

**Draft Minutes of the Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS  
Held on April 7-9, 2014 in Toronto, Canada  
(MARK-UP)**

**Voting Members**

Present: Wui San Kwok (Interim Chair)  
Helene Agélie  
Brian Caswell  
James Gaa  
Caroline Gardner (Days 1 and 3)  
Gary Hannaford  
Peter Hughes  
Claire Ighodaro  
Chishala Kateka  
Atsushi Kato  
Stefano Marchese  
Reyaz Mihular  
Marisa Orbea  
Sylvie Soulier  
Don Thomson  
Wen Zhang

Apology: Kate Spargo

**Non-Voting Observers**

Present: Kristian Koktvedgaard (IESBA Consultative Advisory Group (CAG) Chair), and Hiroyuki Dairaku

Apology: Juan Maria Arteagoitia

**Public Interest Oversight Board (PIOB) Observer**

Present: Claudia Deodati

**IESBA Technical Staff**

Present: Jim Sylph (Executive Director), Ken Siong (Technical Director), Kaushal Gandhi, Elizabeth Higgs and Chris Jackson

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Mr. Kwok welcomed participants and public observers to the meeting. In the light of the untimely passing of the Chair of the Board, Mr. Holmquist, he noted that he would assume the chairmanship of the meeting as per the Board's Terms of Reference. Mr. Kwok then read out the following tribute to Mr. Holmquist:

We will remember Jörgen as a man who devoted almost his entire working life to serving the public good.

- He served in the Swedish Ministry of Finance for twenty years. While there, he served as the senior civil servant responsible for the Swedish public finances.
- He was the Director General for the European single market and financial market regulation in the European Commission.
- He was Chair of the European Fisheries Control Agency, and the European Corporate Governance Institute.
- He was a special advisor to European Commissioner Maria Damanaki.

Jörgen became a Board Member of the IESBA in 2011, and became its Chair in September 2012.

We will remember Jörgen as the IESBA's First Independent Chair. We will also remember him as a tireless advocate for the importance of high quality ethics standards for the accountancy profession. He traveled extensively to meet with regulators and oversight bodies, national standard setters, IFAC member bodies, firms and others around the world to promote the good work of the IESBA, and to learn how it can respond more effectively and actively to stakeholder needs and concerns. In all, he visited 15 countries and led 160 outreach activities in the last 18 months since becoming the Chair. How he raised the profile of the IESBA was simply outstanding, and will be difficult to match.

We will remember Jörgen as a vibrant and inspiring Chair. A perfect gentleman, he treated everyone with courtesy and respect. He was a keen listener, always ensuring that all voices were heard and that outcomes of Board discussions were balanced. He was down-to-earth, warm, and humorous. This won him many friends. He was a professional of courage, principle and unquestionable integrity; a fountain of wisdom; a great human being, someone of whom we can truly say, "He lived a meaningful life." For all that he did and who he was, he won the tremendous admiration of all of us who had the opportunity to work with him.

Above all, we will remember Jörgen as a loving husband and father. His love for his wife, Gail (who accompanied him on a number of his travels), and pride in his family, was obvious. We saw it in his eyes, when he spoke about his family.

It is our wish that this memorial be recorded in the minutes of the meeting of the IESBA held in Toronto, Canada, during April 7-9, 2014, and that a copy be presented to his wife, Gail, and their children.

The Board stood and observed a minute of silence in memory of Mr. Holmquist.

Mr. Kwok noted that the Board would be informed about the funeral arrangements for Mr. Holmquist once available. A condolence card signed by Board members would be presented to Mr. Holmquist's family. In the meantime, the Board's work would continue as planned.

Mr. Kwok welcomed Ms. Deodati, observing on behalf of the PIOB; Mr. Koktvedgaard, Chair of the IESBA CAG; Mr. Dairaku, observing on behalf of the Japanese Financial Services Agency; and new Board Members Mss. Soulier and Zhang and Mr. Kato. He also welcomed Messrs. Leong and Yasada, Technical Advisors to Ms. Zhang and Mr. Kato, respectively, and Ms. Higgs, who had recently joined the IESBA staff.

Apologies were received from Ms. Spargo and Mr. Arteagoitia.

Mr. Kwok thanked CPA Canada on behalf of the board for hosting the meeting at its offices in Toronto.

#### TASK FORCE COMPOSITION

Mr. Kwok informed the Board that prior to his passing, Mr. Holmquist had invited Mr. Hughes and Ms. Zhang to join the Structure of the Code Working Group, and they had accepted.

#### PLANNING COMMITTEE UPDATE

Mr. Kwok briefly reported on the recent activities of the Planning Committee (PC), which had met immediately after the close of the December 2013 Board meeting and by teleconference in February and March 2014. The PC discussed *inter alia*:

- The way forward on the project on responding to non-compliance with laws and regulations (NOCLAR).
- The International Auditing and Assurance Standards Board's (IAASB's) auditor reporting project, specifically regarding the inclusion of a statement of independence in the auditor's report.
- An initiative by IFAC to enhance stewardship of its intellectual property.
- Regulatory concerns regarding offshoring by firms, and possible Board responses.
- Responses to the December 2013 Strategy and Work Plan 2014-2018 (SWP) consultation paper.

#### MARCH 2014 CAG MEETING AND APRIL 2014 CAG TELECONFERENCE

Mr. Kwok briefly reported that the CAG had met in March 2014 to discuss the various work streams on the Board's agenda. The CAG had also met in April 2014 via teleconference to consider the significant comments received on the SWP consultation paper. He noted that the CAG was generally supportive of the direction of travel on the SWP.

Mr. Koktvedgaard thanked the task forces and staff for the timely distribution of the CAG agenda papers, which helps the CAG provide better feedback, especially when the CAG Representatives need to consult internally within their organizations. He hoped that meeting papers would continue to be distributed timely for future CAG meetings. Mr. Koktvedgaard also noted that attendance at physical CAG meetings is significantly higher than at CAG teleconferences arranged to address specific topics or matters. He therefore advised considering the timing of CAG meetings in the planning stage for task force work, especially as related to exposure drafts (EDs).

#### MARCH 2014 PIOB MEETING

Mr. Kwok reported that its most recent meeting in March, the PIOB had noted no objection to the Board proceeding with an ED on the Non-Assurance Services (NAS) project even if the SWP has not yet been

finalized. In addition, the PIOB had approved the Islamic Financial Services Board as a member organization on the CAG.

Mr. Kokvedgaard reported that there was discussion regarding the uptake of the Code, with a focus on increasing such uptake. The importance of the Code being used globally was also highlighted during the discussion. Mr. Holmquist had reported on the Board's outreach activities and its work program, and the Board's support for the roundtables on the NOCLAR project. In this regard, Mr. Kokvedgaard highlighted the caution expressed at the meeting about the need to have as broad a representation as possible at the roundtables.

Mr. Sylph reported on the discussion with PIOB as to who should be responsible for developing implementation guidance as the standard-setting boards (SSBs) supported by IFAC were already at capacity developing standards. He added that the key issue was how much of the SSB resources should be channeled towards implementation support, noting that there would be further reflection on this matter within IFAC and the SSBs would be kept apprised of the discussions.

#### IESBA MENTORING PROGRAM

Mr. Kwok noted an orientation session was held for new IESBA members and Technical Advisors the previous Sunday. He then outlined the new mentoring program the IFAC Nominations Committee had asked the Board to implement this year to assist new IESBA members in settling in as quickly as possible in order to start making a positive contribution to the Board's work. He noted that prior to his passing, Mr. Holmquist had shared his views about which IESBA members could be invited to act as mentors, although there would be an expectation for all experienced IESBA members to assist the new members in settling in and developing the working relationships. The mentoring program is intended to last for one year.

Mr. Kwok added that Ms. Zhang and Mr. Kato had been invited to select a mentor from among a few IESBA members who had been invited to take on the role and who had agreed to do so if chosen. He noted that Ms. Soulier, whilst a new member on the Board, was already very experienced with the Board's operations and working processes, and therefore would not participate in the program.

#### AUDIT QUALITY

Mr. Thomson briefly reported on the completion of the IAASB's Audit Quality initiative to which the IESBA had contributed. The IAASB had approved the Audit Quality Framework in December 2013 and this had now been made available on the IAASB website. He noted that the website would be the focal point for materials related to the topic going forward.

Mr. Thomson added that the IESBA had already considered some items arising from the initiative, including, as part of the NOCLAR project, the matter of communication between a proposed auditor and an existing auditor when there is a change in professional appointment.

He indicated that the IAASB would now be turning its attention to engagement with stakeholders and development of user guides related to the Framework, notably for audit committees. He noted that the IESBA should be mindful of additional work that may be needed on the topic, although some areas would be more the responsibility of the IAASB than the IESBA. He indicated that IESBA and IAASB Staff would maintain liaison in this regard.

Mr. Sylph noted that the Canadian Public Accountability Board (CPAB) had issued their report *Thinking Differently about Audit Quality* the previous week and that the presentation from the CPAB representatives later in the week would be timely. He noted that all stakeholders should share in the responsibility for audit quality.

#### UPTAKE OF THE CODE

Mr. Kwok drew attention to the agenda material summarizing the global uptake of the Code, noting that he was pleased to see the information as it conveys the breath of adoption of the Code around the world. He thanked staff for compiling the data in collaboration with staff of the IFAC Compliance Advisory Panel.

Mr. Siong noted that stakeholders, notably the PIOB and the CAG, had previously requested this information, although the PIOB was primarily interested in the G20 economies. He noted that Mr. Holmquist had shared the information with the PIOB at its ~~February~~-~~March~~ 2014 meeting. Mr. Siong then briefly walked the Board through the data and highlighted that 36 translations had been completed or were in progress. He noted that the data were encouraging and demonstrated that the Code was being used extensively.

Mr. Kwok noted that a large number of countries viewed the Code as a benchmark for best practice, adding that while a number of jurisdictions, notably the more advanced economies, had gone stricter in some areas or tailored the Code to suit their national circumstances, for the majority of jurisdictions around the world the Code formed a basis for their national ethical standards. Mr. Kwok also added that the data supported the decision to develop a principles-based Code rather than a rules-based one, an important matter the Board's leadership had regularly highlighted on outreach.

IESBA members commented as follows, among other matters:

- This effort is a good first step and there should be regular updates on further progress to the Board. However, it would be helpful to understand how jurisdictions have adopted the Code, especially where the differences exist. In addition, if the Code has not been adopted, it would be helpful to understand why.
- The data may not reflect the latest reality. For example, while Malta and Greece are indicated as committed to adopt the Code, both countries will now have to adopt the new EU audit regulations. Also, in some countries the gap between the Code and the national ethical standards is actually widening. Mr. Sylph noted that the data represented a snap shot in time and the information will evolve over time. The information had been compiled prior to the finalization of the audit reform regulatory proposals in the EU.
- Not all countries that have adopted the Code have adopted it for both public interest entities (PIEs) and entities that are not PIEs. If an analysis of adoption for PIEs and other entities were to be performed, it would produce a different list of countries. It could thus be beneficial to refine the process with more granular data, and also consideration being given to data on trends. Mr. Sylph noted that adoption of the Code tends to differ from adoption of financial reporting standards as there is often not one body that adopts the Code nationally. He acknowledged that the process of adoption can vary among jurisdictions, with some jurisdictions focusing adoption only with respect to PIEs. The disparate nature of adoption thus presented a challenge to compiling detailed information. He cautioned that maintaining such information will be resource-intensive.

- Given the constantly changing environment, the data should be clearly dated. Mr. Koltvedgaard suggested that when posting the data to a website, users be invited to indicate any changes that may be needed.
- The data would be useful for outreach and also as a tool to encourage further adoption of the Code. It was noted that questions may be raised among the public as to why larger jurisdictions such as Germany and Canada are not yet adopters. In this regard, it was suggested that it may be beneficial to have supplemental information available, especially as related to G20 countries.

Mr. Kwok thanked participants for their comments and noted that the compilation of the data was a valuable first step in providing tangible information to stakeholders regarding the uptake of the Code, though care should be taken regarding the timing of the data.

Mr. Sylph noted that there had been a broad discussion on the adoption of the Code with the PIOB. Consideration had been given as to who should take responsibility for overseeing adoption of the Code, especially given that the Board was fully occupied with standard setting. He indicated that possible options for this would be taken to the Chair and PC, and he expected a challenging debate over the coming months. He noted that arguments existed for and against this responsibility to be placed on any one of the following: the regulators, IFAC member bodies or the Board. He added that there was a role for the Chair of the Board in promoting adoption, but there was no clear answer as to how much time the Chair or the Board should spend in this area.

#### RECENT OUTREACH ACTIVITIES

Mr. Kwok highlighted the summary of recent and upcoming outreach activities included in the agenda material and thanked IESBA members who had participated, or will participate, in the outreach efforts. He encouraged Board members and Technical Advisors to contribute to these efforts.

#### STAFF MATTERS

Mr. Kwok noted that this would be the last Board meeting Mr. Sylph would attend in his capacity as IFAC Executive Director, Professional Standards and External Relations, as he would be retiring at the end of June 2014. He highlighted Mr. Sylph's long years of service to the SSBs supported by IFAC and, in particular, to the IESBA. On behalf of the Board, he thanked Mr. Sylph for his dedication and contributions to the work of the IESBA. Mr. Siong paid tribute to Mr. Sylph's tireless support of the IESBA and its work in the public interest.

Separately, Mr. Kwok noted that Mr. Jackson would be retiring from the staff at the end of his contract in October 2014. He indicated that a staff vacancy for a new senior technical manager had been advertised and encouraged Board participants to refer any interested candidates to Mr. Siong.

#### MINUTES OF THE PREVIOUS MEETING

The minutes of the December 2013 Board meeting were approved as presented.

## 2. **Non-Assurance Services**

Ms. Soulier introduced the topic, outlining the changes since the previous Board meeting regarding the proposed enhancements to the subsections of the Code entitled "Management Responsibilities" and "Preparing Accounting Records and Financial Statements," and noting the agreed deletion of the emergency exception provisions pertaining to bookkeeping and taxation services. She indicated that the

proposed enhancements were presented at the March 2014 CAG meeting and CAG Representatives had provided a number of suggestions for the Task Force's consideration but were generally supportive of the proposals.

#### PROPOSED NAS POSITION PAPER

An IESBA member wondered whether further changes to the Code would be expected after the release of the NAS position paper. Ms. Soulier explained that the intention behind the position paper is not to create further changes to the Code ~~in-and-of~~ itself; however, the paper may identify new topics that may need to be addressed in the future. She noted in particular that there are now many new services provided by firms and new ways in which NAS are delivered that are not addressed in the Code, for example, cloud services. Mr. Kwok highlighted the three areas addressed within the proposed enhancements as needing immediate attention to ensure continued trust in the Code. Another IESBA member concurred, noting that for other areas such as internal audit, valuation and taxation, the Code has a materiality filter and there would be a need to explain to stakeholders why this filter exists.

An IESBA member commented that from the perspectives of adopting jurisdictions, the Board will be seen as making further changes and the area of NAS being re-opened. Ms. Soulier explained that the proposed changes will unlikely become effective before 2016 and the position paper is only intended to be a "guidance" document.

Another IESBA member noted a concern about issuing the ED without clarity regarding the scope of the position paper. It was noted that materiality and safeguards are two areas that have been flagged by respondents to the strategy consultation, and that these should be addressed. Mr. Kwok stated that the position paper will not propose changes to the Code but is intended to communicate why the provisions addressing internal audit services, taxation services and valuation services are appropriate and continue to be robust, but not to re-open them. He acknowledged, however, that there may be emerging services on which the Board might wish to solicit stakeholder feedback. Mr. Siong highlighted the need to proceed with the three matters addressed in the proposed ED as a priority to respond to concerns already communicated by stakeholders, adding that there would be opportunity to consider emerging areas as part of the Board's emerging issues and strategy review processes.

After further deliberation, the Board resolved to proceed with the ED.

#### EMERGENCY EXCEPTION

The Task Force proposed as one of the justifications for withdrawing the emergency exception provisions that if a regulator did allow an emergency provision within a jurisdiction due to a rare and extraordinary event, the firm would have to implement the provisions addressing breaches of the Code which would address threats to independence during the performance of the prohibited services. An IESBA member disagreed, noting that linking a firm's ability to depart from the Code to the Breaches provisions would create an expectation that firms can abuse the Breaches provisions for that purpose. It was noted that this was not the Board's intention as these provisions deal more with circumstances outside of the firm's control and not circumstances where a regulator has granted an override. Another IESBA member concurred, noting that it would be more logical to make the link to paragraph 100.11, which deals with "force majeure" circumstances where application of a specific requirement of the Code would result in a disproportionate outcome or one that would not be in the public interest.

After further deliberation, the IESBA asked the Task Force to adjust the rationale accordingly and to communicate it clearly in the explanatory memorandum.

#### MANAGEMENT RESPONSIBILITIES

Ms. Soulier noted a concern expressed at the previous Board meeting concerning the deletion of the term “significant” before “judgment” in paragraph 290.162,<sup>1</sup> which describes a management responsibility. The Task Force therefore proposed to delete both terms, as all judgments concerning the acquisition and deployment of certain resources are always a management responsibility. She indicated that the CAG was supportive of this proposed change.

Mr. Koktvedgaard wondered if there was any change of substance if both of these terms are deleted. Ms. Soulier explained that leaving the term “significant” in would effectively suggest that auditors could make insignificant management judgments. She highlighted that all decisions are management responsibilities. She also highlighted the importance of the “informed management” approach, and therefore the proposed changes were more than editorial in nature. Mr. Koktvedgaard suggested that the Board make clear that it is actually strengthening the Code.

In addition to editorial changes, the Board asked the Task Force to reconsider the proposed deletion of the term “generally” preceding the list of examples of management responsibilities as the examples now seemed very specific. In particular, it was noted that while the CAG was supportive of this deletion, acting on behalf of management may occur in some jurisdictions where a firm may assume power of attorney. Mr. Koktvedgaard expressed the view that removing “generally” would send a stronger signal.

#### ROUTINE OR MECHANICAL BOOKKEEPING SERVICES

Ms. Soulier noted that the Task Force had considered the consequences of booking of a journal entry into an automated accounting system. The Task Force had concluded that any report generated by the recording of an entry would most likely not create a source document. Extant paragraph 290.167 states that a source document evidences transactions, which would include purchase orders and customer orders. Thus, the Task Force did not propose changes concerning permitted journal entries made within the guidance addressing routine or mechanical services.

In addition to editorial changes, IESBA members raised the following matters:

- What the difference was between the guidance in paragraph 290.167 which states that management is responsible for the preparation of the financial statements and the “routine or mechanical service” example of preparing the financial statements from a trial balance that is substantially complete. It was noted that the guidance is intended to convey the message that it is ultimately management’s responsibility to determine if the information is complete and accurate. Mr. Kwok noted that while the auditor must make a judgment as to whether the trial balance is essentially complete, this is done as part of the audit, and not when the service begins – which is the responsibility of management.

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<sup>1</sup> Section 290, *Independence – Audit and Review Engagements*



- The need for judgment in the preparation of the financial statements, which could suggest that small and medium practices (SMPs) could be making such judgment for management. Ms. Soulier noted that under the informed management approach, the auditor would be expected to consult with the client management so that management may make the necessary judgment. In this regard, an IESBA member noted that in his jurisdiction, SMPs often prepare computations for accrued taxes and present these to management with appropriate explanations and documentation. The expectation in such a case is that management should have sufficient knowledge to understand and take responsibility for the numbers.
- Whether bullets two and four within the proposed examples of activities that are routine or mechanical could be merged as they appear to overlap. Ms. Soulier noted that this will be further considered but highlighted that stakeholders have called for more guidance on how to interpret “routine or mechanical.” Accordingly, she felt that care would be needed in not losing specificity in the examples.

#### SECTION 291<sup>2</sup>

Ms. Soulier outlined the corresponding enhancements to Section 291 of the Code. She noted that Section 291 differs from Section 290 in that the firm may accept management responsibility on behalf of the client so long as it is not in relation to the engagement the firm is to perform. Upon completion of the detailed review of the material, with some minor editing, the Board was in agreement with the proposed changes to Section 291.

#### APPROVAL AND WAY FORWARD

After agreeing all necessary changes to the document, the IESBA approved the proposed changes to the Code for exposure with 16 affirmative votes out of the 16 IESBA members present. The comment period will be for a minimum of 90 days from the date of issuance of the ED. The IESBA asked the Task Force to provide a clear rationale in the explanatory memorandum for why the ED addresses the three matters and not other NAS areas. The IESBA also asked the Task Force to present a first draft of the position paper for consideration at the July 2014 IESBA meeting.

### 3. Review of Part C of the Code

Mr. Gaa introduced the topic, outlining the issues and Task Force proposals for the Board's consideration. He then led the Board through the proposed changes to Part C of the Code.

#### PREPARATION AND PRESENTATION OF INFORMATION (SECTION 320)<sup>3</sup>

##### *Recording, Maintaining, Preparing or Presenting Information*

Pursuant to the Board deliberations At the December 2013 Board meeting, ~~a number of IESBA members had expressed various concerns about the Task Force's proposed requirement that information~~

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<sup>2</sup> Section 291, *Independence – Other Assurance Engagements*

<sup>3</sup> Section 320, *Preparation and Reporting of Information*

~~be prepared or presented “without bias.” In response,~~ the Task Force proposed to link the concept of “bias” in the proposed revised Section 320 to objectivity and to replace “without bias” with “without personal bias.” This would recognize that management has the right to use biased information such as stretch targets for internal purposes, but that the professional accountant (PA) should not add any further personal bias. Some IESBA members continued to express concern about the prohibition of “personal bias” because it would not be possible to distinguish between personal and corporate bias if the professional accountant in business (PAIB) is part of management.

~~Having reflected on At the December 2013 Board meeting deliberations concerning whether the proposed Section should require that, a few IESBA members had questioned whether~~ information ~~should be “complete,” believing that the word added little to the requirement to prepare fair and honest information. It was suggested that if the concept of completeness were to be used, it needed a fuller explanation with reference to the needs of the particular party for whom the information was being prepared. Having further reflected on the comments,~~ the Task Force continued to believe it would be appropriate to include the term “complete” because it is used in the IFRS Conceptual Framework. ~~Accordingly, t~~The Task Force thus felt that it would be widely understood by PAs, particularly given that the term is qualified by the phrase “having regard to the purpose for which the information is to be used.” Some IESBA members continued to believe that “complete” could be interpreted literally, whereas what might be intended might be closer to “appropriate.” A few IESBA members suggested it might be better to recognize an element of proactiveness in terms of “not omitting relevant information.”

IESBA members also suggested that:

- The concept of “reasonable steps” in the extant Code be retained with respect to the requirement to classify and record information in a timely and proper manner, etc, which would recognize that the PA may not have complete control over the information.
- The proposed requirement that the PAIB record, maintain, prepare or present information in a manner that is complete, fair and honest be reconsidered, as it may be too granular and difficult to implement.
- The requirement to present information in accordance with applicable financial reporting framework be deleted. Although such a requirement is in the extant Code, it was noted that it duplicates accounting standards. Similarly, it was suggested that the Task Force reconsider the proposed requirement regarding disclosure of information pertaining to management information such as budgets.

An IESBA member also questioned whether there were any significant changes between the extant Section 320 and the proposed revised Section.

The IESBA asked the Task Force to reconsider the proposals in the light of the above comments.

#### *Misleading Information*

The Task Force proposed that the Code should incorporate enhanced guidance to help PAIBs better understand their responsibilities relating to the application of the fundamental principles when facing:

- The misuse of discretion under the applicable financial reporting framework; and
- Transaction-based misrepresentation with an intention to mislead.

IESBA members made a number of comments on this proposal, including the following:

- The Code should not conflict with financial reporting standards. In particular, it would be important to avoid the impression that the Code is setting a standard for misleading information that is different from financial reporting standards, for example, where a number is compliant with a financial reporting standard but not with the Code because it is considered misleading. In this regard, care should be taken in not creating uncertainty and exposing PAIBs to second-guessing.
- It is unclear whether requirements in these areas would be practical or enforceable. It is difficult to see how discretion could be abused without this being fraudulent, a view that had also been expressed by some CAG Representatives. There may be practical application issues in respect of transaction-based misrepresentation. For example, a transaction may have a valid business reason and also be misleading, or a PAIB may account for a valid business transaction without any knowledge of the intention to mislead by those approving the transaction.
- It is always easy to judge past actions with the benefit of hindsight but PAIBs need to make decisions at a point in time. There are practical difficulties in judging intention, for example, whether a PAIB's forward-looking estimates were deliberately misleading or based on honest assumptions. Similarly, with "big-bath" restructuring provisions, there may be genuine uncertainty as to how much provisions to set aside for restructuring costs. The practical concern is judging the original intention if a large portion of these provisions is subsequently reversed. There is therefore a risk of placing the PAIB in a straitjacket situation where he may have to refuse to account for a transaction for fear of breaching his or her ethical code, especially when that code has been adopted into law. It was therefore suggested that the guidance should be at a high level and not prescriptive on details.
- It would be appropriate for the Code to emphasize the ethical principle of the PAIB not misleading others but more detailed guidance might be better placed off-Code.

Mr. Koktvedgaard noted that an investor representative on the CAG had asked for more guidance in this area.

After further deliberation, the IESBA tentatively supported the development of enhanced guidance to help PAIBs better understand their responsibilities in these areas. The IESBA, however, asked the Task Force to keep the guidance at a high level, with brief examples to illustrate the misuse of discretion in selecting an accounting treatment and in determining the timing or structuring of transactions. The IESBA also asked the Task Force to pay particular attention to the drafting because of the difficulty of making the guidance practical and enforceable.

#### PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES (PROPOSED SECTION 370)

##### *Conceptual Framework*

At the September 2013 Board meeting, a few Members had questioned whether it would be appropriate to use the construct of "safeguards" in the proposed Section 370. They were of the view that it would be difficult to apply a threats and safeguards approach to circumstances of pressure because the PAIB may not be the source of the pressure and therefore not in control of the situation. It was suggested, instead, that Section 370 would be more helpful to PAIBs if it concentrated on practical guidance rather than adhering to the construct of the conceptual framework.

The Task Force's proposed draft guidance therefore did not refer to threats and safeguards. A few IESBA members questioned the removal of the threats and safeguards terminology from the proposed Section.

In particular, it was noted that there was no mention of the intimidation threat and there was a need for a link between that threat and the pressure. Also, an IESBA member suggested similarities between Section 370 and the Conflicts of Interest section in that safeguards will not eliminate the conflict but it may be possible to take actions to mitigate it. Accordingly, it was suggested that it may be helpful to follow that model.

An IESBA member wondered whether referring to pressure to engage in unethical or illegal acts would be preferable because pressure to breach the fundamental principles seemed abstract.

#### *Examples*

IESBA members generally found the examples of pressure helpful, although it was suggested that the example of a potential conflict seemed to belong to a different category.

#### *Requirements*

A few IESBA members did not support a prohibition of yielding to pressure unless it is supported by practical guidance. It was felt that the proposed prohibition was more of a rhetorical statement and not an actual prohibition. It was also felt that it would not be practical. Rather, it was suggested that requiring the PAIB to “remain alert” might be more useful in terms of stimulating the PAIB to actively think about actions.

#### *Diversity of Ethical Norms*

The September 2013 draft of proposed Section 370 included a paragraph that acknowledged the diversity of ethical norms between organizations and countries. Although such diversity was acknowledged by some CAG Representatives, there had been concerns as to whether it would be appropriate to recognize it in the Code. Some had felt that it would be impossible to find words that did not suggest a “movable bar.” The Task Force therefore proposed the deletion of this paragraph. An IESBA member expressed a preference for the paragraph not to be deleted. Another IESBA member, however, was of the view that it would be inappropriate to suggest that it would be acceptable to breach the fundamental principles in certain cultures. It was noted that the intention is to create a common standard across cultures.

#### *Determining Whether Pressure Would Lead to a Breach of Fundamental Principles*

A few IESBA members questioned whether the factors that a PAIB would consider in determining whether pressure would lead to a breach of fundamental principles were appropriate. For example, the corporate culture of the organization is unrelated to whether there may be a breach of the fundamental principles, as this could occur in an ethical or unethical organization. Also, it was felt that “expected repercussions” is not a relevant factor in determining whether pressure would lead to a breach. It was suggested that the Task Force review this paragraph.

#### *Creating an Ethics-Based Culture*

IESBA members were generally supportive of the wording suggesting how an organization can create an ethics-based culture as an action to mitigate the effects of inappropriate pressure. However, an IESBA member did not agree that more senior PAIBs may face greater pressure than junior PAIBs. In this regard, it was suggested that it be emphasized that the higher up the PAIB is in the organization, the greater the risks and consequences. It was also noted that the concept of an ethics-based culture applies more broadly and limiting it to pressure would somewhat be underplaying it.

#### WAY FORWARD

The IESBA asked the Task Force to reflect on the comments from the Board and present revised proposals for Sections 320 and 370 and initial proposals for all the remaining sections of Part C, excluding Section 350,<sup>4</sup> for consideration at the July 2014 Board meeting.

#### 4. Responding to Non-Compliance with Laws and Regulations

Ms. Gardner briefed the Board on the activities relating to the project since the last Board discussions, noting that the Task Force was endeavoring to reconcile the divergent views on the project and seeking a practicable way forward. She reported on a meeting Mr. Holmquist and representatives of the Task Force, including herself, had with Herbert Smith Freehills (HSF) in January 2014 to seek an independent legal perspective on the issues in the project. She outlined in particular the main feedback from HSF regarding the responses the Board had received on the ED and the revised proposals the Board had tentatively agreed at the December 2013 IESBA meeting.

Ms. Gardner also briefed the Board on Mr. Holmquist's discussion of the project with Committee 1 of the International Organization of Securities Commissions (IOSCO) in February 2014, and on the feedback received on the tentative revised proposals at the March 2014 CAG meeting.

Mr. Siong then briefed the Board on the preparations for the upcoming series of global roundtables in Hong Kong, Brussels and Washington DC in May, June and July.

An IESBA member highlighted the importance of ensuring that the Board hears from all stakeholder groups, as the concern is that those who remain silent will be regarded as being in agreement with those who speak up. Ms. Gardner concurred, noting the need to manage the events well in this regard.

Mr. Kjørtvedgaard noted that the CAG was aware of the upcoming roundtables and that a number of the CAG member organizations would be attending them. He indicated, however, that the CAG had not been able to provide the Board with a clear steer on direction at this stage.

#### *PIOB Observer's Remarks*

Ms. Deodati commented that this is an important project for the Board. She advised the Board to aim [to](#) [for](#) a balanced representation at the roundtables and indicated that the PIOB would welcome receiving details in advance of the events.

#### WAY FORWARD

IESBA members were invited to advise staff of possible individuals whom they believe would be interested in participating in the roundtables. A further update on the project would be provided at the July 2014 IESBA meeting.

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<sup>4</sup> Section 350, *Inducements*

## 5. **Presentation from CPAB**

Mr. Kwok welcomed Glenn Fagan and Kam Grewal, Vice-Presidents at CPAB, for a briefing on CPAB and its strategic priorities and activities.

Messrs. Fagan and Grewal presented an overview of CPAB and its mission. Among other matters, they also outlined:

- The scope of, and approach to, CPAB's regulatory inspections;
- Its strategic plan and areas of focus;
- The key messages from its March 2014 public report;
- Canada's Enhancing Audit Quality Initiative, and CPAB's role in that initiative; and
- CPAB's collaboration with key stakeholders to develop a protocol to provide greater transparency about its work with a view to improving an audit committee's ability to effectively oversee the auditor's work.

Among other matters, IESBA members raised the following questions:

- Specific areas where audit quality could be improved, especially given the context of audit reform developments in the EU. Mr. Grewal noted that part of the answer would be to consider root cause analysis, and also how to build accountability at the firm level and not only at the engagement level. Accordingly, he felt that the answer was not so much mandatory firm rotation (MFR) or tendering but how to help the firm itself increase audit quality. Mr. Fagan wondered about the complexity and costs involved in moving to the MFR model agreed in the EU, and the potential for unintended consequences.
- Whether CPAB's inspection findings are similar to those of other audit oversight bodies within the International Forum of Independent Audit Regulators (IFIAR). Mr. Fagan noted that they are generally comparable, adding that as audit oversight bodies mature, they are moving into more risk-focused areas.
- Whether professional skepticism was an area of focus for CPAB as a lack of appropriate professional skepticism has been a feature of previous regulatory inspection findings. Mr. Fagan noted that this issue has again been highlighted in CPAB's report this year. He was of the view that part of the issue is over-familiarity with the audit client, leading to a checklist mentality.
- CPAB's approach to foreign inspections. Mr. Fagan noted that CPAB has a Memorandum of Understanding with its counterpart in China in this regard. However, it had not yet undertaken any inspections there.
- Why the PIE definition in Canada excluded small listed entities. Mr. Grewal noted that CPAB had concluded that it would not be in the public interest to scope in such entities in the definition.

Mr. Kolkvedgaard wondered about CPAB's views about the enforceability of the Code. Mr. Grewal expressed the view that it should be asked whether the threats and safeguards approach is the solution in all cases or whether there should be simple prohibitions. He also felt that clarifying the requirements in the Code would help in this regard.

An IESBA member commended CPAB for taking an independent look at issues of audit quality and auditor independence as opposed to simply adopting the approach taken in other jurisdictions. In this

regard, Mr. Grewal noted that part of the value of the Canadian Enhancing Audit Quality initiative is that it involved other stakeholders through the participation of CPA Canada and audit committees.

Mr. Kwok thanked Messrs. Fagan and Grewal for their helpful and informative presentation.

## **6. Structure of the Code**

Mr. Thomson introduced the topic and outlined the background to, and timeline of, the initiative as well as recent discussions on the topic with IOSCO. He then presented the final report and recommendations of the Structure of the Code Working Group (WG), the project proposal and illustrative examples of a possible approach to restructuring the Code.

### **DISTINGUISHING REQUIREMENTS**

The Working Group recommended that requirements should be distinguished from application material to enhance the understandability and enforceability of the Code, and that the application material should be adjacent to the relevant requirements. Mr. Thomson explained that “adjacent to the relevant requirements” means that the application material will follow immediately after the relevant requirement. This will address the concern that users may ignore the application material if all the requirements were in one place and the guidance in another.

### **RESPONSIBILITY FOR COMPLIANCE WITH THE REQUIREMENTS**

The WG recommended that the Code should clarify that an audit firm is responsible for independence except where it is clearly beyond the firm’s control. In this regard, the WG proposed that the Code not identify the individual responsible but, rather, that the firms’ policies and procedures be required to enable identification of the individual responsible for independence in a particular circumstance. Mr. Thomson noted that any change of substance would require a separate project. However, the WG recommended that the approach proposed be consistent with International Standard on Quality Control (ISQC) 1.<sup>5</sup> The proposal was included within the project proposal as there would not be a change to the meaning of the Code.

Some IESBA members expressed support for the recommendation for the following reasons:

- Smaller firms may not have a full-time independence or risk management partner. Accordingly, it is appropriate that the firm has in place policies and procedures to determine who should deal with an issue in the particular circumstances.
- To have the Code prescribe a particular job title for dealing with independence issues could force some firms to restructure to comply with the Code.
- Putting the onus on firms to establish policies and procedures is appropriate given the diversity of firms in practice.

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<sup>5</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- Regulators are always able to go to the highest level within a firm, hence it would be more appropriate to have policies and procedures in place than assigning responsibility to a single individual.

An IESBA member was concerned that the recommendation only required the firm to have policies and procedures but not to actually identify an individual to take responsibility. Other IESBA members commented as follows, among other matters:

- There is a question as to how enforcement could occur unless the firm has clearly identified a responsible individual. Identifying a lead person would generally strengthen the Code as this would place a focus on who has the lead responsibility. In this regard, the Board should take the opportunity to promote the need for ethics to be given greater importance in firms, and it would be a stronger position if they were to designate an individual to take lead responsibility for ethics.
- The Code cannot be seen as strong if it is not enforced. Tone at the top is important in this regard, and there is a need for someone at the top to oversee enforcement.
- It may be unrealistic to expect only one identified individual to deal with all breaches of independence and ethics requirements, as who is the most appropriate individual to deal with a particular issue will depend on circumstances.
- The job title is less important than ensuring that the person is of sufficient seniority to oversee the area and enforce policy.
- It is unclear what the evidence is that enforceability of the Code today is a problem for regulators, as it has not been an issue for regulators in some jurisdictions that have adopted the Code. Mr. Thomson noted that member bodies of IFAC with enforcement responsibilities have not expressed concerns but some regulators have voiced the concern. He noted that the Code currently does not identify an individual to take lead responsibility. So the proposal is to address that based on policies and procedures.
- Responsibility is an important issue raised by regulators, including IOSCO. In addition, there is a need for some clarity as different people have different views about what responsibility means. However, the Structure work stream is not intended to lead to substantive changes to the Code. Accordingly, the matter may need to be considered under the Board's future strategy and work plan.
- Consideration should be given to the ultimate outcome to be achieved in order to determine the appropriate actions. Further, independence and ethics are only a subset of matters with which a firm has to comply. Accordingly, there is a question as to whether the matter of responsibility could be addressed more holistically under ISQC 1, potentially in collaboration with the IAASB.
- While the larger firms will generally have a lead person for independence and ethics, the more important consideration is for firms to have appropriate risk management and controls in place.

Mr. Koktvedgaard highlighted a comment from the CAG that it should be clear who has responsibility within the firm. He added that in a smaller firm, he would presume that an individual would be assigned to deal with independence and ethics issues.

After further deliberation, IESBA members acknowledged the WG's recommendation but agreed that the Board should further reflect on the matter, including whether a separate project would be needed.



#### CLARITY OF LANGUAGE

Mr. Thomson presented the WG's recommendations with respect to clarity of language, noting that the Board would be advised where warranted on any identified inconsistencies in the Code once the project is under way.

In supporting the WG's recommendations, IESBA members commented as follows:

- There are challenges in translating the extant Code in some jurisdictions, for example, the use of long sentences. In addition, the translation considerations should not only be limited to words but also include concepts that exist in the English speaking world but not in all other jurisdictions, for example, "trusts."
- Consideration should be given to the use of an editor in the clarity process. Mr. Siong indicated that this would be considered by staff with the project Task Force in due ~~course~~ course. In this regard, it was cautioned that care would be needed in not over-simplifying or "dumbing down" the Code.
- It will be important to manage the transition from the extant structure and drafting conventions to the new ones carefully with respect to the current projects. Mr. Thomson indicated that the WG had discussed the matter with the PC and it had been agreed that ~~it~~ if a project is important and urgent, it should not be held up. Other projects would move to the new structure and drafting conventions.

Mr. Koktvedgaard suggested developing appropriate summaries of the Code or an easy read version to assist the layman in understanding the Code. Mr. Thomson noted that it is the WG's objective to restructure the Code in a manner that will make it understandable by people other than PAs.

#### ELECTRONIC CODE

IESBA members expressed general support for moving to an electronic Code at the earliest opportunity and emphasized the importance of making sufficient resources available for this initiative. As a first step, the Board noted the plan to develop an HTML version of the Code with enhanced navigation and hyperlinks to definitions, which could be available about three months after the 2014 Handbook is published. The second stage of the project would be based on the restructured Code.

#### COMPLEMENTARY MATERIALS

The WG noted that many of the matters that could be addressed by complementary materials may also be addressed by the restructuring and clarification of the Code. Accordingly, any proposals for complementary materials should wait until after changes have been made to the Code.

#### REORGANIZATION OF THE CODE

The Board considered the matter of rebranding the independence sections as individual standards, leaving Parts A and C as the ethics Code. An IESBA member felt that standards were more procedural whereas an ethics Code is more about behaviors. Other IESBA members noted that the IESBA sets standards and the Code is a set of standards. An IESBA member suggested that after the Code is restructured, Independence could be carved out into a number of individual standards, perhaps separating those provisions that apply to PIEs and those that apply to non-PIEs. Mr. Thomson noted that the WG would consider these suggestions further.

An IESBA member wondered if the applicability of Part C to PAs in public practice would be considered as part of the project. Mr. Thomson noted that the WG is only an advisory group at this stage and had not considered the matter but would look to input from the Part C Task Force.

#### DRAFTING CONVENTIONS

An IESBA Member did not support the suggestion in the drafting conventions that the term “professional accountant” be abbreviated to “accountant” because the term is used to distinguish qualified from unqualified accountants in some markets. Mr. Thomson noted that the matter would be further considered in the project.

#### PROJECT PROPOSAL

IESBA members commented on the project proposal as follows:

- Consideration should be given to a process for aligning outputs of this project and other projects to avoid any conflicts in style, and combining changes for release at one time.
- The timeline seemed unduly long between the consultation paper and an ED. Mr. Thomson explained the need to obtain input from stakeholders through the consultation paper process to ensure broad support for the proposals, including examples of restructured and clarified wording. Accordingly, there is a large amount of work before an ED can be ready.
- To make clear what is intended for the longer term, the phrase “in the near term” should be deleted from paragraph 9 of the project proposal:

*Identifying and advising on electronic features to be incorporated in the Code ~~in the near term~~ and more extensive electronic features to be coordinated with the restructuring;*

Subject to the above amendment, the Board approved the project proposal unanimously. Mr. Thomson noted that the proposed timeline is predicated on the availability of resources.

Mr. Kwok announced that the project Task Force would comprise the current members of the WG.

#### WAY FORWARD

The IESBA asked the Task Force to present a draft consultation paper for consideration at the July 2014 IESBA meeting.

### **7. Emerging Issues and Outreach**

Mr. Hannaford introduced, providing background to the initiative and outlining the recent work of the Emerging Issues and Outreach Committee (EIOC). He noted that the three matters for the Board’s consideration at this meeting had been discussed at the March 2014 CAG meeting and that CAG Representatives’ feedback had been summarized in the agenda material.

#### MG ROVER CASE

Mr. Hannaford briefly recapped the background to the case, noting that the Board was not being asked to debate the merits of the case or the tribunal decision but to consider the implications of the case for the Code. He also outlined the main comments from the CAG.

Among other matters, IESBA members commented as follows:

- The key point raised in this case is conflicts of interest, which the Code addresses through an entirely revised Section 220. Accordingly, the matter is not just a PIE issue as Section 220 applies to all entities. It was felt that the Code provides appropriate and robust guidance with respect to acting in the public interest when dealing with conflicts of interest. Mr. Hannaford noted that in the context of the Conflicts of Interest project, IOSCO had suggested that the Board further reflect on the meaning of the “public interest” concept.
- While the public interest is at the heart of the Board’s work, the case should be a catalyst for the Board to take the opportunity to start a project on clarifying the meaning of acting in the public interest and the nature of the roles to which this responsibility applies. In addition, care should be taken not to confuse terms such as “public interest,” “conflicts of interest” and “public interest entity” as they relate to entirely different concepts.
- The challenge posed by the IOSCO comment in the Conflicts of Interest project is the perception of a higher responsibility for PAs with respect to audit clients, so it is a relative and not an absolute concept. The question that arises is whether different services provided by PAs attract different public interest obligations. The case raises many such questions. In addition, as the Structure project progresses, there may be a need to reflect on whether the first provision in the Code would merit clarification, i.e., does it set an overarching provision or does it set an objective as to how PAs should act ethically. It was, however, acknowledged that IFAC had previously reviewed the definition of “public interest.”
- The case raises a number of issues. The tribunal decision ~~in effect indicates that when the firm advised the four individuals, it should have taken into account the implications for the company. Accordingly, the issue raises questions about legality vs. morality. The concern is that This puts PAs in an uncertain position as to whether they are being asked to be the moral police. Accordingly, it would be important to draw clear lines, otherwise every tribunal will determine how PAs should act morally. In addition, other tribunals could use the case as a precedent.~~
- Users need to know what it means to act in the public interest. If PAs providing taxation or consulting services were asked for their views, they would likely state that their role is to act for their clients and not for the public. This would be different for auditors, however, as the audit profession is regulated. Accordingly, some clarity is needed. Mr. Hannaford noted that paragraph 100.1 of the Code is clear the responsibility to act in the public interest applies to all professional accountants. The question was whether this should be in the Code or something else.
- ~~There is a concern about overly focusing on the case as there have been other cases where there have been large job losses. MG Rover was a PIE and accordingly the public interest should be considered.~~ PAs cannot claim to operate to higher standards if they do not want to live by the Code or cannot be trusted to act in the public interest. While the Board should further discuss the matter, the general understanding is that PAs hold themselves to higher standards because of the Code.
- The focus on defining the public interest is not the right one. The focus should rather be on the five fundamental principles. Acting in the public interest means complying with those fundamental principles. In this regard, it was noted that IOSCO perceived the public interest as an overarching principle along those lines, i.e. complying with the Code would mean acting in the public interest. Accordingly, it might not be too difficult to clarify how to interpret paragraph 100.1 of the Code.

- When the framework of the Code was created in 2001, the view was that complying with the Code and the fundamental principles would mean acting in the public interest. There was more guidance within the Code on this topic at the time. Accordingly, there may be merit in revisiting that guidance.
- It would be difficult to define the public interest, especially given IFAC's experience of such an endeavor. Rather, it would be easier to recognize when a PA has not acted in the public interest. In this regard, Ms. Deodati recognized that the public interest does not have a unique definition. Though difficult to define, it is definitely not the interest of the profession, but the interest of the wider public. She noted that the PIOB was planning to hold a seminar/meeting on the public interest topic in September 2014 and the CAG had been invited to participate.
- ~~The question that arises is whether the firm in the case should have requested that the four individuals in the case seek their own advisers. Accordingly,~~ Given some of the discussion in the case, what is needed is perhaps not so much defining the meaning of public interest but providing guidance as to how to apply the concept.

A question was raised as to the availability of resources to address the topic should the Board decide that it warrants further attention. Mr. Siong noted that the SWP is dynamic and able to accommodate changes to the prioritization of work streams should the Board decide to do so. Mr. Kwok noted that consideration should be given to whether the MG Rover case is a common issue that required prioritization, or a one-off case that was given attention due to the job losses incurred. In addition, he wondered whether the issues raised in the case could be a matter for IFAC to address.

#### *Way Forward*

The IESBA asked the EIOC to monitor the developments in the case. It also agreed to consider the matter further in the context of the SWP discussions.

#### **AGGRESSIVE TAX AVOIDANCE**

Mr. Hannaford summarized the issue of aggressive tax avoidance, noting that it also raised the question as to the meaning of acting in the public interest. He noted that CPA Canada had recently issued a white paper on the topic. The issue was discussed at the March 2014 CAG meeting, where a CAG Representative had indicated that an expert group had been set up within the European Commission to consider the matter.

Among other matters, IESBA members commented as follows:

- An IFAC Task Force had considered ethical issues relating to tax many years ago. At the time, little interest had been shown in the matter, but in recent years the issue has taken on a greater significance and become more visible. It is difficult to find an ideal solution between companies minimizing their tax bills to maximize shareholder return, and government interests in raising tax revenue.
- While the developments should be monitored, it may not be the Board's role to address the issue. Although there is a desire within boards of directors to ensure the best tax scheme is approved, the distinction between an acceptable scheme and an unethical one is less clear in the current day than it may have been in the past. In addition, when high profile cases relating to aggressive tax avoidance are highlighted in the media, it tends to be PAs who are criticized and not those benefiting from the tax savings.

Mr. Siong indicated that the Association of Chartered Certified Accountants (ACCA) had recommended in its response to the SWP consultation paper that the Board consider developing ethical guidance on this topic. Mr. Kwok noted that the topic was complex with many parties involved. He noted that the PC had considered it and concluded that there are other more pressing priorities for the Board to address. The Board generally concurred. Mr. Hannaford noted that the Public Policy and Regulation department within IFAC was monitoring the developments and addressing the matter.

#### EU AUDIT REFORM

Mr. Hannaford outlined developments concerning audit reform in the EU Audit Reforms, noting that the NAS and Long Association Task Forces have been considering these developments as part of their work. The Board were then asked if additional work was needed on this topic.

Mr. Koktvedgaard noted that the European Parliament had approved the reforms in early April 2014 and hence only approval by the European Council was pending before the proposals become law. He expressed the view that the European Council would not be expected to make any changes.

Mr. Dairaku wondered how non-EU based companies with components within the EU would be impacted by the reforms. An IESBA member responded by providing an example: under EU regulations, financial companies are considered PIEs; hence, should a non-EU headquartered financial company have an EU-based component, the EU component would be subject to the new audit requirements. In addition, the regulation provides scope for significant variation between member states as to its adoption. further complication could arise if member states adopt the new rules in different formats. This could result in components of the same company based in different member states having to abide by different audit rules. Also, depending on the materiality of the EU-based components, the company may require several different auditors, rather than one group auditor. with With respect to services, under the new rules some services will be entirely prohibited within the EU and hence consideration would have to be given as to whether a particular prohibited service is provided outside the EU. With respect to calculations relating to the 70% cap on fees, it was noted that it is unclear how this will be implemented within the EU, let alone outside the EU.

Among other matters, IESBA members commented as follows:

- A great deal of uncertainty exists around the reforms, particularly in terms of the drafting. It is likely that the regulations relating to NAS were not intended to apply outside the EU, where audit firms would likely be expected to follow the Code.
- The new regulations would have a significant impact on audit committees who have to approve NAS. While there is scope for the implementation of the changes to be staggered to limit the disruption caused, companies would likely choose to implement immediately. In addition, while the 70% cap on fees for NAS was likely aimed at services provided only in the EU, given that NAS transcend EU borders, problems may arise as to how to calculate the fee limit.

Mr. Koktvedgaard noted that these are some of the questions the European Commission that would need to be addressed once the legislation is finalized. He hoped to see more information in the near future in this regard.

### *Way Forward*

The IESBA asked the EIOC to continue to monitor the developments in this area. Mr. Kwok noted that while the Board should consider developments in major jurisdictions such as the EU, the Code is global and hence the Board's consideration of relevant developments should not be limited to one jurisdiction. In the meantime, Mr. Hannaford invited IESBA members to alert the EIOC to potential emerging issues they may come across.

### OUTREACH

Mr. Hannaford highlighted the Board's outreach activities year to date as noted in the agenda papers, noting that at the March 2014 CAG meeting he had invited CAG Representatives to provide suggestions for possible outreach opportunities with CAG member organizations.

Mr. Gaa then briefed the Board on his recent outreach activities with the academic community, noting the benefit to reaching out to such a constituency as it will be educating future accountants and could assist the Board in identifying emerging issues and providing research support. He indicated that he had established a connection with the American Accounting Association (AAA) with a view to gauging its interest in the Board's work. The AAA's response had been positive and Mr. Gaa would be due to meet with them in August 2014. Mr. Gaa also reported that he had liaised with the European Accounting Association (EAA), a similar body to the AAA, but with a European focus. Mr. Gaa has scheduled a meeting with the EAA leadership in May 2014.

Mr. Hannaford concluded the agenda item by inviting IESBA members to participate in the Board's outreach efforts and to identify opportunities for outreach. Mr. Kwok thanked Mr. Gaa for his update and the EIOC for its work.

### **8. Long Association**

Ms. Orbea introduced the topic, recapping the previous Board discussions on the issues and the main comments received from the CAG at its March 2014 meeting. She then led the discussion of the matters for consideration and the proposed changes to the Code.

### DURATION OF COOLING-OFF PERIOD

Ms. Orbea summarized the various arguments for the different options regarding the approach to the cooling-off period for key audit partners (KAPs) on the audit of PIEs. She then outlined the two alternatives the Task Force had considered, i.e. either a time-on period of seven years with a cooling-off period of three years for all KAPs on all PIEs (the three-year proposal), or a time-on period of seven years with a five-year cooling-off period for the engagement partner on the audit of listed entities only, with a cooling-off period of two years for all other KAPs (the bifurcated proposal). IESBA members debated the relative merits of the two alternatives.

### *Approach to the Cooling-Off Period*

IESBA members who supported the three-year proposal noted the following:

- The five-year cooling-off period was too long and there was little justification for such a long period, especially as only a few jurisdictions internationally have opted for a 7+5 model. The three-year proposal was simpler and would also be consistent with respect to the new EU rules.

IESBA members who favored the bifurcated proposal expressed the following views:

- The proposal appropriately addresses the perception that the current cooling-off period is too short and does not enable a genuinely fresh look at the audit.
- It is the engagement partner who has the most contact and interaction with the audit client and therefore their association with the audit client may be perceived to create a more significant potential familiarity and self-interest threat. Accordingly, it is appropriate for that individual to be subject to a longer cooling-off period than other KAPs.
- The cooling-off period for other KAPs should be kept at two years to avoid undue complexity. In addition, increasing that period to three years could be seen as marginal, yet could be costly in terms of the potential impact on partners affected.

An IESBA member expressed the view that the two-year cooling-off period in the extant Code had not been shown to have failed and that there would be a concern regarding the supply of engagement partners if the Board were to support the bifurcated proposal. Accordingly, it was felt that there should be no change to the current position.

After further deliberation, the majority of the IESBA agreed with the Task Force's proposal that after a seven-year period of service, the cooling-off period be extended to five years for the engagement partner serving on the audit client rather three years.

*Scope: PIEs or Listed Entities*

The majority of the Board did not support the Task Force's proposal for the scope of the bifurcation to be limited to audits of listed entities only, but rather supported the scope to encompass the audit of all PIEs. Among other matters, it was noted that:

- Limiting the scope to audits of listed entities may create unnecessary complications. It was suggested that local regulators should be allowed the choice to opt out and go for the narrower scope of listed entities only to suit their national context.
- There is little justification for the distinction as the same familiarity and self-interest threats would arise in respect of audits of all PIEs and not just those of listed entities. PIEs include non-listed entities of public interest for which the audit is required to be conducted in compliance with the same independence requirements that apply to the audit of listed entities, therefore there does not seem to be a good reason for treating them differently.

Mr. Koktvedgaard noted that the most common message from the CAG was simplicity. Accordingly, he was of the view that the CAG would not welcome more complexity. However, he felt that whatever solution was chosen should be robust and clearly communicated. He also wondered whether, by limiting the scope to listed entities only, the proposal would in effect be creating two classes of PIE. Ms. Orbea commented that the Task Force had placed high importance on robustness and simplicity. She explained that the Task Force had preferred listed entities in this regard as they are readily identifiable and also, in many jurisdictions where there were stricter local rotation requirements than those in the Code, they more often existed in respect of the audits of listed entities only rather than PIEs.

*Engagement partner for a Proportion of Seven-Year Time-On Period*

Ms. Orbea explained that in the event that the bifurcated proposal were chosen, the Task Force had deliberated at length on the appropriate cooling-off period for an individual who has served as

engagement partner for a proportion of the seven-year time-on period. She summarized the options the Task Force had considered, taking into account the Canadian approach.

IESBA members acknowledged the potential complexity in over-engineering the provisions in this situation. Accordingly, after due deliberation, the majority of the IESBA agreed with the Task Force's proposal that if an individual has served as the engagement partner on the audit of a PIE for any proportion of the seven-year time-on period, that individual should be subject to a five-year cooling-off period.

#### PERMISSIBLE ACTIVITIES DURING THE COOLING-OFF PERIOD

The Board discussed whether restrictions on all activities, including non-audit services, should be imposed during cooling-off, whether the restrictions should apply to services provided to all related entities of the audit client, and what types of services could be permitted, if any. The Board also discussed whether there should be any relaxation of the prohibitions after a period of two years for the engagement partner who is serving a five-year cooling-off.

Some IESBA Members expressed support for there being no relaxation to the restrictions on activities that could be undertaken during the five-year cooling-off period. They believed that it would be difficult to justify proposing the five-year cooling-off provision on the one hand and then allowing exceptions after two years had elapsed.

Other IESBA members agreed with the proposal for the provision allowing certain activities and services after two years had elapsed, because they felt that the two-year period was sufficient to provide an appropriate balance with the need to not unnecessarily restrict access to specialist resources for the remainder of the cooling-off period. During the discussion, some IESBA Members expressed the view that the two-year period could also be acceptable in relation to non-client specific services.

An IESBA member supported a restriction on activities without exception for the five-year cooling-off period only if the engagement partner was returning to the audit engagement after the expiry of that period, but supported some activities and services being permitted after two years if the engagement partner was not going to return to the audit engagement.

A few IESBA members expressed the view that if the cooling-off period were extended to five years for the engagement partner, it would be detrimental to audit quality and therefore not be in the public interest to prohibit the engagement partner for the entire duration of the cooling-off period from being consulted on technical issues that the individual had not previously considered while acting as engagement partner. It was noted that such consultation was permitted under UK rules to address a resourcing issue, particularly in specialized areas such as in the financial services industry. A few other IESBA members, however, wondered what firms would do in the first two years of cooling off if these specialist resources were so critical to the audit engagement.

Mr. Koltvedgaard expressed the view that there is a public policy need with regard to consultation on technical issues but not so much in respect of the provision of non-audit services. He felt that if an industry specialist could not be consulted, this could have an adverse effect on the audit.

Following the debate, the majority of IESBA members agreed that an engagement partner who has been rotated off for five years could, after two of the five years had been completed, be consulted on issues, transactions or events that were not previously considered by that individual in the course of acting as engagement partner.



The Board, however, did not reach a consensus on the proposals regarding the provision of non-audit services. After confirming that the proposed restriction on non-audit services during cooling-off was a stricter provision than currently exists in any jurisdiction, the Board asked the Task Force to consider the matter further.

#### STRENGTHENING OF OVERALL FRAMEWORK AND GENERAL PRINCIPLES

IESBA members generally supported the proposed enhancements to the framework of principles addressing the independence threats created by long association. A few IESBA members, however, felt that it seemed prescriptive, and might detract from the principles, to specify a minimum one-year cooling-off period if, on applying the principles, a firm decided that rotation of the individual was the appropriate safeguard. The IESBA asked the Task Force to consider the matter further.

#### OTHER MATTERS

The IESBA discussed the Task Force proposal that the concurrence of those charged with governance (TCWG) be obtained with regard to the application of exception provisions which permit the continuation of service by the KAP beyond the rotation requirements in certain circumstances. In addition to editorial comments, the IESBA asked the Task Force to reconsider the use of the term “concurrence” relative to seeking the concurrence of those TCWG. A few IESBA members felt that this did not make it clear how the agreement of TCWG would be obtained (e.g., whether in writing or orally), and that the term may not translate well into other languages.

#### WAY FORWARD

The IESBA asked the Task Force to present revised proposals for consideration with a view to approval for exposure at the July 2014 IESBA meeting.

### 9. **Strategy and Work Plan**

Mr. Siong introduced the topic, providing a high-level overview of the responses to the SWP consultation paper and the PC's considerations thereof and its preliminary recommendations.

Mr. Kwok indicated that the PC was seeking the Board's views on the following key matters:

- An indication as to whether the Board supported the PC's responses to respondents' comments on the consultation paper, including views on the PC's recommendations regarding the more significant comments from respondents, hence allowing the Board to move toward finalizing the SWP.
- Views on the categorization of issues raised by stakeholders to focus resources on the more urgent issues.

He then highlighted the more salient concerns expressed by respondents and explained the PC's views and recommendations.

#### FREQUENCY OF CHANGES TO THE CODE

Mr. Kwok noted that a number of respondents had expressed concern that incremental changes were being made to the Code without sufficient evidence of need and that frequent changes to the Code

present implementation challenges for users of the Code. He explained that the PC was recommending two operational changes in response as follows:

- When an ED is issued, seeking feedback from users on potential operational issues, which would enable the Board to consider appropriate transitional arrangements.
- Combining changes with a single effective date to reduce the implementation impact on users.

~~IESBA~~ IESBA members supported the PC's recommendations. In addition, it was also suggested that the Board consider:

- Making clear the nature of a change, for example, whether it will entail implementation effort or whether it is a minor amendment to clarify existing provisions.
- Liaising with adopting bodies when determining effective dates.

#### BALANCING THE NEEDS OF DIFFERENT STAKEHOLDERS

Mr. Kwok highlighted a concern from some respondents that the Board seems to place excessive emphasis on addressing the needs of the regulatory community. He noted that while the regulatory community is an important stakeholder and that the Board should consider regulatory developments, especially in major jurisdictions, the Board must adhere to due process, which requires that the views of all stakeholders be considered. He indicated that the PC was satisfied that the Board has generally struck the right balance. However, he acknowledged the need to better communicate the rationale for a project.

IESBA members broadly supported the PC's views that the Board was generally balanced in addressing the needs of its diverse stakeholders. An IESBA member noted at the IFIAR meeting the previous day, there was a suggestion that the Board does not give sufficient attention to regulatory concerns. It was noted that such a perception explains why it is important for the Board to continue to engage in dialogue with the regulatory community.

#### ADDRESSING REGULATORY DEVELOPMENTS IN THE EU

Mr. Kwok highlighted the comment from a group of 17 EU audit oversight bodies which had suggested that the Board consider whether changes to the Code would be warranted as a result of recent audit reform developments within the EU. He noted the PC's view that while it is important to consider regulatory developments in the EU, the Code is intended for global application. Accordingly, it would be important for the Board to take into account the needs of all its stakeholders.

In broadly supporting the PC's responses, IESBA members commented as follows:

- While the European Commission has not been sending an official observer to the Board meetings, it would be beneficial to reach out to it. Mr. Siong noted that Mr. Holmquist had been doing so and had in particular requested the Commission to observe the Board meetings. Mr. Siong noted that Mr. Holmquist had reported that the request was being considered.
- While the EU is an important stakeholder, the Code is global and consideration should be given to global developments, not just EU-specific ones.

Mr. Koktvedgaard also agreed the Board is setting global standards and hence should not be focused on a single jurisdiction. However, he was of the view that the key message from the regulatory developments in the EU was whether there are any themes arising from them that might have global implications and hence require Board attention. He added that this would be for the EIOC to monitor.

Mr. Kwok concluded the discussion, noting that the Board will continue to monitor the regulatory developments in the EU while also having regard to developments in other parts of the world.

#### ADOPTION AND IMPLEMENTATION OF THE CODE

Mr. Kwok highlighted the data on the global uptake of the Code, noting in particular that over 120 jurisdictions had adopted or were committed to adopt the Code or otherwise were using it or converging with it. In addition, the largest 25 firm networks had committed to comply with the Code for transnational audits. Given these statistics, he noted that over 90% of the world's largest companies would be covered by the Code. Accordingly, he was of the view that the Code was widely adopted and respected.

Mr. Kwok also noted strong support from respondents for the Board to engage with stakeholders and that the PC had recognized the need to develop deeper collaboration with stakeholders. Mr. Siong added that the CAG had provided a strong encouragement to strengthen relationships with key regulatory stakeholders, namely IFIAR and IOSCO.

Mr. Kottvedgaard highlighted a CAG comment that the strategic themes appeared to be more a mission statement than an operational strategy. Mr. Kwok explained that the SWP was intended to summarize the Board's objectives. In particular, when considering a project the Board needed to consider whether the project would lead to a high quality standard and whether that standard would be implementable. The PC was of the view that in order to achieve this goal an SWP with guiding principles was necessary. Mr. Kottvedgaard suggested that the Board consider what ~~would~~ completion of the SWP would imply for the next 4-5 years and how would this assist in prioritizing future projects.

In supporting the PC's responses, IESBA members commented as follows:

- Consideration should be given to how the Board can demonstrate that it has achieved its strategic aims under the theme of adoption and implementation, and how progress was being monitored. Doing so would provide an indication of areas where further effort would be needed and where resources should be focused.
- There is a question as to whether the Board should have a role in implementation. Supporting implementation would involve significant resources and this should be better addressed at the national level. Mr. Kwok expressed the view that while the Board is not responsible for implementation, it could assist if its position as a global body would warrant its doing so with respect to common denominator issues.
- It may be worth reflecting on what would make the biggest impact on adoption, and safeguards could be a relevant topic in this regard. It was suggested that the Board could consider developing a focused piece to make the Code more credible and enforceable in this respect.

Mr. Kottvedgaard agreed that there would be benefit in greater degree of transparency in how the Board was making progress under this strategic theme.

#### PROPOSED PRIORITIZATIONS

Mr. Siong reported that respondents were generally supportive of the proposed actions and priorities in the consultation paper. He then highlighted specific concerns from a minority of respondents regarding the proposed work streams addressing collective investment vehicles (CIVs) and fee dependency.

With respect to the topic of CIVs, IESBA members commented as follows:

- An industry-specific Code should be avoided. CIVs often change and hence accounting standards would also have to adapt accordingly.
- CIVs are often an area requiring consultation within the firms. The regulations relating to CIVs vary by jurisdiction and are especially complex in the U.S. Accordingly, care would be needed in developing complex rules in the Code.

An IESBA member, however, was of the view that the Board should not address the topic as there are other more important issues to be addressed. In this regard, it was noted that the Code is not rules-based.

Mr. Koktvedgaard suggested that a topic such as CIVs could be better addressed as off-Code guidance rather than rules in the Code. Such guidance could be applied in all jurisdictions and also ease the pressure on resources. He noted that the CAG was supportive of the Board addressing the topic. Mr. Siong noted that regulatory respondents to the consultation paper had expressed support for the topic.

With respect to the topic of fee dependency, Mr. Siong noted that the PC had acknowledged, in response to concerns expressed by some respondents, the need to engage with the regulatory community to better understand the issues they have raised in this area. IESBA members commented as follows:

- There are questions as to how to determine whether the fee-related provisions in the Code are working effectively, how to undertake post-implementation reviews in those areas, and how to ascertain that there are no problems in practice. There is also a need to consider the implications for SMPs in particular and to consult with the IFAC SMP Committee. Mr. Kwok agreed that the Board should engage with SMPs and small- and medium-sized entities (SMEs) in this regard.
- The topic of fee dependency is not any more significant from an SMP or SME perspective than from another perspective, as no significant failure of the Code has occurred with respect to SMPs in this regard.

Mr. Koktvedgaard noted that at the April 2014 CAG teleconference, CAG representatives had indicated that the fee dependency issue exists not only at the firm level but also at the office and individual levels. Accordingly, there is a need to consider the topic at a more granular level.

#### OTHER COMMENTS

Among other matters, IESBA members also commented as follows:

- When considering where to channel resources, the public interest must be paramount, ahead of jurisdictional developments.
- While the issues related to the MG Rover case and aggressive tax avoidance as highlighted in the earlier discussion of emerging issues may not require prioritizing over other issues raised in the proposed SWP, both topics had raised questions as to what is expected of a PA in relation to the public interest. The Board should therefore be mindful of developments in these cases.

Mr. Koktvedgaard suggested that outsourcing may be a further topic the Board may consider addressing.

#### PIOB OBSERVER'S REMARKS

Ms. Deodati explained why the PIOB had rejected at the November 2013 meeting, the Board's request to extend the Strategy and Work Plan 2011-2012. In particular, from a substantial point of view, the addition of the four work streams to the agenda in 2012 had not been subject to public consultation and hence this

had not followed due process. Also, from a formal perspective, the PIOB received a request to approve “the extension” of the SWP through 2014, but the document was different in content and it did not just require an extension in time. Also, an extension of the strategy and work plan would require not only a change in the strategy period covered but also a change in the content of the document. The PIOB was nevertheless supportive of moving forward with the four work streams added in 2012, as they were considered urgent and important topics.

In addition, Ms. Deodati commented that the Board should not only react to issues but also be more proactive in addressing developments and their potential impact on the Code. She concluded by noting that the PIOB's mandate is to sign-off on the completeness of the role is to set the mandate of the SSBs, including signing off on their strategy and work plan documents, and also, considering resource issues and, where considered appropriate, propose adding topics to their strategy and work plan documents and address resource constraints.

Mr. Kwok thanked Ms. Deodati for the feedback.

#### WAY FORWARD

The IESBA asked the PC to present a revised draft of the SWP for consideration with a view to approval at the July 2014 meeting.

#### 10. Auditor Reporting – Independence and Ethical Requirements

Mr. Kwok welcomed Mr. Bruce Winter, member of the IAASB and Chair of the IAASB's ISA 700 Drafting Team (DT-700), to lead this session.

Mr. Winter introduced the topic, recapping the background to the IAASB's Auditor Reporting project and summarizing the matter for consideration regarding the proposed statement of compliance with independence and other ethical requirements in the auditor's report. Among other matters, he outlined the following options DT-700 was considering for the way forward regarding the requirement in proposed ISA 700 (Revised)<sup>6</sup> related to incorporating a statement about independence in the auditor's report, including a listing of sources of the relevant ethical requirements:

- Option 1: Retain the approach in the ED of proposed ISA 700 and require that the auditor include in the auditor's report a detailed listing of source(s) of independence and ethical requirements applicable to the audit.
- Option 2: Require the auditor to list the source(s) of independence and ethical requirements that are applicable to the audit with clarification that in a group audit situation, the listing of sources would apply to the group engagement team only.
- Option 3: Require the auditor to include in the auditor's report a statement about the independence and ethical requirements that were applied in conducting the audit in the reporting jurisdiction.
- Option 4: Withdraw the requirement in proposed ISA 700 (Revised) to list sources of relevant ethical requirements, including those relating to independence in the auditor's report.

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<sup>6</sup> Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Directionally, the majority of IESBA members expressed a preference for Option 3. It was noted in particular that Option 2 was flawed because it would raise questions about the independence and other ethical requirements that applied to the audits of the components. Further, it was noted that even under Option 2, there may be a need to list several sources within a given country. In contrast, it was felt that Option 3 would address the group and all its components.

IESBA members also made the following other comments and suggestions, among other matters:

- The approach should try to mirror how auditing standards are cited in the auditor's report.
- The purpose of the financial statements should be a factor to consider, for example, whether to meet statutory filing requirements or listing requirements.
- Giving more information to investors would be better than less.
- Certain entities may list in more than one jurisdiction. In this case, the auditor would comply with the more stringent requirements.
- There may be merit in considering referring users to a website that would provide details about the sources of the relevant ethical requirements.

In addition, while there was acknowledgement that it would not be possible for the IAASB to mandate reference to the IESBA Code in the auditor's report, directionally IESBA members were supportive of encouraging inclusion of a reference to the IESBA Code as this would have the benefit of signaling that the auditor has complied with some minimum benchmark. It was felt that this should not be overly challenging for members of the Forum of Firms as they are already required to conform their policies and methodologies to the IESBA Code for transnational audits.

An IESBA member did not support Option 3 on the grounds that this would be moving away from referring to global standards (as is common practice for financial reporting and auditing standards) and more towards referring to individual country standards. It was suggested that consideration be given to referring to compliance with ethical standards that are at least as stringent as the IESBA Code. Another IESBA member expressed a preference for Option 4 on the grounds that most people will wish to know whether the auditor has complied with the relevant ethical requirements but not the details.

Mr. Koktvedgaard commented that the purpose of an international code is to minimize the extent of variation around the world. He felt that if there was a need to list sources, this could be achieved by referring to a list of the relevant sources on a website. In this regard, he noted that the investor representative on the CAG had not expressed concern about a listing of sources. He felt also that there would be merit in indicating the IESBA Code as a benchmark as such information would be most relevant to users.

An IESBA member expressed a concern that if there has been a breach of an independence requirement, the Code does not explicitly state that the auditor is independent if the consequences of the breach have been satisfactorily addressed, only that the auditor has remained objective. It was therefore felt that it would not be appropriate for the auditor to assert that the auditor has been independent in this situation. Mr. Winter noted that this matter had been debated at length within the IAASB and that it had consciously chosen the phrase "within the meaning of" in the statement of independence for this reason. He noted that this approach had generally been supported by respondents to the ED.

## WAY FORWARD

Mr. Kwok indicated that he had agreed with Mr. Winter that there would be merit in appointing an IESBA member to act as a correspondent member to DT-700 to facilitate closer liaison between the IESBA and the IAASB on the topic. Mr. Winter thanked the IESBA for its input, noting the importance for the credibility of both boards that they are seen to be actively engaging and collaborating with each other. The IESBA asked that DT-700 present an update on its proposals at the July 2014 IESBA meeting, after the IAASB has further considered them at its June 2014 meeting.

### 11. PIOB Observer's Remarks

Ms. Deodati began by noting that this was her first IESBA meeting observing on behalf of PIOB and that she had found it helpful to observe how the Board ~~effectively~~ works. She acknowledged the trying circumstances given Mr. Holmquist's passing and conveyed the PIOB's condolences, noting that Mr. Holmquist was highly respected and valued by the PIOB. She complimented Mr. Kwok on effectively chairing the meeting, encouraging participation by all IESBA members and drawing appropriate conclusions from the discussions.

She also noted that the discussions had been ~~thorough active and broad~~ with all IESBA members contributing to a ~~fair and~~ balanced debate. ~~Even when the public interest was not apparent, the intervention of some Board members helped to achieve a fair and balanced discussion. , though at times the public interest could have been given a greater prominence.~~ She also commented on specific items as follows:

- She expressed her appreciation regarding the work that had been performed on detailing the status of global adoption of the Code, noting that this was a first step and that it would be important to understand and document the reasons why particular countries have not adopted the Code.
- With respect to the Part C project, she highlighted the importance of Part C being of the highest professional standards as PAIBs are the first line of defense in the financial reporting supply chain. The Code is a global benchmark and should establish the highest standards, and not just allow for national cultural differences.
- On the NOCLAR project, Ms. Deodati noted that the proposals currently state that the PA must comply with laws and regulations. Accordingly, the overarching question was what the value-add would be for the Code in this project. She acknowledged that the PIOB was aware of a lack of clarity as to where some stakeholders stand on the issues but noted that the roundtables would help in bringing clarity ~~in this regard on their expectations.~~
- She welcomed the progress on the project and the approval of the NAS ED.
- She also welcomed the approval of the Structure of the Code project proposal, adding that it would be important to adhere to timelines and milestones. In general, the Board should be ahead of topics, not just react or monitor the developments.
- On the Long Association project, she noted that while the project was complex, there appeared to be a degree of confusion on some of the issues. She acknowledged Mr. Kwok's attempts to steer the Board to a clear conclusion on each issue and ~~suggested that~~ supported the suggestion of a Board teleconference, ~~would be necessary~~ if the Board were aiming for a July 2014 approval of an ED. In her own opinion, one of the reasons why there was some confusion during the discussion was the departure from the "simplicity" approach, recommended also by the CAG.



- She had appreciated the presentation from CPAB and particularly the focus on audit quality, a topic on which the PIOB is intending to place greater emphasis~~size~~ in its public report due in May 2014. She added that audit quality is a complex and interdisciplinary topic and that there would be benefit in engaging with regulators, especially with respect to their inspection findings. She also suggested that results of audit inspections and an analysis of the root causes of audit failures could ~~be considered feed in~~ the standard-setting process.

Mr. Kwok thanked Ms. Deodati for her comments.

## 12. **Next Meetings**

The next meetings of the IESBA are scheduled for April 29, 2014 (via teleconference), and July 7-9, 2014 in New York, USA.

## 13. **Closing Remarks**

Mr. Kwok thanked all participants for their contributions during the meeting and especially the three new IESBA members. An IESBA member expressed the view that the meeting had been conducted in a manner and with a quality of discussion that honored the late Mr. Holmquist. The IESBA member thanked the staff for the preparat~~ations~~ing for the meeting and especially Mr. Kwok for admirably chairing the meeting at such short notice.

Mr. Kwok conveyed the Board's thanks to CPA Canada for hosting the meeting and for all assistance rendered in the lead-up to and during the meeting. He then closed the meeting.