

International Ethics Standards Board for Accountants (IESBA)

CONSULTATIVE ADVISORY GROUP (CAG)

Draft Minutes

Held on March 05, 2012 Brussels, Belgium

<i>Present:</i>	Richard Fleck (Chair)	Financial Reporting Council
	Matthew Waldron	CFA Institute
	Kristian Koktvedgaard	Business Europe
	Federico Diomeda	European Federation of Accountants and Auditors for SMEs
	Marie Lang	European Federation of Accountants and Auditors for SMEs
	Jean-Luc Peyret	European Federation of Financial Executives' Institutes
	Hilde Blomme	Fédération des Experts Comptables Européen
	Glenn Darinzo	Institute of Internal Auditors
	Markus Franz Grund	International Organization of Securities Commissions
	Koichiro Kuramochi	International Organization of Securities Commissions
	Gaylen Hansen	National Association of State Boards of Accountancy
	David Morris	North American Financial Executives Institute
	Dominique Pannier	Organisation for Economic Cooperation and Development
	Ajith Ratnayake	Sri Lanka Accounting and Auditing Standards Monitoring Board
	Simon Bradbury	World Bank
	Linda de Beer	World Federation of Exchanges

Observers

Brian Bluhm	IFAC SMP Committee
Martin Baumann	Public Company Accounting Oversight Board

IESBA

Ken Dakdduk	IESBA Chair
Robert Franchini	IESBA Member
Caroline Gardner	IESBA Member
Jorgen Holmquist	IESBA Member

IESBA Staff

Jan Munro	IESBA Deputy Director
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Observing on behalf of the PIOB
Sir Bryan Nicholson PIOB

<i>Regrets</i>	Pat Sucher	International Association of Insurance Supervisors
	Conchita Manabat	Asian Financial Executives Institutes
	Amir Abadi Jusuf	Asian Financial Executives Institutes
	Paul Koster	Gulf States Regulatory Authorities
	Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities
	Gerald Edwards	Basel Committee on Banking Supervision
	Georges Couvois	European Federation of Financial Executives' Institutes
	Philip Johnson	Fédération des Experts Comptables Européens
	Nigel James	International Organization of Securities Commissions

A. Opening Remarks

Mr. Fleck welcomed all participants to the CAG meeting. He welcomed new CAG members Mr. Darnizo (representing the Institute of Internal Auditors) and Mr. Bluhm of the IFAC SMP Committee as an observer to the CAG. He also welcomed Sir Bryan Nicholson observing on behalf of the Public Interest Oversight Board and IESBA members Mr. Franchini, Ms. Gardner and Mr. Holmquist. He noted that apologies had been received from Ms. Manabat, Ms. Lobanova, Mr. Koster, Mr. Al Zaabi, Mr. Edwards, Mr. Couvois and Mr. Johnson.

The minutes of the Prague September 2011 CAG meeting were approved as presented.

B. Report from IESBA Chair

Mr. Dakdduk reported that the IESBA had met twice since the last CAG meeting, once in October in New York and then again in February in Dublin. Mr. Dakdduk noted that at the end of the year four members, Ms. Barakzai, Mr. Niehues, Mr. Rutherford and Ms. Van Bellinghen had completed the time on the IESBA. He thanked these members and said that he had welcomed new members from Canada, Italy, Sweden and Uganda.

Mr. Dakdduk provided an update on the IESBA activities since the last CAG meeting focusing on the topics that were not on the CAG agenda. The IESBA approved an exposure draft at its February meeting to propose a change in the definition engagement team to make it clear that internal auditors providing direct assistance to an external auditor are not considered to be part of the audit engagement team under the Code. Mr. Bauman noted that the proposed revised definition stated that internal auditors providing direct assistance were not part of the engagement team and asked whether this meant that other internal auditors were part of the engagement team. Mr. Dakdduk stated that was not the intent. The proposed change was to address the concern that internal auditors

providing direct assistance were part of the engagement team. The IESBA had responded to the matter directly by expressly excluding them from the definition of the team.

Mr. Dakdduk noted that since the September 2011 CAG meeting, the IESBA had undertaken several outreach activities including:

- Singapore Accountancy Convention – Mr. Kwok
- International Forum of Independent Audit Regulators – Mr. Dakdduk
- Vietnam Association of Certified Public Accountants – Mr. Dakdduk and Ms. Munro
- Forum of Firms – Ms. Munro
- National Association of States Boards of Accountancy – Mr. Dakdduk
- Dubai Financial Services Authority Regional Conference – Mr. Walsh

Ms. De Beer stated that she found the feedback statements provided by the IAASB to be very helpful. Ms. Munro noted that as the IESBA CAG discusses each project at each meeting, unlike the IAASB CAG, the feedback is provided directly in the agenda papers but indicated that for future meetings a specific feedback statement would also be provided.

Mr. Hanson commented on the recently issued paper on professional skepticism and asked whether the IESBA had been consulted or involved in its development. Mr. Dakdduk noted that the topic was important to the IESBA.

C. Breach of a Requirement of the Code

Mr. Dakdduk introduced the topic. He noted that in October 2011, the IESBA issued an exposure draft proposing changes to the Code related to provisions addressing a breach of a requirement of the Code. The comment period ended on January 23, 2012 and 44 responses had been received. The Task Force met in early February and, at its February meeting, the IESBA received an overview of comments received and made some tentative decisions with respect to some of the threshold issues.

The Exposure Draft contained a general provision on how to address a breach unrelated to independence. The provision, which is quite short, requires a professional accountant to take action as soon as possible to satisfactorily address the consequences of the breach and to determine whether to report the breach to affected parties. In discussing the comments received on exposure, the IESBA's tentative position is that it will provide more context and rationale for the proposed approach.

With respect to a breach of an independence requirement the Exposure Draft proposed that:

- Termination of the engagement might be necessary;
- The matter should be communicated to those charged with governance;
- The interest, relationship or interest that caused the breach should be terminated, suspended or eliminated;

- There should be compliance with legal and regulatory requirements;
- If the auditor concludes that objectivity has been compromised, the auditor shall discuss the matter with those charged with governance and take steps to terminate the audit engagement;
- If auditor concludes that objectivity has not been compromised, the auditor shall determine whether action can be taken to satisfactorily address the consequences of the breach and ensure that objectivity is maintained.

If the auditor determines that action can be taken to satisfactorily address the consequences of the breach the auditors shall:

- Discuss the breach and the action proposed with those charged with governance as soon as possible;
- If those charged with governance agree that the proposed action will satisfactorily address the consequences of the breach, continue the audit engagement; and
- If those charged with governance do not agree, terminate the audit engagement.

The Exposure Draft proposed documentation of:

- Actions taken;
- All matters discussed with those charged with governance; and
- All matters discussed with relevant regulators, if applicable.

Mr. Dakdduk reported that almost all of the Exposure Draft respondents were supportive that the Code should address the action that should be taken if a professional accountant identifies a breach of a requirement of the Code. Similarly almost all of the respondents were supportive of the reasonable and informed third party test when making the determination as to whether action can be taken to satisfactorily address the consequences of the breach. Mr. Dakdduk stated that the reasonable and informed third party test is used elsewhere in the Code but the IESBA will consider whether additional language should be added to make it clear that the reasonable third party is not another auditor. Mr. Dakdduk noted that almost all respondents agreed that the matters should be discussed with those charged with governance.

The Exposure Draft proposed that the firm only continue with the audit if those charged with governance agree that the actions to be taken will satisfactorily address the consequences of the breach. The majority of respondents supported this approach but a minority did not agree that the auditor make only continue with the agreement of those charged with governance. These respondents felt that the decision should rest with the auditor. Mr. Dakdduk noted that the IESBA's tentative conclusion was that those charged with governance much agree that the auditor could continue because the actions taken satisfactorily address the consequences of the breach. He noted that several respondents had commented on the consistency between the Exposure Draft and ISA 260 Communications with Those Charged with Governance. The definition of those charged with governance in the Code is not exactly the same as in ISA 260 and, therefore, the Task Force will review ISA 260 with the view to determining whether any changes to the Code are appropriate.

With respect to the proposed requirement to communicate all breaches to those charged with governance as soon as possible, respondents were mixed. While the majority of respondents agreed that all breaches should be communicated to those charged with governance, many respondents commented on the timing of reporting. Some respondents felt that insignificant breaches did not need to be reported as soon as possible and other respondents felt that such breaches could be communicated in accordance with a protocol established by those charged with governance. The IESBA considered the comments received and its tentative decision is that while all breaches should be reported, it might be appropriate to provide some flexibility on the timing of the communication of less significant breaches. The IESBA will consider whether less significant breaches should be reported as part of the regular communication process or in accordance with an established protocol. The IESBA will also consider whether the communication should be in writing.

With respect to reporting to a regulator, three respondents raised this issue. The IESBA's tentative conclusion is that it is not appropriate for the Code to require reporting to a regulator in a jurisdiction if the regulator does not itself require reporting. The IESBA will consider whether the Code should acknowledge instances where reporting to a regulator while not required is encouraged or is best practice.

Mr. Dakdduk noted that the IESBA will consider all of the remaining Exposure Draft responses and proposed revisions to address comments at its June meeting. The CAG will have the opportunity to see the document again at its September 2012 meeting.

Mr. Baumann stated that he agreed with all of the tentative positions except the decision to consider some flexibility on the timing of the communication of breaches. He noted that all breaches should be communicated as soon as possible to those charged with governance. If flexibility was provided this would introduce too much subjectivity and it also would not provide those charged with governance with the opportunity to discuss the matter and comment on the actions that would be taken to address the consequences of the breach. Mr. Dakdduk noted that the IESBA was concerned that the requirement might put too much of a burden on audit committee. He agreed that providing some flexibility would introduce some subjectivity but wondered whether those charged with governance would want truly insignificant breaches to be reported as soon as possible.

Mr. Hansen stated timely communication is necessary and so it was important that all breaches be reported on the same time line.

Mr. Hansen noted that ultimately it was the auditor's call as to whether objectivity had been compromised to the extent that resignation was necessary. Mr. Dakdduk agreed and noted that the challenge was to word it appropriately so that people did not infer that the auditor judgment was being subordinated to those charged with governance.

Mr. Morris noted that he would not expect there to be a large number of breaches of independence requirements of the Code and, as such, an audit committee would not be unduly burdened if all breaches were reported as soon as possible. It there was a large

number of breaches that would indicate that there was an issue with the internal control of the firm. In that regard immediate reporting would impose a discipline on the firm and provide a strong motivation for having effective controls to monitor independence. Mr. Dakdduk agreed with the motivational element of reporting but noted that it was not clear how many breaches of independence requirements occur.

Mr. Bluhm noted that in an SME environment, those charged with governance and management are often the same people. They might be very concerned about the cost associated with having to find another provider for the audit service. He noted that it might be useful to try and provide some additional guidance to recognize this matter – if not with the Code itself, in another publication.

Ms. Blomme noted that in the area of financial interests there was no materiality threshold and, as such, the holding of a single financial interest could create a breach.

Mr. Waldron expressed the view that the communication should be in writing. He noted that a requirement to communicate in writing would increase the rigor of the process.

Mr. Koktvedgaard expressed the view that all breaches should be reported. He noted that it was important to not only communicate the breach itself but also how the breach was identified, this might be important in determining whether additional measures should be taken. He also noted that consideration should be given to whether the breach should be reported outside of the entity.

Mr. Kuramochi stated that he was of the view that reporting outside of the entity should be considered. He noted that some IOSCO representatives felt that this was a very important point.

Mr. Kuramochi expressed the view that the determination of what actions should be taken to address the consequences of the breach should be taken at the firm level and not just by the engagement partner. Mr. Dakdduk noted that was a good point which he would ask the Task Force to consider.

Mr. Koktvedgaard noted that the discussion of quality control made him reflect on the quality control mechanisms in SMPs. In an SMP environment, the accountant might have to go outside of the firm to consult, for example to a professional body or to a regulator. Mr. Hansen noted that was not different from other issues faced by SMPs. Mr. Dakdduk noted that discussion with a regulator could be a useful step in determining whether action can be taken to address the consequences of the breach.

Mr. Dakdduk thanked CAG members for their comments and noted that they would be carefully considered by the Task Force.

D. Responding to a Suspected Illegal Act

Mr. Franchini introduced the topic. He reported that at its October 2011 meeting the IESBA discussed a proposed exposure draft. The exposure draft proposed that after

escalating a matter within the client or employing organization, a professional accountant would be required to disclose certain illegal acts to an appropriate authority. Disclosure would be required when the accountant determined that the suspected illegal act was of such consequence that disclosure would be in the public interest and the entity had not disclosed the matter. The types of illegal acts that would require such disclosure were:

- Suspected illegal acts that directly or indirectly affect the client's financial reporting.
- Suspected illegal acts the subject matter of which falls within the expertise of the professional accountant.

The IESBA discussed the proposal and requested the Task Force to prepare an alternative approach that was based on a "robust right" to disclose to an appropriate authority.

At its February 2012 meeting, the IESBA discussed three alternative approaches:

- Sections 225 and 360 based on a requirement to disclose to an appropriate authority;
- Sections 225 and 360 based on a right to disclose to an appropriate authority; and
- Sections 225 and 360 based on a mixed approach with a requirement for an auditor and a professional accountant providing non-assurance services to an audit client, and a right for other professional accountants.

The IESBA agreed that the Exposure Draft should provide the following:

- The IESBA agreed that an auditor and a professional accountant in public practice providing non-assurance services to an audit client should have a requirement to disclose to an appropriate authority;
- A professional accountant in public practice providing non-assurance services to a client that is not an audit client should have a requirement to report the suspected illegal act to the entity's external auditor. If the suspected illegal act relates to the subject matter of the professional service the accountant is providing, and the response to the matter is not appropriate, the accountant would have a right to disclose the matter to an appropriate authority. The accountant would be expected to exercise the right in order to fulfill the accountant's responsibility to act in the public interest; and
- A professional accountant in business would have a requirement to disclose a suspected illegal act to the entity's external auditor if the accountant is unable to escalate the matter and there is no established mechanism such as an ethics policy. If, having escalated the matter or disclosed to the entity's external auditor, in the professional accountant's judgment the response to the matter is not appropriate, the accountant would have a right to disclose the matter to an appropriate authority. The accountant would be expected to exercise the right in order to fulfill the accountant's responsibility to act in the public interest.

The IESBA also proposes that in exceptional circumstances, the professional accountant would not be required to disclose. The IESBA is considering the following description of the exceptional circumstances:

“a reasonable and informed third party would conclude that the probable threats to the safety of the professional accountant or other individuals are sufficiently severe to outweigh the benefits of disclosure.”

Mr. Franchini noted that the IESBA has scheduled a conference call on April 20, 2012 when it plans to approve the document for exposure.

Mr. Hansen asked why there would be a different responsibility for a licensed accountant depending upon the services provided by that licensed accountant. Mr. Franchini noted that the IESBA believes that an auditor has a greater level of responsibility to the public because of the auditor's role as a gatekeeper. The IESBA proposal is consistent with that taken by others.

Mr. Hansen noted that as a professional accountant, regardless of the services he was providing, he would feel that he would have the same level of responsibility. Mr. Franchini noted that the IESBA proposes a right for such accountants and the accountant would be expected to exercise the right to fulfill the responsibility to act in the public interest.

Mr. Diomeda agreed with Mr. Hansen noting that the differential approach seemed to imply that the public has a different expectation from an auditor. He expressed the view that it was not appropriate to imply that a professional accountant providing other services has a lower concern for the public interest than an auditor. He noted that in some jurisdictions professions are established by law and the law refers to the responsibility to act in the public interest. Mr. Franchini noted that some jurisdictions might have the same requirement for all professional accountants but many jurisdictions did not.

Ms. de Beer stated that she did not support the differential approach because a professional accountant might only see part of the picture. Mr. Franchini noted that professional accountants providing non-audit services and professional accountants in business would be required to report the suspected illegal act to the auditor. An auditor would be able to escalate the matter and, ultimately, may be required to disclose the matter to an appropriate authority.

Ms. Bloome noted that in the European Commission proposals for public interest entities there is a provision that takes into consideration the auditor's legal liability protection. She noted that it might be appropriate that the exception clause make reference to legal exposure and the protection provided by privacy legislation in the jurisdiction. She noted that the requirement is with respect to a suspected illegal act and a court of law may determine that the act was not in fact illegal.

Mr. Koktvedgaard noted that an auditor usually has some responsibility under law related to reporting whereas a professional accountant providing other services would not have such a responsibility. He, therefore, supported the proposed approach.

Mr. Ratnayake noted he supported the approach because there should be a higher requirement for auditors. Mr. Pannier also agreed with the approach.

Mr. Bradbury questioned whether the approach of the “robust right” would be effective.

Mr. Grund asked whether the exception clause was intended to apply to only physical safety or whether threat to financial safety would also be covered. He noted that if financial safety was also included the exception clause would be too broad. Mr. Franchini agreed that providing any exception for financial threats might be too broad.

Mr. Kuramochi noted that ISA 250 did not have a requirement for an auditor to report a suspected illegal act and also does not have the concept of a reasonable and informed third party. Mr. Franchini agreed noting that the requirement in the Code would be in addition to requirements in ISA 250.

Mr. Koktvedgaard asked Sir Bryan Nicholson whether the description of public interest was consistent with the PIOB’s consideration of the public interest. Sir Bryan Nicholson responded that in his view it was and it was appropriate.

Mr. Hansen noted that it was very difficult to describe the public interest and wondered whether the focus should be on the illegal act because the law is driven by the public interest. Mr. Franchini noted that the IESBA was of the view that a public interest threshold was appropriate because it was not the intent that a professional accountant would be required to breach confidentiality and report every suspected illegal act regardless of magnitude.

Mr. Grund noted that the exception for physical safety coupled with the exception for public interest seemed to be too permissive. Mr. Dakdduk noted that without some threshold an auditor would be required to disclose, for example, a theft of petty cash.

Mr. Bauman noted that the reference to “persistent aggressive earnings management” would be better described as “improper earnings management”, noting that a company might, for example, cut back on advertizing in a particular quarter to achieve an earnings forecast.

A straw poll was taken of those CAG members present and nine supported an approach which would require all professional accountants to disclose and six supported the position proposed by the IESBA.

Mr. Franchini thanked CAG members for their input which would be considered by the Task Force at its meeting later in the month.

E. Revised IESBA Strategy

Mr. Dakdduk reported that at its February 2012 meeting, the IESBA had agreed to add additional workstreams to its Strategy and Work Plan for 2012. He noted that last year the European Commission proposed significant changes to its auditor independence

requirements, principally mandatory firm rotation and significant restrictions on non-assurance services by auditors to their audit clients. In a concept release last year, the US Public Company Accounting Oversight Board began a dialogue on whether mandatory firm rotation is a way to improve auditor objectivity and independence and reduce skepticism. The IESBA is aware of other countries that are considering these measures.

The IESBA has added the following workstreams to address these matters:

- *Rotation*—The IESBA will consider the arguments for and against a firm rotation requirement in the Code. Depending on its position, the board will also consider whether the position on partner rotation set out in the Code remains appropriate, including whether the requirement to rotate off the audit engagement after serving seven years as a key audit partner and observe a two-year time-out period continues to be appropriate. The IESBA expects to begin discussions in June 2012. At its February 2012 meeting, the board agreed that its analysis should be guided by an overarching objective of improving audit quality
- *Non-assurance services*—The IESBA will consider whether the Code should include additional restrictions on auditors providing non-assurance services to their audit clients and whether the use of materiality as the basis for prohibiting certain non-assurance services remains appropriate. If materiality continues to be appropriate, the IESBA will consider whether the Code should contain guidance for applying it. If certain non-assurance services will continue to be permitted, the IESBA might also consider whether they should be subject to pre-approval by those charged with governance, restricted in size in relation to the audit fee, or publicly disclosed. The IESBA expects to begin discussions in the last quarter of 2012.

Depending upon the positions reached, the IESBA may add to its 2012 standard-setting agenda, which may result in proposed revisions to the Code.

He noted that the IESBA has received feedback from various users of the Code that improvements to the structure and format of the Code are needed—particularly increased visibility of the prohibitions and requirements and greater clarity about who is responsible for meeting its requirements. The IESBA will, therefore, determine how to increase the visibility of the requirements and prohibitions in the Code and clarify who is responsible for meeting them. Discussions are expected to begin in June 2012. The board believes these refinements will enhance the Code's usefulness, understandability, and enforceability, which in turn can contribute to the success of its convergence objective.

The last work stream added relates to Part C of the Code. The IESBA will determine whether recent accounting irregularities reveal ethical implications for professional accountants in business and whether Part C of the Code, which establishes ethical standards for professional accountants in business, should be strengthened. Discussions are expected to begin in June 2012. These discussions will provide input to the IESBA's Strategy and Work Plan for 2013 and beyond.

These additional workstreams may necessitate the IESBA revising the timelines for its other projects.

Mr. Koktvedgaard asked whether the IESBA had responded to either the European Commission Green Paper or the PCAOB concept release. Mr. Dakdduk stated that the IESBA had responded to both documents but it had not expressed a view on issues that had not been debated by the IESBA.

Mr. Hansen expressed support for the additional workstreams. He noted that while he might not agree with some of the positions in the Green Paper he did believe that these were issues that should be debated. He noted that it was important that the IESBA Task Forces considering these matters be open minded.

Ms. de Beer strongly supported the additions to the IESBA work program. She agreed with Mr. Hansen that it was important that the IESBA be open minded. She expressed the view that, if necessary, the IESBA should re-prioritize its agenda.

Mr. Koktvedgaard stated that he supported the approach as outlined by Mr. Dakdduk. He noted that the agenda paper provided a different tone and implied that the IESBA had determined that firm rotation was appropriate. He asked whether, when considering partner rotation, the IESBA had considered firm rotation. Mr. Dakdduk noted that the IESBA had not considered firm rotation. Mr. Fleck noted that when the proposed changes to partner rotation were previously exposed, no one had commented that firm rotation was appropriate. This was an indication that there was acceptance of the position at that time. Mr. Dakdduk agreed, noting that at that time firm rotation was not a matter being widely debated.

Mr. Kuramochi expressed his personal view that it was important to consider the impact on audit quality and, in this regard, it would be appropriate to liaise with the IAASB. He noted that when a firm rotates, all cumulative audit knowledge is lost.

Mr. Bluhm expressed support for the IESBA re-considering the structure of the Code, noting that a format similar to the clarified ISAs might be more appropriate for accountants providing services to SMEs.

Ms. Blomme expressed support for the IESBA taking a position on non-assurance services and firm rotation. She noted that the agenda papers seemed to imply that the IESBA had determined that it would re-open the Code. For many in Europe the Code is a robust Code and it is difficult to encourage recognition of a Code that is not a stable platform. She noted that the Fédération des Experts Comptables Européen did not think it was appropriate to address firm rotation in an ethics code.

Mr. Dakdduk stated that it was the intent of the IESBA to take a position on these matters and it was premature to conclude whether or not the IESBA would re-open the Code. If the IESBA did conclude the Code needed to be reconsidered it would start a project on the matter and the project would follow the regular IESBA due process.

Mr. Waldron agreed with the views expressed by Mr. Hansen and Ms. de Beer. In thinking about firm rotation, he noted that this was one area where the CFA Institute felt that some thought leadership could be demonstrated. Mr. Fleck noted that in 1992, a document in the UK on the future direction of auditing had examined four different models. There had been no appetite to take any of the models forward because of the difficulties with each of the alternatives.

Mr. Ratnayake expressed support for the new workstreams. He agreed with Mr. Waldron that the pay model is problematic noting that some auditors view management as the client.

Mr. Baumann asked when the IESBA expected to announce publicly whether it would be re-examining the position in the Code on rotation and non-assurance services. Mr. Dakdduk responded that there may be some form of announcement after the Board has considered the matter at its June meeting.

Mr. Morris expressed support for the proposal noting that it was important that the IESBA consider the matter from the perspective of impact on audit quality. He noted that the EC proposals and the PCOAB concept release were directed at public interest entities and the Code addresses all entities. He welcomed the IESBA's decision to review Part C.

Mr. Diomeda expressed the view that the IESBA should have its own rationale for looking at these subjects. He noted that European proposals were not necessarily driven by ethical reasons but were also driven by political reasons.

Mr. Koktvedgaard noted that it would be useful if the CAG agenda papers contained more analysis of current trends – for example the EC proposals and the PCAOB concept release – this would provide CAG members with the opportunity to comment on whether the IESBA should make changes to its work plan and agenda. He noted that it was important for the IESBA to have sufficient resources available to be able to analyse and report on current trends.

Mr. Kuramochi asked whether the IESBA intended to consider all of the issues in the EC Green Paper. Mr. Dakdduk said that the IESBA would look at all of the matters that were within its remit. Mr. Kuramochi expressed his personal view that audit quality was key and so caution should be taken if, for example, mandatory retendering was to be considered because of the possible impact on lowering audit fees. Mr. Dakdduk noted that the IESBA was also concerned with the impact of fee pressure on audit quality. An IESBA Ethics Staff Alert on the matter was planned.

Mr. Fleck thanked CAG members for their comments. He indicated that he would provide CAG members with an update after the IESBA June meeting.

F. SMP/SME Working Group

Mr. Dakdduk reported that at its October 2011 meeting in New York, the IESBA received and discussed a report on how it might address the unique and challenging

issues faced by professional accountants in small- and medium-sized entities (SMEs) and small- and medium-sized practices (SMPs) when complying with the Code. The report included a recommendation that the Board consider guidance on the preparation of accounting records and financial statements. It is common practice in many jurisdictions around the world for SMPs and others providing services to SMEs to prepare their accounting records and financial statements, and the Working Group studying the challenges faced by professional accountants in SMEs and SMPs encountered confusion about the Code's guidance on such services. At its Dublin meeting, the IESBA discussed a possible project to clarify the importance of client management's role in an accountant's delivery of bookkeeping services to audit clients that are not public interest entities. The IESBA determined that the clarification could be provided through staff Questions and Answers rather than by adding a project to its agenda. The IESBA also noted that a short document describing the implications of the independence provisions in an SME/SMP environment would be developed.

Ms. Lang expressed support for the clarification of management's role when an accountant provides bookkeeping services. She noted that this was an important area for SMP providing services to SMEs. Ms. Blomme also expressed support noting that this was especially important in light of convergence initiatives. She noted that some member states in Europe had difficulty adopting the Code because of its application in an SME/SMP environment.

Mr. Bluhm stated that it was encouraging that the IESBA was addressing this issue.

Mr. Koktvedgaard noted that he was supportive of the clarification but had a concern that there might be a move to graduated independence. He noted that the Code allows an accountant to provide more services to an entity that is not a public interest entity than can be provided to a public interest entity. He encouraged the IESBA to consider how that should be communicated to users of the financial statements.

G. PIOB Remarks

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

Sir Bryan Nicholson stated that he had found the discussion very interesting. As a PIOB observer he was interested in seeing whether the CAG received the appropriate agenda material, was appropriately staffed and debated the issues in a transparent manner.

With respect to the discussion on the IESBA Strategy and Work Plan he sensed general support, with some caveats, for the direction of the IESBA. He expressed the view that for the Code to remain relevant it was important that the IESBA address these matters on a time line that was appropriate

Mr. Fleck thanked Sir Bryan Nicholson for his remarks.

H. Close of Meeting

Mr. Fleck noted that Pat Sucher and Marc Pickeur has stepped down from the CAG. He expressed his appreciation and thanks for their contributions to the CAG. He thanked all members for their attendance and closed the meeting.

Future Meetings:

- September 12, 2012 (New York, United States)