

**Minutes of the Meeting of the  
Ethics Committee of the International Federation of Accountants  
Held on February 2-3, 2004  
At the AICPA, New York, United States**

|                | <b>Members</b>             | <b>Technical Advisors</b> |
|----------------|----------------------------|---------------------------|
| <i>Present</i> | Marilyn Pendergast (Chair) | Lisa Snyder               |
|                | Frank Attwood              |                           |
|                | Christine Catasta          |                           |
|                | Mark Fong                  | Stephen Chan              |
|                | David Devlin               | Andrew Pinkney            |
|                | Richard George             | Heather Briers            |
|                | Akira Hattori              |                           |
|                | Thierry Karcher            | Jean-Luc Doyle            |
|                | Neil Lerner (Feb 3 only)   | Tony Bromell              |
|                | Pekka Luoma                | Jouko Ilola               |
|                | Wim P Moleveld             |                           |
|                | Russell Philp              |                           |
|                | Jean Rothbarth             |                           |
|                | Herbert Graf Von Treuberg  | Tim Volkmann              |
|                | David Winetroub            |                           |
|                | Donald G Wray              | John Babiak               |

**IFAC Technical Staff**

*Present:* Jim Sylph (Technical Director)  
Jan Munro

**Guest**

Ana Maria Elorrieta (item 5 only) IAASB QC Task Force Chair

### **1. Introduction and Administrative Matters**

The chair opened the meeting and welcomed all those attending and in particular the new members and technical advisors. The Committee approved the minutes of the September 2003 meeting.

### **2. Section 8 – Conforming Amendments**

The Committee considered the new assurance framework that was issued in January by the International Auditing and Assurance Standards Board (IAASB). The Committee noted that the definition of an assurance engagement provided in the new framework will affect Section 8 which uses the old definition of an assurance engagement.

The Committee considered a presentation that explained the differing parties involved in an assurance engagement:

- The practitioner;
- The intended user;
- The party responsible for the subject matter;
- The party responsible for the subject matter information; and
- The engaging party.

It was agreed that, because the assurance framework is more explicit in differentiating between each party, changes were required to Section 8, which currently requires the practitioner to be independent from “the client”.

It was agreed that in all circumstances independence would be required from the party responsible for the subject matter and the party responsible for the subject matter information. It was further agreed that, in some assurance engagements, threats to independence may be created by the practitioner’s relationship with the engaging party. It was agreed that the practitioner should identify a threat to independence created by such relationships and, if the threat was other than clearly insignificant, safeguards should be applied to reduce the threat to an acceptable level.

It was agreed that a Task Force would work on revising Section 8 for discussion at the next meeting. Andrew Pinkney, Jean Rothbath, Jean-Luc Doyle, Neil Lerner, Tony Bromell and Pekka Luoma agreed to be members of the Task Force.

### **3. Review of Exposure Draft Responses**

The Committee considered the 40 comment letters received in response to the July 2003 Exposure Draft *Proposed Revised Code of Ethics for Professional Accountants*.

It was noted that the comment letters were generally very supportive of the approach taken in the ED. In particular, many respondents commented favorably on the move towards a principles-based approach and elevating the Code from a model code to a standard which much be complied with by IFAC member bodies and firms, unless prohibited by law or regulation.

#### STRUCTURE

The Committee considered concerns expressed on the structure of the document. Respondents were concerned that repetition contained in the Code obscures the fundamental principles. Some respondents were also concerned that the repetition would encourage people to treat Parts B and C as separate standalone documents. The Committee considered four alternative structures:

1. Establish a short high-level Code and move the examples to a separate part of the document or publish them separately. After discussion the Committee rejected this option for reasons including:
  - The examples, especially those contained in Section 8, demonstrate the application of the Code – separating the examples might imply a lower level of authority; and
  - The high-level Code might be used as a standalone document which increases the probability of inconsistent application
2. Prepare two stand-alone documents – one dealing with professional accountants in business and one dealing with professional accountants in practice. After discussion the Committee rejected this option for reasons including:
  - There would be a great deal of repetition between the two parts;
  - The fundamental principles are the same for both parts.
3. Divide the Code into principles, rules and application of the rules. After discussion the Committee rejected this option for reasons including:
  - It is unclear whether this approach would be perceived as a change in intended level of authority of the principles and application of the principles;
  - This approach might blur the distinction between the parts of the Code that apply to professional accountants in business and the part that applies to professional accountants in practice.
4. Keep the three parts of the Code but include all of the description of the high level principles and framework approach in Part A. Parts B and C would then deal only with specific circumstances faced by professional accountants in practice and professional accountants in business respectively. The Committee agreed that this was the preferred approach for reasons including:
  - It will reduce the amount of repetition;
  - The principles will appear in Part A and will not be obscured;
  - It will provide an opportunity to appropriately integrate Section 8 because this section also describes the conceptual framework.

#### PRINCIPLES

The Committee discussed two concerns regarding the principles that were expressed by some respondents:

- Clarity; and
- Use of the word “bias” in the objectivity principle.

The Committee concluded that while restructuring the Code would make the principles more clear and prominent, the drafting group should also look to other ways to make the principles clear.

The Committee discussed the view that the proposed principle of objectivity was problematic because it referred to bias. It was noted that all individuals have a bias of some form or another. After consideration, the Committee concluded that the word bias should remain, noting the principle stated that a “professional or business judgment should not be compromised by prejudice or bias...” A key part of the principle is that the bias does not *compromise* the professional or business judgment.

#### ADDITIONAL GUIDANCE ON SPECIFIC CIRCUMSTANCES

The Committee discussed suggestions from respondents regarding additional specific circumstances that should be covered by the Code. The Committee agreed that further guidance in the following areas would be considered:

- Confidentiality; and
- Communications between retiring and incoming auditors.

#### PROHIBITIONS

The Committee considered comments in response to the ED question whether the prohibitions contained in the ED were appropriate.

The Committee agreed that the redrafting of the Code should include additional examples of situations.

The Committee also agreed that when re-drafting the Code, particular care should be given to the use of modifying language such as “where possible”, “ordinarily”, “generally”, “may conclude” etc. While the Committee felt that such a range of language in the Code was necessary, it was important that the phrases were used consistently and appropriately.

#### PUBLIC INTEREST

The Committee discussed the comments received on paragraphs 1.6-1.8 of Part A. Concern had been expressed with the description of the public interest. The Committee considered various alternatives to address the concern and concluded that paragraph 1.7 should be deleted from the document.

#### CONFIDENTIALITY

A concern was expressed on exposure that the guidance on confidentiality did not strike the appropriate balance between the need for the auditor to preserve the confidentiality of client information and the public interest in ensuring timely disclosure of relevant information to regulatory and enforcement authorities. The Committee agreed that the issue should be considered on the redraft of the Code and it would be useful if the re-drafted Code emphasized the thought process that is used to determine whether it is appropriate to report.

It was agreed that a Task Force would work on revising the Exposure Draft for discussion at the next meeting. David Winetroub, Christine Catasta, Heather Briers, Akira Hattori, Thierry Karcher, Russell Philp and Don Wray agreed to work on the Task Force.

#### **4. Section 8 - Rotation**

The Committee noted that the proposed ISQC 1 would require an engagement quality control review for all audits of financial statements of listed entities. The Committee agreed that prolonged use of such an individual would create a threat to independence. The Committee further agreed that to address such a threat it would be appropriate to rotate the reviewer in the same fashion as the lead engagement partner.

The Committee agreed that the Task Force redrafting Section 8 would address this issue.

#### **5. Quality Control**

Ana Maria Elorrieta, Chair of the IAASB QC Task Force, joined the meeting via conference call.

The Committee discussed the ISQC 1 and ISA 220 which will be presented for approval at the next IAASB meeting. Ms Pendergast noted that several changes had been made to the document in response to concerns expressed by the Ethics Committee. She also noted that a letter had been received from the QC Task Force addressing the issues of rotation of the engagement quality control reviewer and comments received during the QC exposure that touch on ethics. It was noted that the issue of rotation was on the agenda for the meeting and it was agreed that the other comments would be considered by the Section 8 Task Force.

The Committee suggested that it would be preferable if paragraph 71 of the ISQC did not refer to the engagement quality control reviewer's independence from the engagement team because independence has a specific meaning within the Code.

The Committee agreed that the changes that had been made to the ISQC and ISA 220 had addressed previous concerns. Ms Pendergast thanked Ms Elorrieta for the constructive working relationship and all the efforts taken by her Task Force to address the concerns of the Ethics Committee.

#### **6. Other matters**

Ms Pendergast noted that liaison with other areas of IFAC would continue to be of importance. In this regard:

- Jean Rothbarth will serve as liaison with IAASB; and
- Wim Moleveld will continue to service as liaison with EDCOM.

It was also agreed that a planning sub-committee would be established. The following membership was agreed to: Marilyn Pendergast (chair), David Devlin, Frank Attwood, Mark Fong, Richard George, Wim Moleveld and Herbert Graf Von Treuberg.

#### **7. Closing**

The chair thanked members, technical advisors and staff for their input and closed the meeting.

**8. Future meeting dates**

May 10-11, 2004 (Vienna) – confirmed

September 20-21 or 21-22 (Helsinki) – confirmed