Minutes

International Ethics Standards Board for Accountants (ISEBA)

CONSULTATIVE ADVISORY GROUP (CAG)

Held on March 11, 2009 in Dubai, United Arab Emirates

Present	Richard Fleck (chair)	Financial Reporting Council
	Marc Pickeur	Basel Committee on Banking Supervision
	Matthew Waldron	CFA Institute
	Torben Haaning	Fédération des Experts Comptables Européens
	Hilde Blomme	Fédération des Experts Comptables Européens
	David Damant	IAASB Consultative Advisory Group and CFA Institute
	Allison Patti	International Organization of Securities Commissions
	Patricia Sucher	International Organization of Securities Commissions
	Filip Cassel	International Organization of Supreme Audit Institutions
	David Morris	North American Financial Executives Institutes
	Greg Scates	Public Company Accounting Oversight Board
	Simon Bradbury	World Bank
	John Hegarty	World Bank
	Linda de Beer	World Federation of Exchanges
	Prof. Arnold Schilder	IAASB (chair)
	Richard George	IESBA (chair)
	Ken Dakdduk	IESBA Member
	Jan Munro	IESBA Senior Technical Manager
	Jim Sylph	IFAC Executive Director, Professional Standards
	David Brown	PIOB
Regrets	Conchita Manabat	Asian Financial Executives Institutes
	Gerald Edwards	Basel Committee on Banking Supervision
	Kristian Koktvedgaard	Business Europe
	Federico Diomeda	European Federation of Accountants and Auditors for SMEs
	Georges Couvois	European Federation of Financial Executives' Institutes
	Jean-Luc Peyret	European Federation of Financial Executives' Institutes
	Vickson Ncube	Eastern Central and Southern African Federation of Accountants
	Susan Lione	Institute of Internal Auditors
	Susan Koski-Grafer	International Organization of Securities Commissions

A. Opening Remarks

Mr. Fleck welcomed all participants to the CAG meeting. He welcomed David Brown from the PIOB, Prof. Arnold Schilder IAASB Chair and Linda de Beer from the World Federation of Exchanges. He noted that apologies had been received from Conchita Manabat, Federico Diomeda, Gerald Edwards, Kristian Koktvedgaard, Susan Leone and Susan Koski-Grafer.

The minutes of the September and November CAG meetings were approved as presented.

B. Report from IESBA Chair

Mr. George reported that the IESBA met twice since the last CAG meeting on December 10th-11th, 2008 and on February 23rd-25th, 2009. He indicated that at the December meeting, the IESBA approved changes to the Code resulting from the re-exposure of the Independence II project.

At the December and February meetings, the IESBA discussed the Drafting Conventions project. The IESBA also discussed two IAASB project proposals that had particular relevance to the IESBA: "Revisions to ISA 610 *Using the Work of Internal Audit"* and "Revisions of ISRE 2400 *Engagements to Review Financial Statements* and ISRS 4410 *Engagements to Compile Financial Statements."* He indicated that a member of the IESBA will serve as a Task Force member on the ISA 610 project and the IESBA would monitor the progress of the other project to determine whether an IESBA member should also serve on that Task Force.

Mr. George reported that the April IESBA agenda would focus on approving the changes to the Code resulting from the Drafting Conventions project and the IESBA would also discuss its strategic plan.

C. Drafting Conventions

Mr. Dakdduk, Drafting Conventions Task Force Chair, introduced the topic. He reported that the IESBA met on February 23-25, 2009 to discuss the project (CAG agenda papers B-2-4) and that the Task Force met directly after the IESBA meeting and amended its proposal in response to the IESBA comments (CAG agenda papers B-1 and B-5). The Task Force meets again on March 25-26, 2009 to discuss CAG members' comments and finalize the revised Code before presenting it to the IESBA for approval at its April 2009 meeting.

Exception Clause
Mr. Dakdduk stated that the exposure draft contained an exception clause that provided that in exceptional circumstances a professional accountant may judge it necessary to depart from a specific requirement in the Code. The clause further stated that such a departure would be acceptable only if certain specified conditions were met. A majority of respondents supported the inclusion of such a provision, noting that there could be circumstances where compliance with a requirement would not serve the public interest

and it was not possible to anticipate all circumstances that could be faced by professional accountants. A significant minority disagreed with the inclusion of the exception clause, expressing the view that it would weaken the Code and undermine its requirements. Some respondents also expressed concern that an exception might be abused.

As suggested by the CAG in a previous CAG meeting, the IESBA considered three categories of exceptions:

- Catastrophic events – such as a natural disaster or a terrorist act;
- Acquisitions and mergers; and
- Other situations.

With respect to catastrophic events and other situations in which application of a provision of the Code would result in a disproportionate outcome, the IESBA was of the view that regulators and member bodies would likely respond with guidance that is appropriate in the circumstances, making it unnecessary for the IESBA to do so in the Code. However, if the relevant regulator or member body does not respond in such a manner, the IESBA believes that the professional accountant might find it useful to consult with the member body or relevant regulator. Some regulators and member bodies may be unwilling to engage in that discussion because it would involve discussing the application of another body's Code, rather than the regulator or member body's code or rules. The IESBA, therefore, believes that a clause to enable that discussion, which sends a message that the IESBA believes it is appropriate for the regulator or member body to engage in a discussion with the accountant about the Code, would be useful and proposes the following addition to the Code (tentatively in paragraph 100.12):

> "When a professional accountant encounters circumstances that are so unusual that the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, the professional accountant is recommended to consult with a member body or the relevant regulator."

Ms. Sucher stated that she welcomed the move away from the general exception clause that was presented in the exposure draft. She agreed that it was useful to consider the clause in the three categories but wondered whether the meaning of "disproportionate" would be clear and whether it would be helpful to provide some additional guidance in this area.

Mr. Dakdduk indicated that perspectives seemed to differ by jurisdictions. He indicated that IESBA representatives from outside of North America seemed quite comfortable with the concept. He further noted that the provision applied to all professional accountants and, therefore, a linkage to the public interest would not be appropriate because an outcome could be disproportionate to the professional accountant in business. He further noted that some legal frameworks include the concept of disproportionate regulation.

Ms. Sucher suggested that it might be clearer to indicate that the professional accountant believes that the outcome would be disproportionate.

Mr. Pickeur questioned whether the concept of "unusual" conveyed the term "rare". He noted that there could be a lot of situations that were unusual. He also expressed concern that this might be viewed as a broad exception clause. Mr George responded that the clause is not providing an exception, it is recommending a consultation. If a regulator or member body indicates that they will not take any action, the accountant is likely afforded some protection but it is not an exemption from the Code. Mr. Dakdduk stated that because the clause is only a consultation clause, the IESBA did not think that it was necessary to provide guidance about rare or unusual.

Mr. Sylph questioned whether "disproportionate" was the same as "not proportionate." He also questioned whether the word would translate easily. Ms. Patti stated that it was important that the Code was drafted using words that could be readily translated. Mr. Dakdduk responded that the IESBA would consider the translation issue. Mr. Haaning added that it is not an issue of translation but of individual understanding.

Mr. Scates queried whether there was a need for this clause. He noted that accountants have experience in dealing with such situations and know who to consult. He also wondered whether, if kept, the clause should refer only to consultation with a regulator. Mr. Dakdduk noted that the clause applied to all professional accountants and a professional accountant in business might not have a regulator with whom to consult. In addition, some people had noted that regulators might find such a clause enabling. Ms. Blomme added that there is often a distinction between auditors of PIE and non-PIE clients whereby the enforcement of ethical rules for the latter auditors is oftentimes left to professional accountancy bodies.

Mr. Cassel noted that if the Code was to be seen as an example of self-regulation, the reference to consultation with the member body could be confusing. It might, therefore, be useful to indicate that the views of a regulator would take precedence. Mr. Dakdduk said that the Task Force would consider this, but noted that the clause enables consultation; it does not enable an override of the Code.

Mr. George noted that the consultation could result in several outcomes — the regulator could: decline the consultation; disagree with the accountant; or agree with the accountant and indicate that no action would be taken. In any of these cases, if the accountant proceeds, he or she will have violated the Code.

Mergers and Acquisitions

Mr. Dakdduk reported that the IESBA recognized that a client acquisition or merger can create independence issues for the firm because, unlike when a firm actively pursues and obtains a new audit client, such transactions are outside the control of the firm and thrust upon the firm an unexpected requirement to be independent of a new related entity. Further, the firm may have only a short period of time in which to become independent of the entity. Accordingly, the IESBA concluded that the Code should contain guidance in this area.

The IESBA is of the view the guidance should:

- Stress the importance of the firm taking the steps that are necessary to bring it in compliance with the Code by the effective date of the merger or acquisition;
- Recognize that sometimes it will not be reasonably possible to terminate all relevant interests and relationships by the effective date and, in such circumstances, require:
    - The interest or relationship to be terminated as soon as reasonably possible and, in all cases, within six months of the merger or acquisition;
    - Members of the engagement team and the individual responsible for the engagement quality control review to be free of such interests or relationships, and also not to be involved with a continuing prohibited non-assurance service; and
    - Application of transitional measures as necessary.
- Recognize that those charged with governance might request the firm to continue as auditor for a short period of time and only until the next audit report is issued and, in such circumstances, require:
    - Members of the engagement team and the individual responsible for the engagement quality control review to be free of such interests or relationships, and also not to be involved with a continuing prohibited non-assurance service; and
    - Application of transitional measures as necessary.
- Require discussion with those charged with governance and documentation.
- Require the firm to consider whether, even if all the requirements above are met, the threats created by previous and current interests and relationships are so significant that the firm should not remain as auditor.

Mr. Fleck asked whether CAG members agreed that the Code should address mergers and acquisitions. Ms. Sucher indicated that IOSCO agrees that the Code should address this matter. No CAG members expressed the view that the Code should not address these matters.

Ms. Sucher stated that mergers and acquisitions can happen very quickly and a firm might have a very short period of time to become compliant. She indicated that it was important to strike the right balance between ensuring compliance with the Code and not disrupting audit services. She questioned whether as drafted the guidance did strike the right balance as it could be read as meaning the firm did not have to make strong efforts to dispose of an interest or relationship and could "default" to the position in 290.28(c). Mr. Dakdduk responded that was not the intent. A firm would first have to terminate the interest or relationship by the effective date of the merger or acquisition; paragraph 290.28(c) only comes into play if the interest or relationship cannot reasonably be terminated by the effective date. He indicated that the Task Force would look at the drafting to see how this could be made more apparent.

Mr. Pickeur stated that he was in general agreement with what was proposed.

Ms. Sucher questioned whether the judgment as to whether something could "reasonably be terminated" was a little soft. Mr. Dakdduk responded that the IESBA was trying to deal with a situation where it was possible for a firm to terminate an interest or relationship but the consequences would have broad implications. For example, if a firm is providing a payroll service to the related entity that includes the calculation and remittance of payroll taxes to the government, terminating that service before the entity has engaged a new payroll service provider could adversely affect the timing of the entity's remittances of payroll taxes and, thus, the timing of receipt of tax revenues by the government.

Ms. Sucher questioned how 290.28(d) related to 290.28(b) and 290.28(c) and questioned whether (d) could over-ride (b) – that is, an interest or relationship could reasonably be terminated by the effective date but those charged with governance asked the auditor to continue with the interest or relationship. Mr. Dakdduk responded that was not the intent. He indicated that the paragraph was intended to be written in a sequential manner. The first requirement is for the firm to terminate the interest or relationship. If the interest or relationship cannot reasonably be terminated, the firm evaluates the threat and discusses it with those charged with governance. If those charged with governance then request the firm to continue as auditor, the auditor continues only if the conditions in 290.28(d) were met. He indicated that the Task Force would look at the drafting to see if the sequential nature of the paragraphs could be made more apparent. Mr. Pickeur echoed Ms. Sucher's concern that the sequential nature of the guidance was not clear.

Ms. Blomme questioned whether the requirement to terminate within six months of the effective date of the merger or acquisition was too short. She noted that in the UK the period was twelve months. Mr. Dakdduk responded that discussions with those involved with mergers and acquisitions indicated that six months was an appropriate period.

Mr. Bradbury questioned whether the "short period" in 290.28(e) was necessary, given the requirement in 290.28(d) to terminate the interest or relationship within six months of the effective date of the merger or acquisition. Mr. Dakdduk responded that 290.28(d) dealt with situations where the firm would continue as the on-going auditor of the entity and 290.28(e) dealt with situations where the firm would not be continuing as auditor after completing the current audit.

Mr. Bradbury indicated that some might interpret "short period" as meaning a stub-period (an audit of a period that is less than twelve months). Mr. Dakdduk responded that was not the intent and it might be clearer if the reference was to a "short period of time."

Inadvertent Violations

Mr. Dakdduk reported that paragraph 290.39 states that if an inadvertent violation occurs, it generally will not be deemed to compromise independence provided the firm has appropriate quality control policies and procedures in place to maintain independence and, once discovered, the violation is corrected promptly and any necessary safeguards are applied to eliminate any threat or reduce it to an acceptable level. While this paragraph and other inadvertent violation provisions were not changed as part of the

drafting conventions project, one respondent (IOSCO) did comment on this area. The respondent was concerned that provisions could be subject to abuse. The respondent also suggested that a materiality clause be introduced and that it might be useful to provide a definition of "inadvertent." Mr. Dakdduk reported that the IESBA had carefully considered this matter and was of the view that introducing a materiality clause would not be within the scope of the Drafting Conventions project. With respect to the need for a definition of "inadvertent," the IESBA was of the view that a definition was not needed and the meaning would be consistent with the general English usage of the word (i.e., unintentional, in error, or by mistake).

Mr. Dakdduk reported that the IESBA believes it would be useful to clarify paragraph 290.39 by making explicit reference to International Standards on Quality Control (ISQC). Mr. Pickeur asked why the proposed change referred to appropriate quality control policies and procedures in place, *equivalent to* those required by International Standards on Quality Control. Mr. Dakdduk responded that the IESBA had included these words to make it clear that firms that do not adhere to ISQC 1 would have to have policies and procedures that were equivalent to those contained in ISQC 1.

Ms. Patti stated that most IOSCO members felt that it was an important area and disagreed with the position taken by the IESBA. She recognized that the matter would not be addressed as part of this project. Ms. Sucher noted that there was a perception that the text in this area had changed as part of the Drafting Conventions project and, as such, was not as clear. Mr. Dakdduk stated that the Task Force would carefully look at the wording to see if there had been any change in meaning.

Documentation

At the December 2008 meeting, the IESBA discussed the documentation requirements. The Task Force proposed some changes in response to exposure draft respondents to strengthen the requirements and, in particular, to require documentation of threats that were "at the margin." The IESBA agreed with the direction of the Task Force but felt that the proposed language did not achieve its objective, was too broad and could be interpreted as requiring documentation of all threats – not only threats that are at the margin and threats for which safeguards were applied. The IESBA now proposes the following language:

> "Documentation provides evidence of the professional accountant's judgments in forming conclusions regarding compliance with independence requirements; it is not a determinant of whether a firm is independent.
>
> The professional accountant shall document conclusions regarding compliance with independence requirements, and the substance of any relevant discussions that support those conclusions. Accordingly:
>
> - When safeguards are required to reduce the threat to an acceptable level, the documentation shall include the nature of the threat and the safeguards in place or applied that reduce the threat to an acceptable level; and
> - When a threat is such that the professional accountant considered whether safeguards were necessary and concluded that they were not because the

> threat was already at an acceptable level, the documentation shall describe the nature of the threat and the rationale for the conclusion."

Ms. Blomme stated that when members of the FEE Ethics Working Party read the second bullet, some felt that it would require documentation of all threats and others felt that it appropriately captured only those threats that were at the margin.

Mr. Fleck noted that it was a subjective area and perhaps the best that could be achieved was to provide a framework within which the accountant could exercise judgment in determining what needed to be documented.

Mr. Haaning and Mr. Hegarty indicated that they were comfortable with the proposed drafting.

Ms. Sucher indicated that some IOSCO representatives were of the view that all threats that were other than clearly insignificant should be documented.

Mr. Fleck stated that it seemed that IESBA had given a great deal of thought to the comments from the CAG members and had struck the right balance in what is a difficult matter to draft.

Effective Date and Transitional Provisions

The exposure draft proposed that the revised Code be effective on December 15, 2010, subject to transitional provisions, with earlier adoption encouraged. The effective date was based on the projected release of the Code in June 2009. The effective date was a point in time effective date. Thus, if the revised Code became effective on December 15, 2010, the independence provisions in the existing Code would, for example, be effective through December 14, 2010 and the new independence provisions set out in the exposure draft would be effective on and after December 15, 2010. Transitional provisions were proposed for partner rotation, the provision of non-assurance services, and entities of public interest. 39 respondents commented on this matter with a significant majority in support of the proposals.

The IESBA has considered the exposure draft comments and is of the view that because the proposed point in time effective date is so close to the calendar year end, it would be clearer and easier for all parties if the effective date were January 1, 2011.

In addition, the IESBA discussed how the partner rotation provisions would apply with a point in time effective date. The explanatory memorandum to the exposure draft stated that an additional year would be provided for new individuals who were now required to rotate. The IESBA is of the view that a point in time effective date for partner rotation could require an individual to rotate in the middle of an engagement or just prior to the end of an engagement for a calendar year-end audit client. The IESBA, therefore, is of the view that the transitional provision for partner rotation be linked to the audit client's fiscal period. To provide for the additional year proposed in the exposure draft, individuals now subject to the rotation requirements would be required to rotate for fiscal

periods beginning on or after December 15, 2011 if they had served as a key audit partner for seven or more years. (The selection of December 15th provides for years that end just before December 31st, such as in the case of retail companies that have a 52/53 week year.)

With respect to the new requirement for a pre- or post-issuance review when fees from a public interest entity audit client exceed 15% of the fees of the firm for two consecutive years, the ISEBA is of the view that the transitional provisions should make it clear that a "fresh start" approach is to be used. Without such a "fresh-start," the change would be applied retrospectively.

Ms. Patti asked whether the IESBA had discussed the impact of a point in time effective date on the independence letter. Mr. Dakdduk responded that he did not recall whether there had been such a discussion but in his view the letter would acknowledge compliance with the old Code up to the end of 2011 and then compliance with the new Code after that period.

Ms. Sucher stated that the point in time effective date could result in an audit report being subject to two different independence standards. This seemed to be rather complicated, especially when thinking about a June 30th year end. Mr. Dakdduk responded that the advantage of a point in time effective date is that there is a level playing field as the independence requirements do not differ depending on the year-end of the audit client.

Mr. Hegarty questioned what the Forums of Firms' obligation was. Ms. Munro responded that, with respect to the Code of Ethics, the constitution of the Forum of Firms requires members to meet the Forum's membership obligations with respect to transnational audits, which require members to "have policies and methodologies which conform to the IFAC Code of Ethics for Professional Accountants and national codes of ethics."

Re-exposure

Mr. Dakdduk stated that the IESBA Terms of Reference requires that, after approving the revised content of an exposure draft, the IESBA assesses whether there has been substantive change to the exposed document that may warrant re-exposure. Situations that constitute potential grounds for a decision to re-expose may include, for example, substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IESBA before it reaches a final conclusion, substantial changes arising from matters not previously deliberated by the IESBA, or substantial change to the substance of a proposed pronouncement. The March CAG meeting is the last opportunity for CAG members to discuss the document before its planned approval at the April IESBA meeting. Therefore, at its February 2009 meeting, the IESBA had a preliminary discussion on whether the changes to the document warrant re-exposure.

Exposure draft respondents were supportive of the proposed change from "should" to "shall" and retaining the current structure of the Code. Respondents were also generally

supportive of the elimination of the concept of threats that were "other than clearly insignificant" and the inclusion of a definition of an acceptable level.

The area that generated the most discussion was the exception clause. The exposure draft contained a provision that would have permitted a temporary departure from a requirement in the Code provided that certain conditions were met. The departure would have been permitted in exceptional and unforeseen circumstances that were outside of the control of the professional accountant, the firm or employing organization and the client. While the majority of the respondents to the exposure draft were supportive of the approach proposed, a significant minority of respondents disagreed with the exception clause, expressing the view that it would weaken the Code and undermine its requirements. The exposure draft asked respondents whether there were any other circumstances where departure from a requirement in the Code would be acceptable. Thirteen of forty-seven respondents expressed the view that the Code should address independence issues created by client mergers and acquisitions.

After considering exposure draft comments, and input from CAG members, the IESBA concluded that the Code should not contain a clause permitting a temporary departure. It should however, address mergers and acquisitions and encourage an accountant to consult with a member body or relevant regulator if faced with an unusual circumstance.

Mr. Dakdduk indicated that the IESBA's preliminary discussion on whether re-exposure is warranted focused on the new mergers and acquisition clause. Several Board members expressed the view that re-exposure is not warranted for the following reasons:

- Many respondents to the exposure draft expressed the view that the Code should address mergers and acquisitions;
- The IESBA's understanding is that in most cases firms are able to terminate relevant interests and relationships by the effective date, therefore, it is expected that in many mergers and acquisitions the clause will not be used; and
- The proposal provides pragmatic guidance for situations that are often faced by firms and in many cases codifies existing best practice.

Mr. George stated that the views of CAG members would be particularly helpful to the IESBA when it made its determination as to whether re-exposure was necessary.

Ms, Sucher stated that IOSCO had not yet had a full discussion of the issue but the tone was that some form of re-exposure of the mergers and acquisitions clause would be preferable.

Mr. Bradbury expressed the view that re-exposure was not necessary.

Ms. Blomme indicated that FEE had been supportive of the temporary departure clause in the exposure draft and was of the view that the revised mergers and acquisitions clause was a positive response to the comments received on exposure.

Mr. Cassel expressed the view that it was important to release the Code and it should not, therefore, be re-exposed. Mr. Morris and Ms. de Beer concurred that re-exposure was not necessary.

Mr. Pickeur stated that his leaning was not to re-expose.

Mr. Fleck indicated that, having listened to both sides of the argument, it seemed that the arguments for re-exposure related to the drafting as opposed to the concepts. He indicated that while there were some differing views, the majority of CAG members are supportive of not re-exposing.

Other Matters
Mr. Fleck invited CAG members to comment on any paragraphs in the Code that had not been addressed in the previous discussion.

Ms. Sucher questioned the change to paragraph 210.8. Mr. Dakdduk responded that the first sentence of the paragraph contains the requirement (determining whether reliance on an expert is warranted) and the following sentences provide guidance on how this requirement is met.

Ms. Sucher questioned why, in paragraph 290.116, the words "or the firm shall withdraw from the audit engagement" had been deleted. Mr. Dakdduk responded that, when reviewing the Code for consistency, the IESBA had noticed that this phrase was used in a few paragraphs, but not in the majority of paragraphs where it would also be relevant. The IESBA had deleted the phrase for consistency.

Ms. de Beer noted that the language in paragraph 100.12 "the professional accountant is recommended to consult" was rather awkward. Mr. Dakdduk indicated that the Task Force would look at this wording.

Issues Going Forward
Mr. Fleck asked CAG members whether, having completed their review of the proposed revisions to the Code, there were other matters that they would like to bring to the attention of the IESBA for consideration in the future.

Mr. Fleck indicated that there were two matters he would like to raise. Firstly, the Code does not assign specific responsibilities. In his view, in order to achieve consistent application of ethical standards, it is essential that it is clear to whom each requirement applies. Secondly, with the move from "should" to "shall," it would be beneficial to provide more prominence to the requirements and the guidance that flows from them.

Mr. Pickeur indicated that it would be useful to conduct a review of the effectiveness of the Code. It would also be interesting to see why any jurisdictions are not complying with the Code.

Mr. Morris indicated that it would be useful to look at Part C, which applies to professional accountants in business, from a fresh perspective.

Mr. Cassel indicated that the project on accountants in government was important.

Ms. Sucher indicated that the Code does not adequately distinguish between safeguards that specifically mitigate an identified threat and safeguards that are equivalent to general quality control or best practices. The Code should mention more explicitly that general environmental safeguards do not mitigate specific threats in an engagement, including that the auditor, upon identifying a threat, shall apply engagement specific safeguards to mitigate such threat rather than relying on the general safeguards created by the profession, legislation or regulation.

Ms. Patti indicated that the issue of inadvertent violations should be addressed.

Mr. Damant indicated that the discussion at the joint IAASB/IESBA CAG session on failures in corporate governance highlighted the need to look at Part C of the Code.

Mr. Waldron indicated that it was important to conduct an effectiveness review and also to look at Part C of the Code.

Mr. Scates indicated that it was important to provide strong ethical guidance for both auditors and professional accountants in business.

Mr. Hegarty indicated that convergence was of critical importance and it was very important to have the appropriate dialogue with regulators to try and get their support for the Code. He also noted that implementation support would be important. The threats and safeguards approach would be an educational challenge for some. It would be interesting to see how jurisdictions implement the Code and the extent to which jurisdictions feel the need to supplement the requirements in the Code. This would provide useful feedback for the next update of the Code.

Ms. Blomme indicated that it is important to have a period of stability regarding the independence provisions of the Code. She noted that while member bodies might have a positive attitude towards adoption of the Code, in Europe it is not in their hands. With respect to accountants in government, she noted that only the UK has a member body that represents these accountants. She agreed that it would be useful to revisit part C of the Code.

Mr. Haaning indicated that it would be useful to look at integrity as, in his view, the distinction between objectivity and integrity is blurred. It would be useful to review the fundamental principles because, for example, there is a view that auditors should also have the fundamental principle of accountability.

Mr. George thanked CAG members for their comments and indicated that their views would be carefully considered by the IESBA Planning Committee as it started the developing the next strategic plan.

D. Independence Part II

Ms Munro introduced this topic providing CAG members with an update on changes made to the Independence II project. She noted the CAG discussed the Task Force's proposals to address comments received on exposure at its November 2008 meeting. The Task Force revised the document to address comments from CAG members and the IESBA approved the final document at its December 2008 meeting.

A CAG member expressed the view that the prohibition on internal audit services should refer to services that are separately or in the aggregate material or significant. The IESBA considered this comment and agreed that this would clarify the prohibition. The IESBA, therefore, approved the following text:

> "In the case of an audit client that is a public interest entity, a firm should not provide internal audit services that relate to:
> (a) A significant part of the internal controls over financial reporting, or
> (b) Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client's accounting records or financial statements on which the firm will express an opinion; or
> (c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion."

Mr. Pickeur questioned whether it was clear that "amounts or disclosures" covered matters that were included, for example, in notes to the financial statements. Ms. Munro responded that it would include such matters.

Ms. Patti noted that prohibiting internal audit services that relate to "a significant part of internal control" would allow firms to provide some internal audit services that relate to financial reporting. Ms. Munro stated that the IESBA felt that a complete prohibition on such internal audit services was not appropriate. The IESBA was of the view that the level of threat was linked to the significance of the internal controls. In addition, a complete prohibition would not, for example, permit a client to receive a limited amount of internal audit assistance in an immaterial subsidiary.

E. Strategic Plan

Mr. George introduced the topic. He noted that in March 2008, the IESBA issued a Strategic and Operational Plan for 2008-2009. To date, for the period covered by the plan, the IESBA's work effort has focused on the two independence projects and drafting conventions. The IESBA plans to approve the changes resulting from the drafting conventions project at its April meeting and, therefore, will be in a position to start new projects. He noted that the IESBA's terms of reference and due process require the strategic review to include a formal survey of key stakeholders to obtain views about issues that they believe should be addressed in the immediate future. The Plan is exposed for public comment for a period of no less than 30 days. The IESBA will consider the

comments received on exposure as it revises and finalizes the plan. Consistent with other documents, the Plan is issued after PIOB consideration and approval of due process.

Mr. George noted that the IESBA will issue materials to assist member bodies and firms in implementing the revised Code and would also focus on its objective of fostering international convergence. In addition to convergence and implementation support, the current plan identifies three projects for the period:

- Accountants in Government
- Fraud and Illegal Acts
- Conflicts of Interest

With respect to the accountants in government project, Mr. George noted Part B of the Code applies to professional accountants in public practice, who are defined as professional accountants in a "firm." Part C of the Code applies to professional accountants in business, who are defined as including professional accountants in the public sector. The independence requirements for assurance engagements are contained in Part B. Professional accountants in the public sector do perform assurance engagements and it is, therefore, unclear how the guidance and principles in Part B apply (or should apply) to assurance engagements performed by accountants in the public sector. A project to consider this matter was commenced in 2005 and work on it was deferred at the beginning of 2007 in order to focus on independence and then drafting conventions. Given the length of time that has passed since the project was commenced, he noted that it is proposed that IESBA liaise with INTOSAI (International Organization of Supreme Audit Institutions) to obtain their views on the project.

Mr. George indicated that the IESBA would welcome any preliminary views of CAG members on the priority of future projects.

Mr. Fleck expressed the view that the projects on Fraud and Conflicts would be difficult and complex. With fraud it would be necessary to carefully consider the fundamental principle of confidentiality while still protecting the public. With conflicts of interests there are practical difficulties and the project would not be straight forward.

Mr. Waldron stated that from an investor's perspective, the project addressing the ethical issues associated with an accountant encountering a fraud or illegal act was the one that would help to restore the confidence that is so desperately needed. He indicated that this project is of great importance.

Mr. Morris agreed, noting that the fraud project was, in his view, of a higher priority than the conflicts of interest project. He noted though, that the area of conflicts needed attention because, when bidding on a large corporation, there was a one in three chance that you would have a conflict of interest.

Ms. Sucher expressed her view that the fraud and illegal acts project was the highest priority project. She noted that given the differing legislation around the world, the

project would be a difficult one. She also noted that in the current climate questions had been raised about why certain matters did not come to light earlier than they had.

Mr. George noted that the project might be able to help address the gap when there is no specific legislation. He also noted that there were two aspects to an accountant's responsibility with respect to fraud and error. From the perspective of an auditor the responsibilities with respect to detection of fraud are addressed in auditing standards. The Code would address ethical considerations if a fraud is found. He also noted that the project would address professional accountants in business as well as professional accountants in practice.

Mr. Pickeur noted that an interesting part of the fraud project would be to balance the duty of confidentiality and the duty of acting in the public interest. He stated that International Auditing Practices Statement 1004 *The Relationship Between Banking Supervisors and Banks' External Auditors* had touched on this issue. He also indicated that while the fraud project was the highest priority, the conflicts of interest project was also important.

Mr. Cassel stated that in the public sector the requirements related to fraud vary from jurisdiction to jurisdiction. He noted that in some jurisdictions there might be an expectation that auditors in the public sector will do more than auditors in the private sector. He also noted that there is a risk that because auditors are not forensic experts they might not detect a fraud.

Mr. Sylph noted that the mandate of IESBA is to develop ethical standards for all professional accountants. In listening to the comments he noted that the majority of comments seemed to be focused on auditors. The majority of the members of member bodies of IFAC are professional accountants in business. He noted that the background of the majority of the IESBA's members is public practice and independence and it will, therefore, be a challenge for the IESBA when it specifically addresses professional accountants in business.

Mr. Hegarty noted that most of the accountants in the public sector are not members of a member body of IFAC and he wondered whether the Code could encourage these individuals to join a professional body.

Mr. Morris noted that there seems to be a large gap between accountants in business and accountants in public practice. He noted that because accountants in practice need to understand all the independence requirements in the Code, they are likely more aware of the Code than are accountants in business.

Mr. George noted that accountants in business facing ethical issues had less of an infrastructure to assist them in resolving the issues.

Dr. Schilder stated that it was important to recognize that sometimes confidentiality might need to be set aside to protect the public interest.

Mr. Fleck noted that when the IESBA Planning Committee had first discussed this matter, members were split. Some jurisdictions initially had the reaction that confidentiality could never be breached. After discussion, however, there was a recognition that perhaps the matter needed to be judged in the context of tapestry whereby the person receiving the information had access to other pieces of the jigsaw. He also noted that this approach would represent a significant cultural change for those who have lived with the concept that professional confidentiality can never be breached.

Mr. Sylph noted that the OECD Working Group on Bribery is seeking input from experts on the role of auditors in detecting and reporting bribery and will take the input into account when reviewing its Anti-Bribery Instruments. One questioned raised was whether the OECD should establish rules on auditor independence. He reported that IFAC had encouraged the OECD to rely on the IFAC Code. He indicated that it would be useful for the IESBA to liaise with the OECD.

Ms. Patti stated that IOSCO would discuss the priorities at its March meeting.

Ms Blomme stated that the FEE Ethics Working Party is currently working on a project on integrity and hoped to have a short paper on this matter in the near future. The purpose of the paper would be to start the dialogue and debate.

Mr. Hegarty noted that one lesson from the current financial crisis was the importance of the Code of Ethics. In some cases, matters have moved too quickly be addressed by a financial reporting framework and, therefore, people were only guided by Code of Ethics.

Dr. Schilder re-iterated the importance of integrity. He stated that the current financial crisis was raising questions about integrity and other old Greek values. He noted that the Code does not contain much guidance on integrity. Mr. Fleck noted that integrity is usually either addressed very briefly or it becomes a philosophical discussion. He noted that the Drafting Conventions project did not seek to address the fundamental principles and it would be interesting to see whether some form of discussion paper would be a useful starting place.

Mr. George stated that in his experience with discipline cases, it was a violation of a fundamental principle (such as integrity) that was often cited with the guilty verdict.

Mr. Cassel noted that, when considering the expectations gap, INTOSAI recognized that an accountant or auditor could have followed the technical requirements but it was always important to also step back and ensure compliance with the fundamental principles.

Mr. George thanked CAG members for their input.

F. Comments from the Public Interest Oversight Board

Mr. Fleck invited Mr. Brown, representing the Public Interest Oversight Board (PIOB), to make some comments.

Mr. Brown stated that the importance of the CAG to the PIOB cannot be overstated. He had been pleased to observe the debate and felt that the advice provided by CAG members on the Strategic Plan and project priorities was very helpful and instructive. On behalf of the PIOB he thanked all CAG members for their input and contribution.

G. Closing

Mr. Hegarty and Mr. Haaning indicated that this would be their last CAG meeting. They both expressed their appreciation for being members of the CAG and wished the CAG well in the future.

Mr. Fleck thanked Mr. Hegarty and Mr. Haaning for their contribution to the CAG and thanked all members of the CAG for their participation and closed the meeting.

H. Future Meeting Dates

September 9, 2009 (Washington DC, USA)
March 3, 2010 (Spain TBC)
September 15, 2010 (London, UK)