related entities of entities of significant public interest.

Cooling-off Period

Mr. Pinkney presented the Task Force's recommendations for changes related to the appropriateness of a cooling-off period before a person joins a financial statement audit client.

He noted that the Task Force was of the view that self-interest, familiarity and intimidation threats may be created when an individual joins a listed audit client. Therefore was some discussion as to whether a self-interest threat was created and it was noted that the self-interest threat created might exist while the person is contemplating joining the audit client. It was further noted that while this might be the case this notion did not exactly fit within the current definition of a self-interest threat. It was agreed that the Task Force would consider whether the definition of a self-interest threat needed to be clarified.

Mr. Pinkney indicated that the Task Force recommended that a mandatory cooling-off period be applied only to the engagement partner since this is where the greatest threat would arise. Consistent with a principles-based approach, other member of the team would be dealt with through the threats and safeguards approach. The IESBA rejected the Task Force recommendation noting that:

- This was not consistent with other jurisdictions;
- At a minimum, there should be consistency with the partner rotation requirements – which the IESBA was of the view should be extended to the engagement partner, the individual responsible for the engagement quality control review and other key audit partners;
- Some jurisdictions had implemented requirements in this area to prevent the perception of a revolving door between the team and the client;

- The intimidation threat relates to other than just members of the team, for example it could be created by any partner joining the client – however this would be balanced by having individuals on the team with sufficient seniority and expertise.

It was agreed that the mandatory cooling off period should apply to the engagement partner, the individual responsible for the engagement quality control review and other key audit partners, It was further agreed that the guidance should focus on the intimidation threat and it should be noted that when other partner join the client a threat might be created that would need to be addressed by safeguards.

Mr. Pinkney noted that the Task Force was of the view that the length of the cooling off period should be such that there is one audit opinion for which the partner had not been involved with the audit engagement. It was clarified that this meant that if an engagement partner had signed the 2005 financial statements but had then done some regulatory work in 2006, that individual would not be in a position to join the audit client until the 2007 financial statements had been signed. The IESBA agreed with the recommendation of the Task Force but cautioned the Task Force with respect to clarity of the language.

Mr. Pinkney noted that the Task Force's recommendation with respect to the employment position was that a mandatory cooling off period was necessary when the individual joined the client as a director, or an officer or an employee in a position to exert direct and significant influence over the subject matter information. The Task Force was of the view that this should not be extended to the subject matter as this was more remote and would be adequately addressed through the threats and safeguards approach. The IESBA agreed with the Task Force recommendation.

Mr. Pinkney noted that the Task Force has considered whether the Code should contain any exemption to the cooling-off period. The Task Force was of the view that there should be an exemption if a former partner joins an entity and then as a result of a merger or acquisition that partner he or she in a restricted role with an audit client that is a listed entity. The IESBA agreed with this exemption and discussed whether any other exemptions were required – for example in an emergency or other unusual situation. It was agreed that it was not possible to contemplate all situations and therefore the IESBA directed to Task Force to develop some language for exemptions in rare and unusual language but cautioned the Task Force that the exemption should be tightly drawn so as not to weaken the Code.

Restricted Use Reports

Mr. Hughes provided an overview of the Task Force's recommendation to make a minor modification to the requirements for restricted use reports. He noted that the Code provides that for restricted use reports in respect of an assurance client that is not a financial statement audit client, the users of the report are considered to be knowledgeable about the limitations of the report. This increased knowledge and ability of the firm to communicate with all users may be taken into account when evaluating any threats to independence. Accordingly, Section 290.19 provides that for such engagements the assurance team is required to comply with the independence provisions in the Section

and the firm may not have a material financial interest in the client. The Task Force has discussed such engagements noting that the engagements are often confidential, non-recurring and commenced in a very short-time frame. In light of these factors, the Task Force recommends that members of the engagement team be required to comply with the all the independence provisions, a threats and safeguards approach be applied for technical and quality support personnel and there would be a consideration of known threats with respect to other persons in a position to influence the conduct of the engagement. The IESBA agreed with the Task Force recommendation to provide a little additional flexibility for such engagements to assurance clients that are not financial statement audit clients.

Management Functions

Mr. Hopper presented the Task Force's recommendations in the area of management functions. He indicated that the existing Section 290 does not define a management function or make specific reference to acting as management or acting in a management role. Instead there are several references direct or indirect to this issue. He indicated that the Task Force has discussed whether the Code should include a management threat as a new category of threat. The Task Force was of the view that such a threat was a combination of the existing threats and its recommendation was that there should not be an additional category of threat. The IESBA agreed with the recommendation of the Task Force and indicated that the Code should make it explicit that acting in the capacity of management created a combination of those threats.

Mr. Hopper noted that management was responsible for many functions relating to stewardship and acting in the best interests of the owners of the entity and the results of these decisions are reflected in the financial statements. In the Task Force's view performing management functions for an audit client aligns the auditor too closely to the client and, therefore, the Task Force was recommending that an auditor should not perform such functions for a financial statement audit client. With respect to other assurance clients, the Task Force was of the view that the practitioner should not provide management functions that are related to the subject matter of the assurance engagement and subject to an analysis of threats and application of any necessary safeguards the practitioner could perform management functions that are not related to the subject matter. The IESBA agreed with the Task Force recommendation noting that in the analysis of threats and safeguards it would be particularly important to give due regard to the threat to independence in appearance.

Mr. Hopper indicated that the Task Force had considered whether the Code should differentiate between small and large entities and concluded that this differentiation was not appropriate, auditors should not be performing management functions for their clients. The IESBA agreed with the conclusion of the Task Force.

Mr. Hopper presented the illustrative language which describes a management function. The IESBA discussed this illustrative language noting that:

- It is difficult to define a management function but it is useful to have a list of examples of what would be considered a management function

- The list of functions illustrated on page 9 of the agenda paper was useful
- The concept of an action being the "proper responsibility of management" is useful and is something which should be retained.

Mr. Hopper indicated that the Task Force thought it useful to provide some guidance on what would not be considered to be a management function. The IESBA discussed the illustrative language, the following points were made:

- Concern with providing a list of what were not management functions especially as some of the matters seem trivial and/or self-serving;
- It might be useful to practitioners and member bodies to provide some examples of what would not be considered management functions.

On balance, the IESBA was of the view that it would be useful for the Code to contain some guidance on what would not be considered to be a management function but this should be in the form of a textual explanation rather than a list of functions.

Taxation Services

Mr. Lerner gave a presentation on the preliminary thinking of the Task Force on taxation services. He reminded IESBA members that the Board had discussed this at their June meeting and had agreed that the existing position in the Code, which while appropriate at the time it was written, was no longer appropriate and it needed to be revised. The IESBA re-affirmed the decision that the Code should be amended to address threats created by taxation services.

Mr. Lerner noted that taxation services cover a broad spectrum from tax compliance to development of creative tax schemes to representing a client in front of a tribunal. He indicated that in discussing threats to independence, the Task Force has identified the following categories of services:

- Compliance services – which would include: preparing tax returns, calculating current and deferred tax liabilities for a financial statement audit client and the client uses the calculation as a basis for preparing the accounting entries and advising a client on the likely outcome of unresolved tax issues to enable the client to prepare accounting entries;
- Advisory services – a firm might be asked to provide tax structuring advice; and
- Other tax services related to courts of tribunals – for example acting as an advocate for a client before a court or public tribunal or responding to requests for specific information or providing factual accounts about work performed.

Mr. Lerner asked the IESBA whether they agreed that because of the broad range of tax services some services could create threats to independence. IESBA members agreed that this was the case.

The IESBA discussed types of tax services that are provided and threats that might be created and the following points were noted:

- When providing tax structuring advice the significance of any threat created would depend upon matters such as whether the advice was supported by an established precedent and whether the effectiveness of the tax advice depends upon a particular

accounting presentation and there is doubt about the appropriateness of the accounting treatment;
- The phrase "tax structuring" might not be seen as particular useful;
- In a small client the deferred tax calculation might be fairly straight forward and there may be little judgment involved;
- Even though there may be overlap it is helpful to think of tax services in broad categories;
- The Tax Force should look at what other jurisdictions have done in this area and ensure that the position taken is appropriate to protect the global public interest;
- One jurisdiction had addressed the issue of providing tax services to individuals;
- Preparing tax entries which go into the notes of the financial statements is no different from preparing other entries, also there should be consistency with valuations;
- Tax services range from quite simple services in the compliance area which are really no more than mathematical calculations to complex tax planning services accordingly the range of threats created will differ depending upon the service;
- Management has to be competent to prepare the financial statements and this includes competence in preparing the tax entries;
- While tax returns are reviewed by taxation authorities in some jurisdictions in other jurisdictions such are review is rare; and
- If there are restrictions on the auditor providing certain tax advice, in many circumstances the client will need to engage another accountant to provide the service – which might be more costly. There is a need to consider whether for each category of tax service there is a threat that cannot be offset by safeguards and in which case the public interest is served by requiring an additional accountant to get involved.

It was agreed that the Task Force would consider the input from the IESBA in further developing its thinking. It was noted that the Task Force would be consulting with others before the next IESBA meeting. This consultation would include the Ethics CAG and also individuals knowledgeable in the types of taxation services that are provided by firms, both large and small.

Other non-audit services
Ms. Rothbarth reported that the Task Force had considered the types of non-audit services addressed in other jurisdictions to determine whether there were any additional categories of threats which should be addressed in the Code. The Task Force was of the view that it was not necessary to include examples of additional services.

Actuarial services – A question was raised as to whether actuarial services should be separately addressed. Ms. Rothbarth indicated that the Task Force was of the view that the principles under valuation services would apply to actuarial services. It was noted that actuarial services could be broader than valuation services – for example designing a pension plan. It was agreed that while it might be appropriate to expand the Code to address actuarial services in the future, this was not a priority for this round of changes to the Code.

Valuation services – Ms. Rothbarth reported that the Task Force was of the view that the language should be clarified to refer to valuations that are incorporated in the financial statements. She also reported that a question had been raised from the CAG regarding the meaning of the term "significant subjectivity" and the Task Force intended to provide some additional guidance on this.

Internal audit services – Ms. Rothbarth reported that the Task Force recognized that other jurisdictions were more restrictive in this area. The IESBA discussed non audit services noting the following:

- Much has changed with respect to internal control since the existing Section 290 was issued. In many jurisdictions auditors are required to report on internal control and under revised international auditing standards an auditor is required to obtain and understanding of the entity's internal control;
- While some jurisdictions have restrictions on providing internal audit services others do not; and
- With the appropriate safeguards on place internal audit work can be performed without stepping into the role of management.

It was agreed that the existing position regarding internal audit services was appropriate and if there is a need to revisit this area it should be in the next round of changes to the Code.

Information Technology Services
Ms. Rothbarth reported that the Task Force recommended that the restriction for listed entity audit clients address design *or* implementation of IT systems, as opposed to design *and* implementation, which is the current positioning the Code. For non-listed entities, the safeguards outlined in the Code would be mandatory. Also firms should be allowed to install pre-packaged software.

It was noted that the issue of installation of pre-packaged software was very complex as there could be an element of customization. It was agreed that the Task Force should address this issue and in particular look at the SEC guidance and the EU recommendation in this area.

Temporary Staff Assignments
Ms. Rothbarth reported that the Task Force was of the view that this guidance should be moved to the area of employment relationships. Further the guidance should be expanded to indicate that the assignments should be short in nature and the assigned staff cannot provide non-audit services that would otherwise be prohibited. In addition the loaned staff should not be a member of the assurance team.

The IESBA agreed with the recommendation of the Task Force except they were of the view that the guidance should not be included with employment relationships rather it should be in a separate Section outside of the non-audit services Section.

Litigation Support Services
Ms. Rothbarth reported that the Task Force recommended that the guidance in this area be changed to restrict litigation support services to matter that were not material to the financial statements, add a reference to advocacy threat and delete paragraph 290.195 which refers to managerial decisions.

The IESBA had some discussion about providing expert services. It was noted that in some jurisdictions experts are appointed by the court and the expert is a sworn independent expert of the court. It was further noted that there is an appearance of an advocacy threat and this should be addressed in the Code.

The IESBA agreed with the recommendation of the Task Force and asked the Task Force to consider the comment on expert services.

Legal Services
Ms. Rothbarth reported that the Task Force was of the view that significant change was not needed in this area but the wording could be edited for clarity. The IESBA agreed with the view of the Task Force.

Recruiting Senior Management
Ms. Rothbarth reported that the Task Force was of the view that Section 290 should contain a restriction on recruiting individuals in a position to exert significant influence over the financial statements for audit clients that are listed entities.

It was noted that there needed to be a rationale for making the distinction between listed and non-listed audit clients. It was further noted that the position on recruiting senior management should be consistent with the position taken regarding performing management functions.

It was agreed that the Task Force would step back and see if the split for listed/non-listed was appropriate for this and all other non-audit services.

Corporate Finance Services
Ms. Rothbarth reported that the Task Force recommended that the guidance on the provision of corporate advisory services apply to only audit clients as opposed to all assurance clients. The IESBA agreed with the Task Force recommendation noting that providing corporate financial services to an assurance client which was not an audit client would be subject to the overall threats and safeguards approach.

Non-subject to audit procedures
Ms. Rothbarth reported that the Task Force had considered the SEC requirement that in the case of certain non-audit services independence would not be impaired if it is reasonable to conclude that the results of the services were not subject to audit procedures. The exemption exists when there is no self-review threat and does not apply to “downstream” entities such as subsidiaries or divisions. The Task Force was of the

view that this concept should be incorporated in the Code. The IESBA agreed with the Task Force recommendation.

Bookkeeping Services
Ms. Rothbarth reported that, in response to comment received from the CAG, the Task Force had considered whether the Code appropriately addresses bookkeeping services for non-listed entities given the need for SMEs to obtain assistance with the financial reporting. The Task Force was of the view that the guidance was generally appropriately positioned but it should be clarified to indicate that for non-listed entities an auditor can prepare standard or adjusting journal entries provided the client reviews the entries and understands their purpose. In addition, the Code should make it clear that accounting advice can be provided to listed and non-listed audit clients.

The IESBA agreed with the Task Force recommendation.

Transaction Related Services
Mr. Hughes reported that the Task Force had considered whether the Code should contain additional guidance on the area of transaction related services. Transaction related services comprise a broad range of services including due diligence investigation, investment circular work and legal/regulatory work with respect to share transactions. The services may be assurance services or non-assurance services. He noted that the APB has some specific prohibitions in this area, although other jurisdictions do not.

He noted that the Task Force had considered three options:
- make no changes to the Code other than possibly to clarify the meaning of the existing Section on Corporate Finance and Similar Activities;
- extend the drafting of the existing Corporate Finance and Similar Activities example within the Code to discuss transaction related services more generally;
- develop a stand-alone example within the Code for Transaction Related Services to sit alongside Corporate Finance work.

Given no regulator other than the APB has attempted to provide separate guidance for transaction related services, the Task Force was of the view that no separate Section for transaction related services was necessary and the Section on corporate finance services should be revised to clearly differentiate it from transaction related services.

The IESBA agreed with the Task Force recommendation noting that this might be a subject worthy of consideration in the future.

Independence for Compilation and Agreed Upon Procedures
Ms. Munro introduced this topic noting that while Section 290 contains independence requirements for assurance engagements, the Code contains no guidance on independence requirements for agreed upon procedures or compilation engagements. Under International Standards on Related Services issued by the IAASB for such engagements the accountant assesses their independence by reference to the Code and if the accountant is not independent, discloses this fact.

The IESBA was of the view that this matter was not a priority and it should not be addressed at this time.

Responsibility
Ms. Munro noted that in response to the Network Firms exposure draft one respondent had expressed the view that in some cases it is not clear whether the responsibility for a particular requirement rests with a firm, a network firm or an individual. The Task Force requested direction from the IESBA as to whether this matter should be addressed in the redrafting of the Code.

It was noted that re-writing Section 290 in this way could be quite time consuming. Concern was expressed that this would delay the revision of Section 290. Therefore, the IESBA was of the view that this should not be addressed at this time.

Other issues
Ms. Rothbarth presented some other matters which the Task Force had considered and requested direction from the IESBA as to whether the issues should be addressed at this time:

- Auditor indemnification – The IESBA was of the view that this was not a priority issue and, therefore, should not be addressed at this time;
- Financial interests held in trust where the firm or members of the assurance team are trustees – The IESBA was of the view that if this matter could be addressed in a simple fashion it should be addressed at this time. If the matters were complex it should be addressed in the future so that this round of revisions is not delayed;
- Mutual funds – The IESBA was of the view that this was not a priority issue and, therefore, should not be addressed at this time;
- Related entity definition – There was agreement that the Task Force should look at this matter but it was noted that with the inclusion of the concept of not-subject to audit procedures revisions might not be necessary; and
- Description of significant influence and control – it was agreed that the meaning of these two items was linked to the accounting treatment for entities and this matter should be clarified in the Code.

It was agreed that the bench-marking contained in the agenda papers was very useful and for the June meeting all of the non-audit services should be benchmarked to other jurisdictions.

4. Ethical Guidance for PAIB when Encountering Fraud or Illegal Acts
Mr. George introduced the agenda item noting that it had been provided to the IESBA to enable members to re-affirm their decision to approve an expanded scope to the project. When the project was approved, the IESBA determined that the scope should be restricted to professional accountants in business. When the scope of the project was subsequently discussed with the CAG, concern was expressed that the project was not also dealing with professional accountants in public practice. The Task Force discussed this matter recognizing that confidentiality is key to audit quality because there needs to

be full and frank discussion between management and the auditor. However the Task Force is of the view that the scope of the project should be amended to consider whether the guidance in Section 210 could be strengthened with respect to communications between the incoming and existing auditor and whether there are any situations where the auditor should communicate matters outside of the entity.

The IESBA agreed with the Task Force's request to extend the scope of the project.

5. Operational Matters

Mr. George presented the IESBA Terms of Reference which had been discussed at the December meeting of the PIOB. He noted that the PIOB intended to approve the revised terms of reference for all of IFAC's Public Interest Activity Committees (PIACs) at its March 2006 meeting.

Mr. George then presented the IESBA Due Process and Operating Procedures. He noted that the Due Process is consistent for all PIACs but operating procedures may be modified to reflect the unique circumstances of each PIAC. The Planning Committee had discussed the document at its January 2006 meeting and was of the view that to the extent possible the working procedures should be consistent with IAASB. IESBA members reviewed the dues process and operating procedures and subject to a few minor changes approved the operating procedures.

Mr. George presented the draft Strategic Plan which the IESBA had discussed at its June 2005 meeting. Subject to providing timelines for the activities, the IESBA approved the strategic plan.

6. Closing

Mr. George thanked all attending for their participation and closed the meeting.

8. Future Meeting Dates

June 13-14, 2006 (Prague)
October 16-18, 2006 (Sydney)