

**Draft Minutes of the Meeting of the  
Ethics Committee of the International Federation of Accountants  
Held on October 10-12, 2005  
Brussels. Belgium**

	<b>Members</b>	<b>Technical Advisors</b>
<i>Present:</i>	Richard George (chair)	Heather Briers
	Frank Attwood (Day 1-2)	
	Christian Aubin (Day 1-2)	
	Jean-Francois Cats (deputy-chair)	Sandrine Van Bellinghen (Day 1-2)
	(Day 1-2)	
	Ken Dakdduk	Lisa Snyder (Day 1-2)
	David Devlin	Andrew Pinkney
	Mark Fong	
	Akira Hattori	
	Geoffrey Hopper	Sylvie Soulier
	Thierry Karcher	Jean-Luc Doyle (Day 1-2)
	Neil Lerner	Tony Bromell
	Pekka Luoma	Jouko Ilola
	Wim Moleveld	Barbara Majoor
	Russell Philp	Tiina-Liisa Sexton
	Jean Rothbarth	
	Volker Rohricht	Tim Volkmann
	David Winetroub	Peter Hughes
	Donald Wray	
	<b>IFAC Technical Staff</b>	
<i>Present:</i>	Jan Munro	
	Jim Sylph	
<i>Regrets:</i>		John Babiak
		Stephen Chan

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

Mr. George opened the meeting and welcomed all those attending. He thanked the Institut des Reviseurs d'Enterises for their invitation to Brussels and for the arrangements made for the meeting.

### *Minutes of the Previous Meeting*

The minutes of the public session of the previous Ethics Committee meetings were approved as presented.

### *Meeting with Representatives of IOSCO SC1*

Mr. George reported in July, he, Jean-Francois Cats and Jan Munro had met with representatives of the IOSCO SC 1 Auditing Subcommittee. The purpose of the meeting was to provide an overview of projects recently completed and in progress. The meeting was useful and constructive. On behalf of the Ethics Committee, Mr. George requested the views of the Auditing Subcommittee on two particular matters:

- Any specific aspects of the existing independence requirements, other than those mentioned in the November 24, 2004 comment letter that in the members' opinion need to be revisited; and
- Any views the subcommittee has with respect to how to achieve convergence.

Mr. George noted that the subcommittee had provided some informal comments on these questions and representatives would be attending the forum which would provide an opportunity to discuss the matters further. Mr. George expressed the view that he hoped this would be the first meeting of several meetings.

### *Meeting with the Public Interest Oversight Board*

Mr. George reported that he had met with the Public Interest Oversight Board (PIOB) in September. He had provided an overview of the activities of the Committee and its work plan. The PIOB had stressed the importance of identifying a Chair for the Ethics Consultative Advisory Group (Ethics CAG). Mr. George reported that a document describing the roles and responsibilities of a chair had been developed. The PIOB are of the view that the successful candidate would meet the following criteria:

- Possess the skill set for the task;
- Have the time availability
- Have the support of the Ethics CAG.

Mr. George reported that it was hoped that an Ethics CAG chair would be in place at the end of the December 2005, Ethics CAG meeting.

### *Planning Committee*

Mr. George reported that the Planning Committee had held one conference call since the last Ethics Committee meeting. The purpose of the conference call was to refine further the agenda for the Forum and to discuss some administrative details.

*Name change*

Mr. George reported that subject to approval of the IFAC Board and the PIOB the name of the Ethics Committee would be changed to the International Ethics Standards Board for Accountants.

**2. Independence**

Ms. Rothbarth presented the views of the Independence Task Force with respect to which parts of Section 290 need to be revisited. She indicated that, based on the feedback received from the Committee, these views would be presented at the Forum for input. She noted that an key objective of the Forum was to solicit input on which areas of Section 290 should be revisited and accordingly, the views of the Task Force were preliminary and the Task Force would carefully consider the Forum feedback.

*Structure of the Section*

Ms. Rothbarth indicated that the Task Force was of the view that Section 290 should be restructured to deal separately with independence requirements for audit clients and requirements for other assurance clients. The Committee noted that this had the potential for creating significant duplication in the Code. It was agreed that the views of Forum participants would be sought.

*Recusal*

Ms. Rothbarth reported that the Task Force has considered the issue of whether a member of the team can “recuse” themselves from a particular engagement. For example can an individual who generally recommends the compensation of the engagement partner with respect to an engagement step aside with respect to that engagement? The Task Force has analyzed the issue and has concluded that if an individual steps aside they are, in effect, no longer on the assurance team and would not be subject to the assurance team independence requirements. Therefore, in the Task Force’s view it was not necessary for Section 290 to deal with recusal.

The Committee noted that it agreed with the analysis of the Task Force however it might be useful to have some discussion in section 290 because it might not be readily apparent to all readers. It was agreed that the concept of recusal would be included in the Section 290, though the word would not be used because it is not a term that is readily understood in all jurisdictions. It was further agreed that some examples should be developed.

*Audit Committee*

Ms. Rothbarth noted that the CAG had questioned how communication with the audit committee was a safeguard that could address a specific threat to independence.

The Task Force has considered the views expressed and reviewed how other jurisdictions address this area. The Task Force also noted that the IAASB exposure draft ISA 20 *The Auditor’s Communication with Those Charged with Governance* contained a requirement that the auditor communication at least annually with those charged with governance. In light of the IAASB ED the Task Force recommended that paragraph 290.30 be deleted.

With respect to the issue of whether discussing matters with those charged with governance is a safeguard, the Task Force concluded that in some circumstances such discussion could be seen as a safeguard, for example with respect to intimidation and familiarity threats. However the Task Force was sympathetic to the view that discussing a threat does not in itself diminish that threat.

It was agreed to delete paragraph 290.30 and revised 290.29 to state that communication with those charged with governance is important because it enable those charged with governance to consider the judgments made by the firm, and it can be particularly helpful with respect to intimidation and familiarity threats. In addition all references in 290.100 onwards to communication as a safeguard would be deleted.

#### *Disposal of Financial Interests*

Ms. Rothbarth stated that the Task Force, in response to direction by the Committee, had reviewed the paragraph dealing with disposal of a financial interest received by way of inheritance to determine whether the requirement was sufficiently robust. The Task Force had also reviewed other paragraphs addressing disposal of financial interests and had reviewed cases where disposal was to be made “as soon as possible” or “immediately”.

The Committee discussed the proposal of the Task Force and the following points were noted:

- Immediate disposition might not be possible;
- If the test is as soon as practicable – who decides what is practicable?
- There should be no distinction between the team and a partner in the office.

It was agreed that the Task Force should review all the financial interest provisions and prepare a grid that compares all of the positions taken.

#### *Employment with an audit client*

Ms. Rothbarth reported that the Task Force had considered the nature of the threat created when a former engagement partner joins a financial statement audit client. The Task Force was of the view that there should be a period of one year before the former engagement partner joins an audit client in an accounting role.

The Committee discussed whether the restriction should be applied more broadly than only the engagement partner. Some Committee members felt it should also apply to the individual responsible for the engagement quality control review and other thought it should apply to all partners on the assurance team.

It was agreed that there should be an exemption if the individual was in such a position as the result of a merger.

*Partner rotation*

Ms. Rothbarth reported that the Task Force had considered the partner rotation requirements in Section 290. The Task Force was of the view that the public interest is best served when there is some limited degree of flexibility when the person's continuity is especially important to the quality of a financial statements audit.

The Committee discussed whether there should be flexibility for small firms. Members questioned what safeguards would be available in such circumstances to address threats to independence. The Task Force was asked to consider whether there should be mandatory safeguards.

*Partner remuneration*

Ms. Rothbarth reported that the Task Force had considered this matter. Committee members noted:

- Any compensation system could create threats;
- Whether the restrictions, if any, should apply to all audits or only listed entity audits – on balance there was a leaning towards restrictions for listed entities with a threats and safeguards approach for other entities.

The Committee asked the Task Force to reconsider the issue.

### **3. Network Firm**

Ms. Munro provided an overview of the comments received on the exposure draft to revise the definition of a network firm. She noted that of the 20 or so comment letters received to date the vast majority were supportive of a change to the existing definition and several respondents had urged the Committee to align the definition with that found in the EU 8<sup>th</sup> directive.

She indicated that the Task Force would be considering the comments received and would present revised wording for the consideration of the Committee at its February meeting.

### **4. Accountants in Government**

Ms. Munro provided an update on the status of the project. She noted that the Task Force has reviewed Part B of the Code and is of the view that all sections are relevant to professional accountants in government who perform assurance engagements. The Task Force proposes that some minor wording changes will be appropriate to make Part B clearly relevant to accountants in government. With respect to additional guidance related to the application of Section 290, the Task force will maintain close co-ordination with the independence Task Force given Section 290 is in the being revised.

The Task force has reviewed Part C of the Code and is of the view that it is not necessary to add any additional sections related to accountants in government. The Task Force is of the view that it would be useful to reference the context in which such accountants

operate and if the description of professional accountants in business contained in paragraph 300.3 (and 100.3) specifically refer to accountants in government.

### **5. Whistleblowing**

Mr. Philp provided an update on the project. The Task Force is of the view that Part C should contain an additional section which provides guidance for professional accountants to report matters first internally within the organization. If matters are not resolved satisfactorily, the accountant would consider the implications of reporting a matter outside of the organization.

With respect to public accountants in public practice the Task Force notes that the project proposal is directed to guidance for public accountants in business. The Task Force is however of the view that it would be useful to explore whether guidance can be provided for professional accountants in practice. The Task Force recognizes that confidentiality is key to audit quality because there needs to be full and frank discussion between management and the auditor. However the Task Force is of the view it would be useful to consider whether the guidance in Section 210 can be strengthened with respect to communications between the incoming and existing auditor; and whether there are any situations whether the auditor should communicate matters outside of the entity.

### **6. Consideration of Forum Feedback**

The Committee discussed the feedback received at the Forum (see appendix for summary of comments). It was noted that one of the key messages from the Forum was support for the framework approach.

With respect to Section 290 it was agreed for the next meeting, the Task Force would develop position papers on certain topics. These position papers would be focused on a consideration of the issues and a recommendation rather than detailed drafting. It was also agreed that it was important to “benchmark” the position taken on Non-audit services in the Codes with the position taken in other jurisdictions.

### **7. Closing**

Mr. George thanked all attending for their participation, in particular the retiring members and their technical advisors, and thanked the Institut des Reviseurs d'Enterises for hosting the meeting and closed the meeting.

### **8. Future Meeting Dates**

February 20-22, 2005 (Location New York)  
June 13-14, 2005 (Location TBD)  
October 17-18, 2005 (Sydney)

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## **IFAC ETHICS COMMITTEE FORUM SUMMARY OF COMMENTS**

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This document provides a high level summary of the views expressed at the Ethics Committee Forum, held in Brussels on October 11, 2005. The comments are presented against each of the questions discussed.

The comments do not represent the consensus view and, therefore, may be contradictory.

### **Question 1**

**What views and experiences do you have with respect to application of the framework?**

- Experience with application of the framework is somewhat limited because it is still new
- General support for the framework approach but with some also supporting the need for specific rules/requirements that are consistent with the principles contained in the framework
- People may not be using the framework appropriately and are viewing it as permissive except when an activity is explicitly prohibited
- It would be useful if the Code contained more examples that demonstrate the application of the framework
- Some jurisdictions that incorporate the Code into law have difficulty with creating a short law which reflects the framework
- When there is a framework of principles and detailed requirements there needs to be clarity as to which takes priority.
- Application of a framework rather than compliance with a detailed list of rules requires education and training – not only for accountants who have to comply with the Code but for stakeholders and users such as audit committee and regulators
- Some regulators have concerns about how a principles based approach can be enforced

## **Question 2**

**The Ethics Committee has an objective of promoting international convergence in Code of Ethics. What steps do you believe the Committee should take to achieve this objective?**

- Differing views on the meaning of convergence, for example:
  - It should first focus on harmonization on the five principles and then build for convergence with the details
  - Convergence and equivalence are not synonymous
  - Harmonization may not be possible because it necessitates a harmonized structure of regulation and a system of enforcement
  - Having principles plus specific prohibitions is necessary for convergence
  - Convergence could focus on the objectives to be achieved – for example, the principles could be viewed as the objectives to be obtained and the various examples and additional guidance could be a means to achieve the objectives
- Ethics Committee needs to decide on what goal they are trying to achieve with respect to convergence
- Convergence is not only a technical but also a political issue
- The Code is a good foundation for national ethical requirements, however, other requirements established by regulators are often stricter – the Committee should discuss these matters with regulators
- To achieve convergence the Code may need to be seen as more robust - any prohibitions should be clear
- Need to demonstrate the applicability of the Code – especially to small practitioners
- Clarity of language in the Code will assist with convergence and consistent application
- Harmonization/convergence may be stimulated by the 8<sup>th</sup> directive
- Extra-territoriality is a concern – it would be helpful if countries accepted the Code as the appropriate standard for auditors from another country
- Implementation guidance and education could assist in convergence

## **Question 3**

**Are non-audit services appropriately addressed?**

- Mixed views on whether additional types of non-audit services should be addressed in Section 290:
  - Some of the view that no additional examples required
  - Others of the view that due diligence, and contribution in kind reports should be addressed
  - Some of the view that corporate finance services should be addressed in more detail
- The language used appears to be somewhat permissive – a non-audit service can be rendered provided it is not explicitly prohibited



- Should be more emphasis for firms to review compliance and demonstrate that appropriate controls are in place to ensure compliance
- Bookkeeping services – many countries prohibit bookkeeping services in all situations, conversely some believe that the reporting of small entities is improved if accounting assistance is provided. Also the terminology in Section 290 is not particularly clear, for example what is meant by bookkeeping services of a mechanical nature
- Tax services should be reviewed – the statement that tax services are generally not seen to create a threat to independence should be revised. Need to consider aggressive tax schemes
- Valuation services – the requirements should be clarified
- Network firms – the application of the Code with respect to non-audit services provided by network firms could be clarified
- Public interest entity – greater guidance could be given on the definition of a public interest entity. Also consideration should be given to extending the requirements related to listed entities to public interest entities

#### **Question 4**

##### **Is partner rotation appropriately addressed?**

- The seven year rotation schedule is arbitrary but the real question is what is the familiarity threat
- Rotating the individual responsible for the engagement quality control review has a negative effect on audit quality
- The rotation consideration should be extended to other partners, including the tax partner
- Needs to be more consideration of the threat created
- External review of an engagement by a regulator would be an effective safeguard whereas peer review would not be an appropriate safeguard
- Joint audits would be an effective safeguard provided there was appropriate rotation of the joint auditors
- Section 290 should clarify what a partner can and cannot do during the “time-out” period
- Sole practitioners should not be auditing listed entities

### **Question 5**

**The independence standard contains generic requirements but with a number of additional requirements for the audits of listed entities. Has this resulted in an appropriate standard for audits of small and medium sized entities?**

- No support for differing requirements for small and large listed entities
- Section 290 is too restrictive with respect to bookkeeping and accounting assistance.
- It would be helpful to clarify the meaning of acting in a management capacity
- Would be useful to explain further the types of safeguards that would be effective for SMEs and SMPs

### **Other Comments**

- Clarity of language is important – some of the terms in the Code are problematic when being translated, in particular the meaning of the phrases “should not” and “clearly insignificant”
- There may be lessons to learnt from the IAASB Clarity project
- Clarity would be improved by splitting the independence section to separately address audit engagements and other assurance engagements
- Splitting the section might allow for a better discussion of the different types of safeguards that would be effective
- A mandatory “cooling off period” before joining an audit client may not be enforceable in certain jurisdictions
- Interaction between objectivity and independence could be clearly expressed. There is little guidance on the Code on what is meant by objectivity