Minutes of the Meeting of the
International Ethics Standards Board for Accountants
Held on October 16-18, 2006
Sydney, Australia

	Members	**Technical Advisors**
Present:	Richard George (chair)	Heather Briers
	Christian Aubin	
	Frank Attwood	
	Ken Dakdduk	Lisa Snyder
	David Devlin	Andrew Pinkney
	Mark Fong	Patricia McBride
	Akira Hattori	
	Geoffrey Hopper	Sylvie Soulier
	Thierry Karcher	Jean-Luc Doyle
	Neil Lerner	Tony Bromell
	Pekka Luoma	Jouko Ilola
	Barbara Majoor	
	Michael Niehues	
	Russell Philp	Tiina-Liisa Sexton
	Jean Rothbarth	
	Volker Rohricht	Tim Volkmann
	Robert Rutherford	David Hastings
		Peter Hughes
Regrets:	David Winetroub	
	Non-Voting Observers	
Present:	Richard Fleck	
	PIOB Observer	
Present:	Donna Bovolaneas	
	IFAC Technical Staff	
Present:	Jan Munro	

1. Introduction and Administrative Matters

Mr. George opened the meeting and welcomed all those attending, including Ms Bovolaneas PIOB Secretary General. He noted that apologies had been received from Mr. Winetroub who had given his proxy to Mr. Lerner

He thanked the CPA Australia, the Institute of Chartered Accountants in Australia and the National of Accountants for hosting the meeting.

Minutes of the Previous Meeting
The minutes of the public session of the June 2006, IESBA meeting, subject to some minor editorial changes, were approved as presented.

September 2006 Consultative Advisory Board Meeting
Mr. George reported that the IESBA CAG met on September 13, 2006. He indicated that it was the first public meeting of the CAG and also the first meeting chaired by an independent chair Mr. Fleck.

He reported that the major topic of the CAG agenda had been independence. The CAG was generally supportive of the approach being taken and had some specific comments for consideration by the IESBA. While the majority of these items would be raised by Ms Rothbarth in the discussion under Agenda Item 2, there were two overall issues which he would like to report to the Board. Firstly, in considering the appropriate exposure period for independence, the CAG was of the view that a four month period was appropriate. The CAG recognized that this would be a departure from the standard three month period but felt that this was justified in light of the length of the document, the subtlety of some of the areas and the fact that some respondents would have their own due process with which to comply before finalizing a response. Secondly, the CAG was of the view that it was important that a user of audited financial statements know whether the audit had been conducted under independence requirements which were equivalent with to the Code or not. The CAG noted that this was an important matter but was not one which could be addressed by the Code.

Public Interest Oversight Board
Mr. George reported that he had met with the Public Interest Oversight Board at their September meeting. The PIOB had indicated they were pleased that the CAG had met for the first time under an independence Chair.

The PIOB had some questions on the work plan of IESBA and the type of outreach the Board had planned to ascertain whether projects and priorities were appropriate. In addition, the PIOB had some comments on the due process of all of the Public Interest Activity Committees (PIACs). The PIOB would like to see certain enhancements with respect to how comments received on exposure and from the CAG were addressed by the

Board. He indicated that there might be some changes to the IESBA due process to address these matters.

2. Independence

Ms Rothbarth opened the presentation on independence by thanking all the Task Force members for their efforts since the June Board meeting, noting that the Task Force had met three times for a total of eight days.

Split of the Code

Ms Rothbarth reported that the Split of section 290 was by type of engagement, with a revised 290 addressing audit and review engagements and a new section 291 addressing other assurance engagements. She also reported that the proposed definition of audit engagement was broader than the definition of financial statement audit engagement in the extant Code. The proposed definition of audit engagement would cover all reasonable assurance engagements on historical financial information including:

- Audit report on a complete set of general purpose financial statements;
- Audit report on other historical financial information:
  - Complete set of financial statements prepared in a accordance with a framework designed for general purpose by not designed to achieve fair presentation;
  - Complete set of financial statements prepared in accordance with a financial reporting framework designed for a special purpose;
  - A single financial statement, or statements that would otherwise be part of a complete set of financial statements; and
  - One or more specific elements, accounts or items of a financial statement.

She reported that the Task Force had reconsidered the application of the split and, in particular, whether it was appropriate to apply all of the more restrictive audit requirements to all audit and review engagements. The Task Force re-confirmed the appropriateness of the split. It did, however, recognize that in some jurisdictions the term "review" is understood as a broad term – broader than an assurance engagement. Therefore, the Task Force is proposing an amendment to the review engagement definition to make it clear that the section is addressing an engagement conducted in accordance with International Standards on Review Engagements or equivalent.

The Board discussed the application of audit independence requirements to all audits and reviews of historical financial information. The following points were noted:

- The application of the existing financial statement audit independence requirements to all reviews and audits of historical financial information would represent considerably broader application;
- The independence requirements are necessary to instill public confidence in the output of the audit, which would indicate the broader application is appropriate;
- If the application is broader it would be appropriate to consider whether the current restricted use provisions should also apply to audit (and review) engagements where such reports were for restricted use.

The Board agreed that the broader definition of audit engagement was appropriate for section 290.

The Board discussed the application of section 290 to review engagements. The following points were noted:

- The concept of review engagements are well understood in some jurisdictions but in others they are not and can cover a broad range of services;
- A recent survey in the UK indicates that users were less concerned with the types of engagement performed, they were more concerned with the qualifications and independence of the accountants providing the services;

After further discussion, the Board agreed that Section 290 should address review engagements (as defined).

Restricted Use Reports

Ms Rothbarth noted that extant section 290 recognizes that for restricted use assurance reports for non-financial statement audit client, the users of the report are considered to be knowledgeable as to the purpose, subject matter information and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to receive services. The section states that this knowledge and enhanced ability of the firm to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence in appearance. These circumstances may be taken into account by the firm in evaluating the threats to independence and considering safeguards necessary to address threats. Ms Rothbarth noted that this concept had been carried forward to proposed new Section 291 addressing assurance engagements other than audit and review engagements. The proposed provisions would apply only to other assurance engagements provided to clients who were not also audit and review clients, which is consistent with the extant position. In addition the Task Force proposes clarifying the provisions which would apply.

The Board discussed the proposal. The following points were noted:

- Given the broader application of 290 to all audit and review engagements (which includes for example, the audit of a single financial statement line item), it would be appropriate to consider whether the restricted use report requirements could also apply to audit engagements where the report was for restricted use;
- General purpose financial statements, by definition, could not be restricted for use;
- It was important that the intended users of the report understand the independence requirements which were applicable to the specific engagement and how these requirements might differ those applicable to an audit engagement in respect of general purpose financial statements; and
- Whether identification of a class of users was sufficient or whether it was necessary to identify a specific user.

After further discussion, the Board concluded that the restricted user provisions could be applied to certain audit and review engagements. The Board was of the view that the restricted use independence requirements could not be applied to the following audit and review engagements:

- Complete set of general purpose financial statements whether prepared in accordance with a framework designed to achieve fair presentation or prepared in accordance with a framework designed for general purpose but not designed to achieve fair presentation; and
- Audit and review engagements required by statute or legislation.

The Board further concluded:

- Because revised section 290 addresses audit and review engagements and proposed new 291 addresses other assurance engagements it would be necessary for both sections to contain restricted use provisions;
- There should be disclosure to the identified users of the independence framework under which the engagement was performed; and
- The Task Force should consider what requirements would be "base-line" requirements for restricted use and what areas could be dealt with on a threats and safeguards approach,

It was agreed that the explanatory memorandum accompanying the release of the exposure draft would contain specific questions for respondents on this area.

Language

Ms Rothbarth reported that, as agreed at the June 2006 meeting, the Task Force has used more direct language for restrictions in the sections and has reduced the extent of duplication in the sections. For example, by stating that firm also includes network firm except where otherwise stated. In addition, the document will be subject to a plain language review.

Board members agreed with the style of drafting.

Definition of Engagement Team

Ms Rothbarth reported that the extant definition of engagement team was adopted to be consistent with the IAASB definition contained in ISQC1. The definition states that it covers all personnel performing the engagement, including any experts contracted by the firm in connection with such engagements. The IAASB is revising ISA 620 *Using the Work of an Expert*. The IAASB TF on this project has focused on the definition of engagement team and has noted that it is not entirely clear whether all experts, even those who are only peripherally involved, should be treated as part of the engagement team and, therefore subject to the requirements of ISQC1. The IAASB has discussed the matter and is of the view that while the definition does not need to be changed for the purposes of ISQC1 and the ISAs, IESBA may need to change the definition for independence purposes.

Ms Rothbarth reported that the Task Force has discussed the issue and proposes two changes to the definition of engagement team:

- To eliminate the reference to experts contracted by the firm; and
- To include a reference to audit professionals engaged by the firm (to include, for example, audit seniors who are not employees but are contracted during busy season for particular assurance engagements).

The Board discussed the issue and agreed with the proposal. The following points were noted:

- The proposed wording seemed to be broader than the stated intent of including only staff and partners of the firm and contracted "audit personnel". The Board asked the Task Force to reconsider the drafting; and
- It was inappropriate to impose the independence requirements on external experts contracted by the firm but perhaps it was appropriate to assess the objectivity of the expert. Some Board members were of the view that this was an issue for assurance standards because it related to reliability of audit evidence and was not, therefore, a matter for the Code of Ethics. Other Board members were of the view that the matter should be addressed in both places.

The Board agreed that the definition should be changed and asked the Task Force to consider including some guidance on assessing the objectivity of an external expert that is contracted or engaged by the firm. It was noted that continued liaison with the IAASB Task Force would be important.

Entities of Significant Public Interest

Ms Rothbarth introduced this topic noting that at the June meeting, the Board has agreed that it was impracticable to develop a definition of a public interest entity which could have global application and be suitable in all jurisdictions. The Task Force had therefore developed guidance which stated that:

- If in a particular jurisdiction the scope of all entities considered to be entities of significant public interest for independence purposes was defined by statute or legislation, that definition should be used; and
- In the absence of such a definition, a member body should determine the types of entities that are of significant public interest. This would:
  - Always include listed entities;
  - Normally include banks, insurance companies and other regulated financial institutions; and
  - May include pension funds, government agencies and government-owned entities and not-for-profit organizations such as large charitable organizations.

The Board discussed the proposal. The following matters were noted:

- Whether the approach was encouraging a possible lack of convergence because each member body would be left to define an entity of significant public interest in that particular jurisdiction and whether it would be better to permit firms to make the

determination. The majority of members were of the view that it was inappropriate to leave the determination to firms;
- The EU 8th directive takes a similar approach by identifying certain entities and indicating that member states may determine that other entities should be considered to be of public interest in a particular jurisdiction;
- Consideration should be given to whether additional guidance could be given to member bodies as to how to make the necessary determination;

After discussion, the Board agreed with the proposal and provided some editorial suggestion for consideration by the Task Force. The Board suggested that consideration be given to providing member bodies with guidance on how to make the determination of which entities should be considered to be of significant public interest. This could be done, for example, through the explanatory memo suggesting that member bodies consult with relevant regulators in their particular jurisdiction.

Cooling-off Period
Ms Rothbarth reported that the Task Force had refined the language related to the cooling-off period which was necessary before a key audit partner joined an audit client that was an entity of significant public interest.

The Board discussed the definition of key audit partner noting it was not clear whether tax partners and engagement partner for significant subsidiaries would be included in the definition. It was agreed that the definition should capture the engagement partner, the individual responsible for the engagement quality control review and other *audit* partners on the engagement team who are responsible for key decisions or judgment on significant matters with respect to the audit of the financial statements on which the firm will express and opinion. It was further agreed that it would be useful to indicate that this last group of individuals could include partners on significant subsidiaries or divisions.

The Board discussed the positions for which the cooling-off period should apply. In particular, the Board considered positions that were not at the group level but rather were at a subsidiary of the client. The Board agreed that the following positions were relevant:
- A director or officer at the group level; and
- All other individuals at the group or subsidiary level who can exercise significant influence over the preparation of the group accounting records or financial statements.

The Board discussed whether the mandatory cooling-off period should also apply to other senior partners in the firm, including the managing partner. The following points were noted:
- The intimidation threat would be as significant if the managing partner of a firm joined an audit client as if the former engagement partner joined the client, therefore, it would be argued that the proposal is not internally consistent;
- All other senior partners would be subject to the threats and safeguards approach;
- There is a greater perception issue with the managing partner because that individual is associated in the public's mind with the firm;

- With different structures around the world it might not always be apparent which individual is the managing partner or CEO of the firm; and
- The extant definition of assurance team includes the firm's chief executive and there is no evidence that this definition has been difficult to apply in practice.

After further discussion, the Board concluded that the mandatory cooling-off period should be applied to key audit partners and also the chief executive of the firm. Other senior partners should be subject to the threats and safeguards approach.

Partner Rotation

Ms Rothbarth reported that the Task Force had refined the guidance on partner rotation and, as discussed at the June 2006 meeting, for audits of entities of significant public interest:

- The engagement partner and the engagement quality control reviewer are required to rotate after no more than seven years and not return to the audit team until two years have elapsed.
- Other key audit partners are generally required to rotate after seven years but some limited flexibility is provided to permit the individual to stay on the team for one additional year, if the individual's continuity is especially important to audit quality.

In addition the Task Force had eliminated the extant flexibility in the Code for rotation of partners in small firms.

Ms Rothbarth reported that the IFAC Small and Medium Practices Committee had discussed this proposal at their October meeting. The Committee was concerned that in some jurisdictions the elimination of the flexibility for small firms would, in effect, result in firm rotation.

The Board discussed the concern expressed by the SMP Committee. The following points were noted:

- Partner rotation is the only safeguard that can appropriately address the familiarity threat;
- Insufficient depth in the firm to rotate could have implications with respect to audit quality;
- Even if an external review was an effective alternative safeguard this would have to be applied each year and before the report was issued; and
- The CAG supported removing the flexibility with respect to rotation for small firms.

The Board confirmed the view that the extant flexibility for small firms should be removed and that the explanatory memorandum should ask for comment on this proposal and, in particular, whether there were any alternative safeguards.

The Board discussed the proposal with respect to the one year additional flexibility for other key audit partners. It was noted that some very limited flexibility might be needed for all key audit partners – for example, in the circumstance of the death of an individual who was to assume the position of engagement partner. It was agreed that the flexibility

should be expanded to cover all key audit partners but there should be a very narrow range of circumstances in which the flexibility was appropriate.

Section 290
Ms Rothbarth led the Board through a paragraph by paragraph read of the proposed section 290, noting that the intent was to discuss all substantive issues. Board members were encouraged to provide any editorial suggestions directly to staff. Ms Rothbarth noted that it was the intent to bring a revised document for approval to the December meeting. To ensure approval in December, it was essential that any substantive points be addressed at this meeting, so that the December meeting could focus only on changes and the explanatory memorandum.

The Board provided the additional following comments:
- ¶5 – This paragraph should be worded as a requirement "…the firm should have policies and procedures…";
- ¶10 – The network firm section should have an introductory sentence;
- ¶24 – The Task Force should consider whether the guidance on related parties in the case of entities of significant public interest could be clarified – in particular in the last sentence it should be noted that references to a listed entity includes its related entities "unless otherwise stated";
- ¶26 – The discussion of communications with those charged with governance should indicate that the communication can be particularly helpful because it brings the independent mind of the audit committee to any issues and also provides a greater separation from management;
- ¶27 – The section on documentation should acknowledge that assurance standards require documentation;
- ¶28/29 – The Board asked the Task Force to review the guidance on engagement period to ensure that there is no gap in the guidance;
- ¶111 – The guidance should be expanded to indicate what a firm should do if it holds a material financial interest;
- ¶114 – The Board asked the Task Force to reconsider this paragraph, noting that it might be more readable if the paragraph were split into two or more different paragraphs each dealing with one of the situations addressed in 114;
- ¶117 – The safeguard should refer to another firm within the network that was neither involved in the audit nor received the loan;
- ¶138 – The Board asked the Task Force to assess whether the position was consistent with the position taken in the provision of bookkeeping services;
- ¶144 – The guidance should be expanded to make it clear that in all circumstances threats and safeguards should be applied and that the client should make all management decisions;
- ¶151 – The paragraph should be amended to refer to threats that might be created by the provision of a service in combination with other "related" non-assurance services and should not refer to "additional" threats; the paragraph should also refer to the possibility of threats arising as a result of the total volume of non-assurance services which should be evaluated;

- ¶152 – The Board asked the Task Force to consider the phrase "consequences for management and control":
- ¶153 – The paragraph should indicate that if the threat clearly insignificant it is not necessary to apply safeguards;
- ¶154 – The Board asked the Task Force to consider whether the paragraph would be clearer to state what was not permitted – i.e. service to "downstream" organizations;
- ¶156 – Move the modifier significant to the end of the last sentence;
- ¶157 – The Board asked the Task Force to review the IOSCO survey to determine whether any additional examples of management functions should be provided;
- ¶159 – The Board asked the Task Force to check this paragraph against the decisions taken at the Prague meeting;
- ¶164 – Consider whether this paragraph should be moved towards the beginning of the section;
- ¶168 – The Board asked the Task Force to consider this paragraph in light of how the same concept is worded in the EU recommendation;
- ¶169 – The Board asked the Task Force to consider whether the increased emphasis on fair value accounting in financial statements should be reflected in the guidance on the provision of valuation services, and whether there should also be a reference to estimates in financial statements;
- ¶174 – It was suggested that the APB introduction to taxation services might be usefully included in paragraph 174;
- ¶175 – It was suggested to include the degree of judgment involved and whether the tax regime is well established. It was further suggested that consideration be given to mentioning the extent to which the client has competent management with tax knowledge;
- ¶176 – The Board asked the Task Force to look at this paragraph and possibly indicate that management should take responsibility for the tax returns and consider whether there are situations where there could be threats to independence that could be offset by safeguards;
- ¶177/178 – The Board asked the Task Force to consider whether the standard should be based on intent or should rather be based on purpose. The Board also asked the Task Force to consider whether the two paragraphs should be aligned;
- ¶180 – The reference should be to a basis that is "likely to prevail" as opposed to a basis that is "probable and likely" to prevail to improve clarity;
- 182 – The paragraph should be clarified to state that the service that should not be provided is the specific tax advice giving rise to the self review threat;
- ¶183 – The Board considered the question raised by the CAG relating to why the restriction was triggered only when the auditor was advocating before a public court or tribunal and why the threat could not occur before this time. The Board was of the view that the threat to independence occurs when the auditor is publicly advocating the client's position – it is at this moment that it becomes difficult for the firm to adopt a different position when considering the appropriate accounting treatment in the audit of the financial statements. The Board recognized, however, that a threat to independence may be created before the stage when the matter is before a public tribunal. The Board, therefore, directed the Task Force to develop such guidance

noting that the threat will depend upon matters such as the materiality of the matter, the degree of subjectivity and whether there is precedent for the position advocated.

- ¶193-198 – The Board questioned whether firms could offer tax software systems to their clients. It was agreed the Task Force would consider this matter;
- ¶197 – The Board asked the Task Force to consider whether the paragraph should refer to a consideration of the degree of reliance that will be placed on the IT systems to which the services were related and also to whether another accountant should be involved to review the work which was performed;
- ¶199-204 – The Board asked the Task Force to reduce the degree of repetition between these paragraphs and the guidance contained in the section addressing valuation services;
- ¶210 – The guidance should state that a firm should not draw up a short-list of candidates for an audit client which was an entity of significant public interest;
- ¶211 – A firm may, upon request of the client (whether of significant public interest or not), interview candidates and advise the client on the candidate's competence for financial accounting, administrative or control positions;
- ¶212-217 – These paragraphs should reflect any of the changes which are made to the tax paragraphs;
- ¶223 – The Board asked the Task Force to consider whether it was important that the contingent fee was agreed to or contemplated during an audit engagement. The fourth bullet should refer to the effect of the event or transaction on the financial statements rather than on the audit engagement;
- ¶224 – The Board asked the Task Force to check the position regarding compensation of key audit partners against the SEC provision in this area; and
- The Board provided other editorial suggestions for the consideration of the Task Force.

Section 291

Ms Rothbarth led the Board through a paragraph by paragraph read of Section 291. The Board noted that the introductions to section 290 and 291 needed to be very clear as to what was addressed in each section. The following comments were noted:

- ¶290.119 – The last part of this paragraph should be carried forward to 290; and
- ¶145 – The restricted use provisions needed further clarification and in particular that paragraph 145 should be either moved further up in the section or be at least cross referenced earlier on.

Explanatory Memorandum

Ms Rothbarth noted that an explanatory memorandum would be issued with the exposure draft. The memorandum would highlight significant issues in the exposure draft and pose specific questions for comment. The Board noted that this would be an important document and, accordingly, there should be sufficient time at the December meeting for review.

The Board agreed that the explanatory memorandum should explain other topics in section 290 which the Board was intending to consider and address as soon as possible.

5. Closing

Mr. George thanked all attending for their participation the CPA Australia, the Institute of Chartered Accountants in Australia and the National of Accountants for hosting the meeting. In particular, he thanked Mr. Philp for all his efforts which had contributed to a successful meeting.

6. Future Meeting Dates

December 18-19, 2006
March 6-7, 2007 (New York)
June 25-26, 2007 (Berlin)
October 23-25, 2007 (TBD)