

**Final Minutes of the 60<sup>th</sup> Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

**Held on June 18-20, 2018 in Athens, Greece**

**Voting Members**

Present: Stavros Thomadakis (Chairman)  
Richard Fleck (Deputy Chair) (Day 1 only)  
Michael Ashley  
Brian Caswell  
Brian Friedrich  
Hironori Fukukawa  
Kim Gibson  
Liesbet Haustermans  
Robert Juenemann  
Winifred Kiryabwire  
Caroline Lee (via teleconference)  
Alden Leung  
Myriam Madden  
Ian McPhee  
Reyaz Mihular  
Patricia Mulvaney  
Jens Poll  
Sylvie Soulier

**Technical Advisors**

Saadiya Adam (Mr. Mihular)  
James Barbour (Mr. Ashley)  
Denise Canavan (Ms. Haustermans)  
David Clark (Ms. Soulier)  
Gregory Driscoll (Ms. Lee)  
Jens Engelhardt (Mr. Poll)  
Ellen Gorla (Mr. Caswell and Ms. Madden) (via teleconference)  
Josephine Haste (Mr. McPhee)  
Ian Hutchinson (Mr. Friedrich)  
Selena Ho (Mr. Leung)  
Gina Maldonado-Rodek (Ms. Gibson)  
Andrew Pinkney (Ms. Mulvaney)  
Sundeep Takwani (Ms. Kiryabwire)  
Toshihiro Yasada (Mr. Fukukawa)

**Non-Voting Observers**

Present: Kristian Koktvedgaard, IESBA Consultative Advisory Group (CAG) Chair, and Takuya Emoto, Japanese Financial Services Agency (FSA)

**Public Interest Oversight Board (PIOB) Observer**

Present: Jules Muis

**IESBA Technical Staff**

Present: James Gunn (Managing Director, Professional Standards) (via teleconference), Ken Siong (Senior Technical Director), Diane Jules (Deputy Director), Geoffrey Kwan, John Morrow, Szilvia Sramko

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Dr. Thomadakis welcomed all participants and public observers to the meeting. He also welcomed especially Mr. Don Thomson, Chair of the e-Code Working Group (WG), and Mr. Peter Hughes, past IESBA member who is providing technical support to the Part 4B<sup>1</sup>–ISAE 3000 (Revised)<sup>2</sup> Alignment WG.

Dr. Thomadakis welcomed and introduced Prof. Ian Hutchinson as a new technical advisor who will be supporting Mr. Friedrich. He noted that Ms. Nigyar Mamedova has retired from her role as technical advisor to Mr. Juenemann and wished her all the best in her future endeavors.

Among other matters, Dr. Thomadakis highlighted the following in his introductory briefing to the Board:

- Topics discussed at the various Planning Committee meetings since the March 2018 Board meeting.
- Additional roundtable relating to the Non-Assurance Services (NAS) and Professional Skepticism initiatives to be held in Melbourne, Australia on July 16, 2018.
- Discussions at the 10<sup>th</sup> annual IESBA-National Standard Setters (NSS) meeting held in Vienna in May 2018, which included a joint IAASB-IESBA session on technology.
- Board publications that were recently issued, including the consultation papers for the Strategy and Work Plan 2019-2023 and professional skepticism.

The Board approved the minutes of the March 2018 public session meeting as amended during the meeting, and the April and May 2018 teleconferences as presented.

## 2. Fees

Mr. McPhee, Chair of the Fees Working Group (WG), commenced the session by presenting the WG's final report on its fact-finding activities aimed at identifying whether there is a relationship between fees and threats to compliance with the fundamental principles or to independence, or whether there are reasonable perceptions that such threats exist, as well as how such threats might be addressed. Among other matters, the report included the WG's recommended way forward with respect to the various areas of focus in the initiative.

The Board broadly supported the WG's recommended way forward in relation to the various areas covered in the final report. The following general and specific matters were raised during the discussion, among others.

### OUTCOME OF THE FACT-FINDING ACTIVITIES

- Whether the WG had considered the potential impact of technology on fees, and whether high investment on technology leads to increased fees. Technology was in particular blurring the lines between services and it is likely to redefine audit and NAS. Mr. McPhee replied that the WG did not

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<sup>1</sup> International Independence Standards, Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements

<sup>2</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

study the issue of technology specifically. However, as part of the fact finding activities, some firms had indicated that the ability of firms to provide NAS can help enhance audit outcomes.

- Mr. Fleck noted that the topic of technology also was raised at the global roundtables in Washington DC and Paris earlier in the month. Some roundtable participants had shared a similar observation that technology was leading to a blurring of the lines between audit and NAS, and that there might be challenges regarding how to define what an audit engagement team is, and to address the interactions of the services or lines of business.
- New technology will change the business model for audit and the way fees are charged. Already, one way in which technology has impacted the business model of some firms is through the use of shared service centers.
- Once the revised and restructured Code has bedded down in a few years, the Board would be better placed to determine whether there is something specific related to fees to address.
- How the thresholds of 'low' and 'high' in relation to audit fees should be defined. Mr. McPhee responded that in the context of downward pressure on fees, the WG's focus was not on the exact level of fees but scope to strengthen the Code and in particular the responsibility of professional accountants (PAs) regarding fees.
- Mr. Koktvedgaard noted that fees can be looked at from both firm and individual partner perspectives. Some partners can retain a higher level of fees and he queried whether that aspect had been considered by the WG. He also wondered whether the impact of the distinction between mandatory and voluntary audit on fees had been considered. Mr. McPhee responded that the WG had not considered these issues directly, but nevertheless will endeavor to reinforce principles in the Code.

Dr. Thomadakis acknowledged that the issue of fees brings the Board closer to the topic of the audit firm business model than the issue of NAS. He noted two clear forces, public expectations about independence and technology, which might also intersect with various work streams, and therefore there will be a need for coordination among them.

#### *PIOB Observer's Remarks*

Mr. Muis congratulated the WG on the report. He highlighted that the paper focused on the top line of fees and not the bottom line, and he suggested that consideration could be given to extending the mandate to study the bottom line of the fees issue. He noted that the report focuses on academic research and there is not much emphasis on the summary reports published by the International Forum of Independent Audit Regulators (IFIAR), despite the fact that academic research has been challenged for decades by lack of access to internal information of firms. He suggested that this limitation be explained to readers of the report as compared with IFIAR's inside-out approach, in order to put the findings in perspective. He added that the PIOB will be a partner and will encourage IFIAR to focus more clearly on making a connection between fees and audit quality in its members' inspections vs. drawing conclusions only about audit quality.

#### RECOMMENDED WAY FORWARD RELATED TO LEVEL OF FEES

Regarding the recommended way forward in relation to the responsibility of engagement partners, a few IESBA members suggested that the WG seek to understand what that would mean in certain jurisdictions from a legal perspective, e.g., with respect to legal liability.

IESBA members supported a focus on enhancing the role of those charged with governance (TCWG) and addressing the fee-related issues from that perspective. However, some further thought would be needed as to how best to achieve this through the provisions of the Code related to PAs in business (PAIBs). There was a suggestion to consider raising awareness of their role through education and guidance.

Mr. Koktvedgaard noted that the previous year, CAG representatives had raised the issue of allocation of the audit fee within a group audit. If the audit fee is agreed on a global level, some group engagement teams would push fees down to component auditors that can impact decisions as to whose responsibility fees is at the component level. Dr. Thomadakis emphasized the need for the WG to be cautious while considering the issue of the level of fees to avoid anti-trust issues.

#### RECOMMENDED WAY FORWARD RELATED FEE DEPENDENCY

The discussion focused mainly on the consideration of having a threshold for audit clients other than public interest entities (non-PIEs) in the Code. Among other matters, the following were raised:

- In principle, there should be no difference between the provisions applicable to PIEs and non-PIEs. Accordingly, the case for a threshold for non-PIEs, whether the same as or different from that for PIEs, should be further considered.
- Having a threshold for non-PIEs could be challenging for SMPs. Consideration should be given to conducting an impact analysis in terms of the benefits that can be achieved. In this regard, it was noted that SMPs are not necessarily auditors with small clients, as in some jurisdictions many listed companies are audited by SMPs.
- The current provisions of the Code are principles-based and that approach should be retained. If a threshold for non-PIEs were to be established, this could be applied as a trigger to reassess threats.

Mr. McPhee acknowledged that the challenge regarding the non-PIE issue is that there can be large entities that are non-PIEs as well.

Dr. Thomadakis remarked that the IESBA has faced this dilemma before related to the issue of PIE versus non-PIE. He also acknowledged that there is a problem of, on the one hand, how to protect or not burden SMPs, and on the other hand, recognize that they are not fully captured by the non-PIE category.

#### RECOMMENDED WAY FORWARD RELATED TO RATIO OF NAS FEES TO AUDIT FEES

The discussion was focused on the transparency and the disclosure of NAS fees and the role of TCWG related to NAS services.

Regarding the issue of transparency and disclosure of NAS fees, the following matters were raised:

- Whether there are requirements in the International Auditing and Assurance Standards Board's (IAASB's) International Standards on Auditing (ISAs) related to disclosure, and if there are, what the Code should further include. Mr. Siong informed the Board that there is a communication requirement in ISA 260<sup>3</sup> for the auditor of a listed entity to disclose the ratio of NAS to audit fees to TCWG. However, he also noted that not all jurisdictions adopt both ISAs and the Code together, and there is a need for some coordination with the IAASB in regard to this particular area.

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<sup>3</sup> ISA 260, *Communication with Those Charged with Governance*

- Mr. Ashley explained that the WG had considered transparency to the outside world, not just to TCWG. He was also of the view that transparency is more of an ethical issue, in the sense that transparency to stakeholders is needed in order to satisfy ethical requirements. Therefore, he was of the view that the requirements related to disclosure of fees do not belong in an auditing standard.
- There is a case for enhancing transparency and disclosure because it is the investor community which needs to decide what is too high or too low.
- The topic of fees disclosure was discussed at length in some jurisdictions such as the US and the EU, and many technical details were raised during these discussions. It would be important, in future consideration of the issue of disclosure of fees, that the Board not be distracted by technical details and keep a focus on principles. Caution should also be exercised in not mixing transparency and disclosure as for many listed entities, there are already rules related to public disclosure of fees and other information. There is greater challenge with respect to non-listed entities because in their case, if there is no obligation to disclose other information, they cannot be obliged to disclose information only on fees.

Regarding the role of TCWG, the following matters were raised:

- Consideration should be given to approaching the issue of pre-approval of NAS by TCWG from a practical perspective, and to keeping in mind that it is sometimes not possible to have the approval of TCWG, because, for example, there is no audit committee. Consideration should also be given to inserting some kind of threshold for the pre-approval.
- Addressing the involvement of TCWG would place the issue within the entity's corporate governance structure, which would be a positive development.
- Whether the Code has a mandate over TCWG. Mr. Ashley responded that even though TCWG are not subject of the Code except in their individual capacities as PAIBs, firms can be prohibited from providing NAS without pre-approval.

Mr. Koktvedgaard noted that some jurisdictions have requirements in their accounting legislation to disclose the level of audit fees. He advised the WG to consider whether accounting regimes have rules on disclosure.

#### RECOMMENDED WAY FORWARD RELATED TO THE AUDIT FIRM BUSINESS MODEL

Dr. Thomadakis advised the Board to keep an open mind on the business model issue. He supported the WG's recommended way forward of having consultation with the IAASB. However, he acknowledged that market regulators, who are the primary interpreters of public expectations, also need to be involved in the debate, and not only the standard-setting Boards.

Another IESBA member remarked that the IAASB issues auditing standards and cannot address the issue of the business model. The IESBA member was of the view that the issue needs to be discussed among IFAC, the Forum of Firms, IFAC member bodies, regulators and other stakeholders. Dr. Thomadakis added that he would expect the IAASB's response would be similar to the IESBA's, i.e., that while its mandate touches on aspects of the issue, the IAASB alone cannot comprehensively address it. Mr. Siong concurred, adding that while there is merit in initiating a discussion with the IAASB, the IAASB alone would not be able to address all stakeholder concerns on the issue.

IESBA members agreed that the issue of business model goes beyond the IESBA's remit, but that the IESBA should stimulate the conversation and be part of it.

### *PIOB Observer's Remarks*

Mr. Muis encouraged the IESBA to take the initiative to lead the debate. He agreed that while the IESBA cannot solve the issue of business model alone, it can take steps to diagnose the problem. He believed that this issue depends very much on what the regulators want, but that the IESBA should not disengage just because regulators have not moved further on the issue.

### FEE-RELATED SAFEGUARDS

Since the focus area of the fee-related safeguards was included in the final report in response to the comment letter from the International Organization of Securities Commissions (IOSCO), the Board asked the WG to identify what the remaining issues are in the Code that have not otherwise been addressed through the Safeguards project in order to respond IOSCO's comments.

### WAY FORWARD

The Board asked the WG to present a project proposal for consideration with a view to approval at the September 2018 IESBA meeting.

## **3. Professional Skepticism**

Mr. Fleck gave a brief report on the status of the professional skepticism (PS) consultation paper (CP), and the PS roundtables currently being held. He noted in particular that:

- The CP was released in mid-May with a comment period through August 15. No comments had been received to date.
- Two of the global roundtables were completed the previous week in Washington DC, USA, and Paris, France. Two additional roundtables are to be held: Tokyo, Japan on July 12, and Melbourne, Australia, on July 16. The roundtable in Melbourne was added at the request and with the support of the Accounting Professional & Ethical Standards Board (APESB) and the New Zealand External Reporting Board (XRB).

In addition to the CP and the two global roundtables, since the March 2018 meeting the PS WG (WG) had discussed the PS initiative at the NSS and Forum of Firms meetings in May.

Mr. Fleck described the half-day PS roundtable sessions that had taken place, noting that members of the WG had briefed participants on the PS issues and the Board's thinking on options for the way forward. PS members had also chaired the breakout groups at the roundtables, with IESBA staff reporting back on the breakout sessions to roundtable participants.

Among other matters, Mr. Fleck highlighted the following common themes from the roundtables:

- There is no support for Option 1 (keep PS as currently defined in the ISAs) and Option 2 (re-define PS to apply across the profession).
- There is some support for Option 3 (a new term and definition), and the two roundtables held to date supported the behavior the new term would encompass, as described in paragraph 10 of the CP.
- There is support for Option 4 (enhance guidance in the Code around PS) and Option 5 (address the role of bias, pressure and other impediments).
- Roundtable participants generally endorsed the WG's direction of travel.

Mr. Fleck summarized tentative thoughts on options going forward in the light of the roundtable input to date:

- (a) Work on a new term and definition with associated application material; and
- (b) Create an overarching statement on what it means to be a PA – citing the public interest, an impartial and diligent mindset, and allowing for scalability depending on an individual PA's experience in the profession and role in an organization. This would likely involve changes to Part 1 of the Code – and might include a sort of “Hippocratic Oath” for the accountancy profession.

Mr. Siong commented that one participant at the Washington DC roundtable had suggested that a PA's purpose is to “seek the truth.” IESBA members shared the following comments or reactions:

- The importance of maintaining the relationship between PS and the fundamental principles (FPs).
- The question arises as to what PAs will do with the truth when they have it.
- Whether PAIBs will have a problem with “impartial” as opposed to “objective.”

Dr. Thomadakis acknowledged both the PIOB's view regarding the applicability of the concept of “professional skepticism” to the broader accountancy profession, and the concerns within the IAASB and among some within the broader stakeholder community about extending the current IAASB definition of PS beyond auditors and assurance practitioners. In this regard, he acknowledged that the International Accounting Education Standards Board (IAESB) had been helpful in its input on the issues on this topic.

In closing the discussion, Mr. Fleck emphasized that any initiative by the Board needs to drive behavior change rather than just be words.

#### WAY FORWARD

The Board asked the WG to present a full analysis of the input from the roundtables and respondents' feedback on the CP, together with the WG's proposals for the way forward, at the September 2018 IESBA meeting.

#### **4. Non-Assurance Services**

Mr. Fleck introduced the session and presented a preliminary report-back on the [NAS issues](#) discussed in the Washington DC and Paris roundtables. He explained that the format of the half-day NAS roundtable sessions was similar to that of the PS session in that members of the WG briefed participants on the NAS issues and sought views about possible ways forward. NAS WG members chaired the breakout groups, with IESBA staff reporting back on the breakouts to roundtable participants.

Among other matters, Mr. Fleck highlighted the following common themes from the roundtables:

- Participants believed it is useful to continue to have a common set of NAS provisions at the global level, but there were divergent views about how this could be achieved. Some participants believed that the NAS prohibitions in the Code should be clearer and suggested the need to establish a “black list” in the Code. Others cautioned against having a black list because they believe it would make the Code more rules-based. The latter argued that it is important for the Code to continue to have NAS prohibitions that are linked to the general provisions in the conceptual framework, and which essentially explain the rationale for why prohibitions exist (i.e., no safeguards are available or capable of reducing the threats to an acceptable level).

- In relation to materiality, there were divergent views about whether to retain the concept as a qualifier. Some commented that the term is unclear, while others were concerned that it allows for too much subjectivity and therefore is open to misuse or abuse. Participants explained that if the concept of materiality is retained in the Code, the IESBA should consider the need for a different term (e.g., acceptable level, or trivial and inconsequential). If the concept is withdrawn, it was suggested that the IESBA should consider whether there should be more guidance in the Code on how breaches, particularly immaterial breaches, should be handled.
- With respect to PIE and non-PIE provisions, some participants had questioned the appropriateness of the PIE and non-PIE approach in the Code in light of increasing trends for alternate funding sources for entities. They suggested that the IESBA revisit the definition of a PIE, which as a baseline means listed entities, pointing out that in some jurisdictions there is a decreasing number of listed entities. There was also a concern that the existence of different PIE definitions across jurisdictions contributes to the complexity.
- For new and emerging services, participants noted that the evolution of advancing technologies is blurring the lines between professional services and business relationships. It was also suggested that the IESBA inventory and understand new services and the related threats that they might create. There was a general view that the fundamental principles and general provisions in the conceptual framework continue to be relevant, and that non-authoritative material would provide much needed context and facilitate greater awareness and understanding of the relevant issues.
- There was strong support for establishing provisions to strengthen auditor communication with TCWG, including pre-approval. Participants indicated they would welcome having requirements to enhance transparency about audit and NAS fees, but noted a number of practical challenges. There was no support for establishing fee caps on NAS.

IESBA participants complimented the NAS and PS WGs on their efforts in successfully completing the first two roundtables. Some IESBA members noted that the roundtable approach was an effective way of obtaining stakeholders' input on the NAS issues very early in the process. Others suggested that roundtables might be an effective way of targeting stakeholders who do not typically respond to IESBA exposure drafts and consultation papers. Mr. Siong echoed the general sentiment that roundtables can be an effective tool, but added that they are resource-intensive and require careful planning and adequate preparation time to be successful.

Among other matters, IESBA participants raised the following:

- Some of the NAS issues seem to overlap with other work streams – Fees and proposed future strategic initiatives, including on technology, materiality and communication with TCWG. Accordingly, effective internal coordination will be an important.
- Determining how best to respond to issues relating to PIE and non-PIEs will be a key challenge.
- Having a “black list” would detract from the principles-based approach in the Code.
- The WG should consider the qualitative merits of each participant's view in determining a possible way forward on each NAS issue.

## WAY FORWARD

The Board asked the WG to present a full analysis of the input from the roundtables together with the WG's proposals for the way forward at the September 2018 IESBA meeting.

### **5. Implementation of EU Audit Legislation**

Dr. Thomadakis introduced Ms. Noémi Robert, Senior Manager, Accountancy Europe (AE) as guest presenter to give an overview of the status of implementation of the EU Audit Legislation<sup>4</sup> which became effective in June 2016.

Ms. Robert commenced by noting that the information being presented was drawn from some of AE's previous reports and other publications on this topic. She explained that whilst the definition of a PIE in the Audit Legislation has not significantly changed from the 2006 EU legislation, the identification of PIEs and their definition is now crucial in determining which entities fall within the scope of the new Regulation. Accordingly, the scope of the Regulation has pushed some Member States to revise their definitions. In this regard, Ms. Robert noted that, although there is still a wide diversity of definitions across the Member States, the number of PIEs has decreased significantly from a total of approximately 24,000 to 19,000 since the implementation, with Spain experiencing the largest decrease.

With regards to the status of implementation, all Member States except Slovenia have implemented the Directive and Regulation. The three European Economic Area (EEA) countries, Iceland, Liechtenstein and Norway, have elected to adopt the Audit Legislation at a later date.

Ms. Robert provided an overview of the current state of play across the Member States in three key areas: mandatory audit firm rotation; prohibition of non-audit services and fee cap; and role of audit committees.

#### MANDATORY AUDIT FIRM ROTATION

The EU Regulation requires a 10-year maximum period of audit engagement for PIEs, with some options for extension of this initial period by Member States. Member States also have two options to prolong the duration up to 20 or 24 years through the use of public tender or joint audit respectively. While there is still general consistency with the initial engagement period of 10 years, divergences have arisen regarding the duration through use of Member State options, with now 18 different mandatory audit firm rotation regimes across the EU. The challenges relate to the audit of PIEs that operate across borders with different mandatory audit firm rotation regimes.

#### PROHIBITION OF NON-AUDIT SERVICES AND FEE CAP

Ms. Robert noted that one of the key requirements in the EU Regulation is the prohibition of certain non-audit services to PIEs (the black list). The Regulation permits Member States' options to:

- Be more restrictive than the black list; and
- Allow the provision of certain tax and valuation services under specific conditions.

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<sup>4</sup> The Audit Legislation comprises the Directive 2014/56/EU on statutory audits of annual accounts and consolidated accounts (the Directive) and Regulation (EU) No 537/2014 on specific requirements regarding statutory audit of public-interest entities (Regulation) in the EU.

Ms. Robert also highlighted some of the varied Member State approaches to implement the Directive and options in the Regulation. In the Netherlands and Poland, for example, a “white list” is used; and in France, additional prohibitions have been introduced. She also explained that:

- Many Member States have also opted for derogation of the taxation and valuation services within the conditions laid out in the Regulation.
- With regards to non-EU controlled undertakings, a “threat and safeguards” approach applies.
- All Member States have opted for the 70% cap on the provision of permissible non-audit services to PIEs set by the Regulation, except for Portugal which opted for a more restrictive limit of 30%.

Some IESBA participants noted that the cap relates only to firms and not network firms. Ms. Robert noted that the Directive requires an auditor to assess the threats created by the provision of a permissible service and determine the appropriate safeguards. She further noted that one of the key risks is compliance as auditors may not fully understand the range of permissible services.

In comparison to the IESBA Code, Ms. Robert noted that the EU Regulation focuses almost entirely on independence. She explained that although the IESBA Code was not used as the basis for developing the EU Regulation, it is used as guidance and is still used by many NSS as a benchmark, particularly for ethics principles and independence standards for audits of non-PIEs.

#### ROLE OF AUDIT COMMITTEES

Ms. Robert noted that the EU Audit Legislation has expanded the role of audit committees in strengthening confidence in statutory audits. It requires audit committees to be responsible for selecting statutory auditors following a structured process that involves submitting the recommended selection to a supervisory body. Ms. Robert noted that as part of their oversight responsibilities, audit committees are required to ensure auditor independence from management as well as ensure that the selection criteria (such as the level of fees) are fit for purpose. Audit committees are also responsible for reviewing and monitoring the independence of the statutory auditors, as well as the appropriateness of the provision of non-audit services by the auditor.

Amongst other matters, the following comments or observations were made:

- The EU Audit Legislation appears to address more perception concerns than evidence-based issues.
- The Legislation has been difficult to interpret consistently across the Member States. This demonstrates that rules-based requirements are not always easier to implement consistently than a principles-based code.
- SMPs that conduct audits of PIEs might find it difficult to comply with the new requirements.
- As a result of the complexity of the rules and their compliance responsibilities, some audit committees resolved to take the practical approach of not allowing their audit firms to provide non-audit services.
- It is still premature to assess the impact of the EU Audit Legislation on audit quality.
- The Committee of European Audit Oversight Bodies (CEAOB) was set up under the Legislation to provide guidance on implementation matters.
- As part of a post-implementation review of the Legislation, it might be helpful to understand whether investors and other users of financial statements have found the new rules to be helpful. The review

would also be of benefit if it were to indicate whether the Reform has had an impact on fees charged by audit firms.

- Some auditors have found that as a result of the Legislation, communication with TCWG has increased.

In closing, Ms. Robert provided a brief update on recent the European Parliament activities on tax transparency and fair taxation, including the recommendations being considered by the [European Parliament PANA Committee](#) for splitting audit firms.

Dr. Thomadakis conveyed the Board's appreciation to Ms. Robert for her informative and on-point presentation.

## **6. IAASB-IESBA Coordination**

Ms. Soulier briefed the Board on the status of IAASB-IESBA coordination activities since the December 2017 meeting. She explained that there is an increasing need for the IAASB and IESBA to coordinate because (i) changes are needed to the IAASB's standards to ensure continued alignment with the Code; (ii) it is of high importance to address overlapping audit and ethics issues; (iii) and the PIOB and stakeholders, including the CAG, are calling for enhanced coordination.

Ms. Soulier noted that most of the interactions between IESBA and IAASB representatives before the June 2018 meeting were in relation to proposed revisions to ISQC 1.<sup>5</sup> She then summarized the comments IESBA representatives had provided to the IAASB QC Task Force on proposed ISQC 1 (Revised), noting that the Task Force would consider them at its next meeting. In particular, Ms. Soulier highlighted the question as to whether the revised ISQC 1 would be sufficiently granular to address the regulatory concerns about responsibility for independence.

Amongst other matters, the following comments or questions were raised:

- Whether the IAASB would address the regulatory concerns about responsibility for independence in ISQC 1. Ms. Soulier explained that the structure and approach to proposed ISQC 1 are different from the extant standard. In her view, the provisions are not granular enough to deal with the concerns.
- The public expects IAASB standards and the Code to be complementary. Accordingly, it might be expected that the proposed ISQC 1 would have more explicit references to the Code.
- Whether there are overlapping issues on the topic of fees.

### **WAY FORWARD**

The Board asked Ms. Soulier to present a further update at the September 2018 IESBA meeting, including any specific matters that might benefit from IESBA members' feedback.

## **7. Alignment of Part 4B with ISAE 3000 (Revised)**

Ms. Haustermans introduced the session by outlining the main objectives of the IAASB revision to ISAE 3000 and the changes most relevant to the Part 4B alignment initiative. She also outlined the potential

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<sup>5</sup> Proposed International Standard on Quality Control (ISQC) 1 (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

impact of the key changes on Part 4B and the WG's preliminary views on the independence implications for purposes of a project proposal.

Among other matters, IESBA members raised the following matters.

#### KEY CHANGES TO ATTESTATION AND DIRECT ENGAGEMENTS

An IESBA member, who was previously involved in the discussion with the IAASB during the revision of ISAE 3000, acknowledged that there were also concerns with direct engagements within the IESBA, mainly because of the nature of those engagements. However, there were no intentions within the IESBA at that time to make changes to the Code.

Another IESBA member shared his experiences with attestation responsibilities in terms of financial reporting, and direct reporting responsibilities in terms of performance reporting while using national standards. Related to developing criteria, he noted that some judgments were involved, particularly with respect to reaching the conclusions, but always on an independent basis. He also added that, while they were performing the engagements, his engagement teams always developed the criteria in consultation with the client, but ultimately they were setting the objectives and they needed to settle the criteria.

An IESBA member noted that it would be an issue if the practitioner were to unilaterally decide the criteria, but in that case there is underlying information which is subject to the assurance procedures, and that information is the client's information. She believed that this is analogous to what an auditor decides in terms of audit procedure to perform. She was on the view that this is not typically an independence issue that independence standards are meant to address.

Mr. Koktvedgaard queried whether the WG had examined the timing issue in terms of developing the criteria. He noted that the way the criteria can be adjusted can change the outcome of the report and this can have an effect on independence in terms of the timing of setting the criteria. An IESBA member noted that, based on his experiences, circumstances may require adjustment of the criteria, which would need consultation with the client, but ultimately it should be the practitioner's decision to settle the criteria, the objectives and the final report.

#### PARTIES TO THE ASSURANCE ENGAGEMENT

An IESBA member highlighted that in the current definition of "assurance client," the word "responsible" is very important, whether with respect to subject matter or subject matter information. She noted that it also facilitates the alignment with auditing standards and links to the Code's provisions relating to management function. She encouraged the WG to focus on the concept of responsibility in developing its proposed changes to the definition of assurance client.

Another IESBA member expressed concerns that the suggested revised definition could cause confusion for non-technical people as the term "client" is ordinarily used for the party who engages the practitioner. He believed that the Board should develop a definition that is clear and understandable, and not just focus on technical purity. An IESBA member suggested that the WG consider examples of practical application to ensure that the proposed revised definition is as broad as possible.

#### INDEPENDENCE REQUIREMENTS FOR ATTESTATION AND DIRECT ENGAGEMENTS

An IESBA member gave further clarification regarding the current relevant provisions of the Code. She highlighted that the relevant provisions of the Code are not separated provisions. Instead, the Code has a

two-tier approach to independence – a first tier that is the same for all cases, and a second tier that can be adjusted depending on the type of engagement. The first level is focused on the responsible party that is engaging the practitioner – the firm and the assurance team must be independent of that party. On the top of that, depending on the situation, where the party responsible for subject matter information is different, another provision might be applicable.

Another IESBA member queried whether the nature of the revision of ISAE 3000 should lead the Board to revisit the independence requirements applicable to assurance engagements. He suggested that the WG consider some real-life examples to see whether there is a problem that actually needs to be addressed. A few other IESBA members agreed that examples could help the Board better understand whether there is an issue that needs to be addressed in the Code just based on the changes to ISAE 3000.

An IESBA member commented that ultimately, the Board should focus on addressing the self-review threat. Accordingly, he suggested that this aim be kept in mind rather than focusing purely on the technical aspects of definitions.

#### APPROACH TO EXPLANATORY MATERIAL IN THE CODE

IESBA members supported the approach of cross-referencing to IAASB standards while developing the alignment rather than incorporating material from IAASB standards directly into the Code. An IESBA member also suggested consideration of developing a joint FAQ with the IAASB regarding independence in the context of direct engagements, leveraging real examples, to avoid duplication and confusion. Regarding the current Interpretation 2005-1, it was suggested that it be updated but not withdrawn. In this regard, Mr. Siong reminded the Board that Interpretations are IESBA pronouncements according to its Terms of Reference. Accordingly, a Board decision to change or withdraw it would need to follow the normal due process.

#### OTHER COMMENTS

Mr. Koktvedgaard queried whether the distinction between PIEs and non-PIEs has relevance to this project. An IESBA member explained that previously the decision was to not make the distinction. This is because assurance engagements covered by Part 4B are not about external audit and public information. So, the IESBA had determined that whether or not an entity is a PIE is not a relevant consideration. Mr. Koktvedgaard referred to sustainability reports, which are ISAE 3000 reports and sometimes issued for PIEs as part of their annual reports, and therefore made public. He suggested that the WG consider whether this matter should be addressed.

Mr. Siong suggested that the WG approach firms to understand the extent to which direct engagements are performed for listed companies on subject matters such as sustainability because the revised ISAE 3000 no longer addresses direct engagements.

#### WAY FORWARD

The Board asked the WG to present its proposals for the way forward at the September 2018 IESBA meeting.

## **8. Technology**

Ms. Mulvaney introduced the topic by providing an update of the Technology WG's preliminary discussions relating to trends and developments in technology. She explained that while the IESBA's [2019-2023](#)

[Strategy and Work Plan](#) (SWP) is not due to be finalized until December 2018, the WG was established at the end of 2017 in light of the strategic importance and pervasiveness of the topic.

Ms. Mulvaney explained that the WG will continue to study advancing technologies, such as artificial intelligence (AI), blockchain and cybersecurity, focusing on the ethical implications for both PAIBs and PAs in public practice. The WG will solicit input from IESBA members and collaborate with other IESBA WGs and other standard setters as appropriate. She added that the WG planned to develop a draft Terms of Reference for the IESBA's consideration in the near future.

Ms. Mulvaney then introduced Ms. Maggie McGhee, Director of Professional Insights, and Mr. Narayanan Vaidyanathan, Head of Business Insights, Association of Chartered Certified Accountants (ACCA) as the guest presenters on the topic of technology.

Ms. McGhee and Mr. Vaidyanathan explained the objective of the presentation and the work produced by the ACCA Professional Insight team more broadly. Mr. Vaidyanathan pointed out that the wider context is the future skills of PAs, noting that in its 2016 report, [Drivers of Change and Future Skills](#), ACCA has identified four key drivers of change, namely regulation and governance, digital technologies, expectations on the profession and globalization. He also pointed out that the report identified six quotients of success, with technical and ethical competencies remaining at the core of the PA's skill set.

Mr. Vaidyanathan then discussed the role of ethics for all PAs in a digital age, drawing from the global survey results cited in its 2017 report, [Professional Accountants – the Future: Ethics and Trust in a Digital Age](#).<sup>6</sup> He noted that PAs and C-suite executives were of the view that strong ethical principles and behavior will become more important in an evolving digital age, and that the IESBA fundamental principles will remain relevant.

#### CYBERSECURITY

In relation to the digital theme of cybersecurity, Mr. Vaidyanathan used two case studies on ethical hacking to discuss the possible threats to the fundamental principles. He noted that these examples showed that people are more concerned about threats to the fundamental principles of professional competence and due care and objectivity than integrity. He also briefly discussed initial coin offerings (ICOs) in the context of cybersecurity. He described ICOs as a disruption to the venture capital model whereby an investor pays cryptocurrency in exchange for a token for a share in future benefits. Mr. Vaidyanathan noted that in order to determine if an ICO is a genuine utility token, a PA must have sufficient knowledge of the proposed business concept.

With regards to the broader implications of technology on the profession, Mr. Vaidyanathan noted a view that the “per hour billing” model might be replaced by an output model in which more and more functions are replaced by automation. He also highlighted the six actions identified by ACCA as imperatives for success for the finance function in the future:

- Develop a technology roadmap that aligns to the overall organizational goals.
- Create the business case for technology investments in finance.
- Appreciate the increasing value of data.

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<sup>6</sup> This survey solicited input from over 10,000 PAs, including about 500 C-suite leaders, from over 150 countries.

- Manage the organizational impact of technological change.
- Focus on talent and skills.
- Assess the impact of technology on governance and risk management.

## AI

Mr. Vaidyanathan provided an overview of the digital theme of AI and explained the difference between AI and robotic process application. He discussed the ethical implications for PAs in a case study that involved the use of machine learning in fraud detection in a bank. He noted that the case study again highlighted the likelihood of threats to the fundamental principles of professional competence and due care, and objectivity.

## ETHICS – AN ENABLER OF TRUST

In conclusion, Mr. Vaidyanathan highlighted the importance of ethics in a digital age as it acts as an enabler of trust. He suggested that the Code's fundamental principles will continue to be relevant.

Amongst other matters, IESBA meeting participants commented as follows:

- Whether there is an established approach to the valuation of cryptocurrencies. Mr. Vaidyanathan noted that as cryptocurrencies, such as bitcoin, and the blockchain technology continue to develop, there is a disconnect between the global nature of these transactions and their accounting treatments at the national level.
- There is anecdotal evidence of firms and partners being inappropriately associated with ICOs and cryptocurrencies in order to gain credence from potential investors.
- What the level of threats to compliance with the fundamental principle of confidentiality is as a result of cloud computing. Mr. Vaidyanathan responded that cloud technology is maturing, and in some instances, some organizations prefer large 3<sup>rd</sup> party service providers to manage their data. In this regard, it was noted that recent studies from British Columbia indicate that highly socially-connected individuals have changed their perception of confidentiality.
- One of ethical challenges associated with AI relates to the process of how data is cleansed and validated as this process may cause bias. It was also noted that "AI nudging" can create significant ethical issues.
- Whilst the key ethical challenges caused by technology may be the same, one new challenge is the pace and volume of change.
- The presentation underscored the importance of having a principles-based Code.
- The Board's remit is about PAs' ethics and not digital ethics. Accordingly, it is important that the Technology WG remains focused on matters relating to PAs' ethics and independence.

Ms. Mulvaney and Dr. Thomadakis thanked Ms. McGhee and Mr. Vaidyanathan for their lively and informative presentation.

## 9. eCode

Mr. Thomson introduced the session by reminding the Board of the objective of the eCode initiative. He explained that the eCode is responsive to stakeholders' requests for tools to assist in adopting and

implementing the Code. Mr. Thomson noted that a service provider had been identified to assist the WG determine how best to leverage newer technologies to develop the eCode. He then briefed the Board on the features and functionalities that are being explored. Some of those features and functionalities include: enhanced navigability, advanced searching, exporting with formatting, bookmarking, highlighting, filtering, and linkage to relevant non-authoritative material (some of which will later be developed). Mr. Thomson explained that the WG's ideas for features and functionalities are drawn from various inputs received from stakeholders, including the IESBA CAG and the NSS.

Mr. Thomson noted that the anticipated launch date for Phase 1 of the eCode is June 2019, the effective date for the revised and restructured Code. Subsequent phase(s) with improved features and functionalities would be developed based on feedback about user experiences.

Mr. Thomson briefed the Board about his presentation to the NSS, noting that there was general support for the initiative. There were views that the eCode should be accessible to NSS and professional accountancy organizations for free and should not be subject to the IFAC Permissions and Use Policy. It was suggested that consideration be given to translation issues and beta testing.

IESBA members noted the progress of the initiative. Among other matters, the following were raised:

- There should be clear agreement with the developer regarding deliverables, and periodic updates to and maintenance of the e-Code should be included in the plan. Consideration should also be given to moving up the launch date for Phase 1 to the extent possible.
- The WG should plan to work closely with the developer to beta test the features in developing the prototype, and factor in time for demos and training about how to use the features and functionalities (e.g. using YouTube videos).
- Consideration should be given to the fact that there are many users of the Code and they use it in different ways. Caution should be exercised in not being overly ambitious in trying to satisfy the needs of all users.
- Consideration should be given to making the eCode available to firms and NSS for tailoring (e.g., to include "add-ons" in establishing firm methodologies, or for national circumstances). While the eCode is not likely to replace the digital tools used by the large firms, it would be very useful for SMPs. In addition, the eCode might be useful to academics and other educators to develop training programs.
- Consideration should be given to including questionnaires in Phase 1 to solicit feedback about user experience that might inform future phase(s). Some of the questions could also be used to test users' knowledge of or familiarity with the Code.
- The issue of website access and permissions and use issues should be resolved with IFAC early in the process.

#### WAY FORWARD

The Board asked the WG to provide a further update at the September 2018 IESBA meeting.

#### **10. Restructured Code Rollout**

Ms. Gibson introduced the topic by reminding the Board that the WG's objective is to promote awareness, adoption and effective implementation of the revised and restructured Code. As part of this, the WG aimed to provide global stakeholders with the necessary tools and resources. She then updated the Board on key

outreach aimed at promoting the Code. She explained that the WG believes that there is merit to liaising with the IESBA's Emerging Issues and Outreach Committee (EIOC) to coordinate outreach efforts.

Ms. Gibson briefed the Board on the WG's other activities, including plans to soon launch a redesigned restructured Code webpage on the IESBA's website. She informed the Board that the 2018 edition of the IESBA Handbook is due to be released in September 2018. She emphasized the need for all IESBA members and Technical Advisors to leverage the available resources and tools to promote the Code's adoption and implementation.

Ms. Gibson briefed the Board on the discussions at the May 2018 IESBA-NSS meeting. She explained that some NSS are experiencing challenges in accessing the PDF version of the Code and other material on the IESBA's website. Also, a few NSS participants had called for "train the trainers" programs and implementation support material specifically designed for SMPs.

Amongst other matters, IESBA participants raised the following comments or suggestions:

- Consideration should be given to reaching out to PAIB stakeholders by establishing relationships with organizations such as the Financial Executives Institute, Institute of Internal Auditors, Ethics and Compliance Initiative, the U.S. Chamber of Commerce, and other corporate governance organizations. Mr. Siong suggested that an efficient way could be to reach out to the IFAC PAIB Committee and leverage its stakeholder relationships.
- It is important to have testimonials about the importance of the Code from individuals who are not on the Board.
- Consideration should be given to taking advantage of professional accountancy or regional organizations' events to promote the Code. In determining which countries to focus outreach efforts on, it is important to think strategically about the regions or jurisdictions that are seen as leaders or influencers, for example, Kenya to part of Africa. Other countries where there would be benefit in focusing outreach efforts include the US, Canada, Brazil, India, China and Saudi Arabia.
- The soon to be released videos are commendable. In some cases, they are used at stakeholder conferences and meetings.
- Consideration should be given to promoting the Code to academics and educational institutions, e.g., by developing IESBA-branded ethics case studies to teach ethics in universities, and in continuing professional development courses.
- The need for an IESBA communication strategy and brand, including on social media. Mr. Siong acknowledged those comments and agreed to explore the suggestions further with IFAC's Communications Department.

Dr. Thomadakis noted that he had written to the Chair of the IOSCO Board seeking IOSCO's endorsement of the revised and restructured Code. He noted that a similar request for consideration of endorsement of the new Code would be sent to IFIAR.

#### WAY FORWARD

The Board asked the WG to provide a further update at the September 2018 IESBA meeting.

## **11. Emerging Issue and Outreach Committee (EIOC) Update**

Mr. Mihular introduced the topic by providing some background about the EIOC and reminding the Board of the EIOC's terms of reference. He explained that it had been two years since the last EIOC update because the initiative was placed on hold as the Board focused on revising and restructuring the Code.

Mr. Mihular explained that the EIOC was committed to a more strategic and proactive approach to identifying emerging ethics and independence issues, including through outreach to key stakeholders. He then briefed the Board on the EIOC's process for identifying, monitoring, assessing and tracking emerging issues. Mr. Mihular explained that after the issues are assessed, the EIOC would develop appropriate responses, which may include escalation to the Planning Committee, recommendations to the Board for specific actions, or simply monitoring developments. He then explained the EIOC's approach to inventorying and tracking external developments.

Amongst other matters, the following comments were raised:

- While it is important to have a process in place to inventory issues, it is important for the process to be simple and easy to use.
- The purpose of a process is to help draw out significant matters that warrant further strategic thinking or Board action.
- It is important that the EIOC's efforts are focused externally to keep up with trends in business and the impact that those trends have on ethics and independence.

### **WAY FORWARD**

The Board asked the EIOC to provide an update at the December 2018 IESBA meeting.

## **12. PIOB Observer's Remarks**

Mr. Muis thanked the Board for the opportunity to observe the meeting. He noted that the discussions on NAS, PS and fees had been helpful. He welcomed the IESBA's commitment to discussing issues such as the audit firm business model more openly with stakeholders. In his view, while the focus of the IESBA's activities is on ethics standard setting, it is nonetheless important for the IESBA to continually reflect on the issues relating to firms' business model to determine what part it can play in addressing stakeholders' concerns. He complimented the efforts on the coordination work on NAS and fees but acknowledged that the issues on those topics are nevertheless challenging.

With respect to the presentation about implementation of the EU Audit Legislation, Mr. Muis noted that the audit quality issues that were faced in Europe also exist elsewhere around the globe. He was encouraged to observe the coordination efforts between the IAASB and IESBA, and highlighted the importance of the two Boards effectively managing the overlapping aspects of their work streams. He also applauded the analysis conducted to date on the ISAE 3000 initiative. Finally, he acknowledged that the PIOB must play its role in promoting awareness of the revised and restructured Code as well as the ongoing initiative to develop an e-Code.

Dr. Thomadakis thanked Mr. Muis for his remarks.

## **13. Next Meeting**

The next Board meeting is scheduled for September 17-20, 2018 at the IFAC offices in New York, USA.

**14. Closing Remarks**

Dr. Thomadakis expressed his appreciation for the Board meeting being held in Athens. He thanked IESBA participants for their contributions, wished them a safe journey back home, and closed the meeting.