

International Ethics Standards Board for Accountants (ISEBA)

CONSULTATIVE ADVISORY GROUP (CAG)

Draft Minutes

Held on March 3, 2010 Barcelona, Spain

<i>Present:</i>	Richard Fleck (chair)	Financial Reporting Council
	Marc Pickeur	Basel Committee on Banking Supervision
	Kristian Koktvedgaard	Business Europe
	Matthew Waldron	CFA Institute
	Federico Diomeda	European Federation of Accountants and Auditors for SMEs
	Philip Johnson	Fédération des Experts Comptables Européens
	Hilde Blomme	Fédération des Experts Comptables Européens
	Koichiro Kuramochi	Japanese Financial Services Agency
	Paul Koster	Gulf States Regulatory Authorities
	Obaid Saif Hamad Al Zaabi	Gulf States Regulatory Authorities
	David Damant	IAASB Consultative Advisory Group and CFA Institute
	Margie Bastolla	Institute of Internal Auditors
	Patricia Sucher	International Organization of Securities Commissions
	Allison Patti	International Organization of Securities Commissions
	Filip Cassel	International Organization of Supreme Audit Institutions
	David Morris	North American Financial Executives Institutes
	Martin Baumann	Public Company Accounting Oversight Board ¹
	Simon Bradbury	World Bank
	Linda de Beer	World Federation of Exchanges
	Ken Dakdduk	IESBA Chair
	Jan Munro	IESBA Deputy Director
	Aulana Peters	PIOB
	Susana Novoa	PIOB
<i>Regrets</i>	Ajith Ratnayake	Sri Lanka Accounting and Auditing Standards
	Monitoring Board	
	Conchita Manabat	Asian Financial Executives Institutes
	Elena Lobanova	Graduate School of Financial Management, Russia
	Gerald Edwards	Basel Committee on Banking Supervision

¹ The views expressed by Mr. Baumann, here noted in the minutes, represent his own and do not necessarily reflect the views of the PCAOB Board or PCOAB Board members or its staff.

Georges Couvois
Jean-Luc Peyret
John Carchrae
Jim Sylph

European Federation of Financial Executives' Institutes
European Federation of Financial Executives' Institutes
World Bank
IFAC Executive Director, Professional Standards

A. Opening Remarks

Mr. Fleck welcomed all participants to the CAG meeting. He welcomed Aulana Peters and Susana Novoa from the PIOB. He also welcomed as new representatives Margie Bastolla from the Institute of Internal Auditors and Martin Baumann from the PCAOB.

The minutes of the Washington September 2009 CAG meeting were approved as presented.

B. Report from IESBA Chair

Mr. Dakdduk reported that the IESBA had met twice since the last CAG meeting. The IESBA met in October 2009 in Tokyo, Japan. After the meeting IESBA representatives conducted a seminar for approximately 100 participants providing an overview of the revised Code and the independence provisions. The IESBA intends to do more such outreach. Mr. Dakdduk noted that IESBA members would be pleased to provide a presentation on the Code should any CAG organizations wish for such a presentation.

Mr. Dakdduk reported that he and Ms. Munro had met with IOSCO Standing Committee No. 1 and the IOSCO Auditing Subcommittee in November 2009 and had received valuable input which had been considered by the IESBA its development of the draft Strategy and Work Plan 2010-2012.

The IESBA met in February 2010 with eight new Board members at that meeting. The focus of the meeting had been on the Strategy and Work Plan for the period 2010-2012 and convergence.

Mr. Dakdduk reported that IFAC was working on a paper developing a definition of the public interest. Ms. Peters noted that the PIOB had addressed the public interest in each of its annual reports. Mr. Diomeda noted that in Italy serving the public interest is inherent in the definition of the accounting profession. Mr. Johnson stated that it was important to have a working definition of public interest and noted that in Europe there were several differing definitions of public interest entity. Mr. Cassel agreed that it was important to have a definition of public interest.

C. Responding to Suspected Fraud and Illegal Acts

Mr. Franchini, Task Force chair, introduced the topic. He noted that in previous meetings, the CAG has, as part of the discussion on the development of the IESBA Strategic Plan,

discussed the priority and scope of a proposed project to address the professional accountant's responsibility to respond to suspected fraud and illegal acts. CAG members had expressed the view that the project was a high priority. Respondents to the IESBA's strategic survey also rated this project as a high priority. The Planning Committee has considered the comments from CAG members and has developed a project proposal that was discussed with the IESBA at its meeting in October 2009.

Mr. Franchini noted that confidentiality is a fundamental principle in the Code. The principle requires professional accountants to "to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties." The Code identifies three circumstances where professional accountants are required, or may be required, to disclose confidential information:

- Disclosure is permitted by law and is authorized by the client or the employer;
- Disclosure is required by law; and
- There is a professional duty or right to disclosure when not prohibited by law.

The Code does not contain any guidance on situations when there is a profession duty or right to disclose confidential information when not prohibited by law. The goal of the project is to provide guidance for professional accountants on how to respond in situations where they encounter a suspected fraud or illegal act.

Mr. Franchini noted that the scope of the project is to provide guidance to the professional accountant on how to respond to a suspect fraud or illegal act that he or she has encountered. The project will not address detection of such items. This matter is addressed for auditors in the ISAs issued by the IAASB.

A description of the types of matters that will be addressed is critical to solidifying the scope of the project. The task force will, therefore, at an early stage in the project define the types of confidential matters that the professional accountant may need to disclose as a result of a suspected fraud or illegal act. In defining these matters, the IESBA will be mindful of the definition of fraud contained in ISA 240 ("intentional acts ... involving the use of deception to obtain an unjust or illegal advantage") and the definition of illegal acts contained in ISA 250 ("acts of commission or commission by the entity which are contrary to prevailing laws and regulations"). The initial presumption will be to restrict the matters to be addressed to suspected fraud or illegal acts, the IESBA will consider whether, however, the scope of the project should be wider and address, for example, matters that are "unethical" or "improper."

Mr. Franchini noted that many jurisdictions have "whistle blowing" legislation, some of which is quite extensive. The project will recognize the existence of such legislation and note that, depending on the jurisdiction, the professional accountant may have a legal obligation to report under such legislation.

The project will consider what guidance can be provided to a professional accountant regarding the threshold for taking action. This will include a consideration of the “probability” that a fraud or illegal act has occurred and the “effect” of such an act. The project will consider the thought process the professional accountant would use in determining how to respond to a suspected fraud or illegal act. The project will also consider timing of disclosure and documentation.

Mr. Franchini noted that the IESBA believes that the project will be a difficult one because of the need to overcome the fundamental principle of confidentiality. The IESBA had, therefore, developed a timetable which provides for development and issuance of a consultation paper in 2011, and exposure draft in late 2012 and release of a final standard at the beginning of 2014.

Ms. Sucher indicated that IOSCO was supportive of this project and she was pleased that, after a delay to enable the IESBA to focus on independence, the project was now starting. With respect to the scope of the project, at this stage, it was her view that it would be preferable if the matters to be addressed were not too tightly defined. With respect to the “effect” of a suspected fraud or illegal act, she noted that it would be important to consider the effect “on whom”. The effect on a regulator might be different, for example, than the effect on another party. Mr. Franchini agreed that the effect could be different and what might be of interest to one party may not be of interest to another party. The project will be addressing professional accountants in public practice and professional accountants in business. There may be a different level of public interest that would need to be considered.

Mr. Johnson noted that the individual professional accountant will feel a great deal of pressure to respond. In some jurisdictions the authorities and regulators are supportive; in other jurisdictions they are less supportive. Mr. Damant wondered what a professional accountant could do if he or she was in a jurisdiction where the authorities were not supportive.

Mr. Cassel noted that there might be instances where a public sector auditor was in a position where it was not possible to report – for example, in a jurisdiction with authorities that were not supportive there might be no one to whom to report. The matter could be further complicated because the public sector auditor might be unable to resign.

Mr. Fleck noted the duty of confidentiality might be seen to preclude the professional accountant from reporting matters to appropriate authorities. The Code should however provide for the professional accountant to report a matter in the public interest and without malice to a regulator to enable a regulator to take action. He expressed the view that the project should balance the *right* to report such a matter against the *duty* to report such a matter. The reporting should also be sequential going up through the successive layers within an organization before it was necessary to report outside of the organization.

Ms. Patti supported the view expressed by Mr. Fleck. She noted that taking the approach of enabling reporting as opposed to requiring reporting was appropriate because of differing legislative environments. The US courts, for example, have not established the same level of confidentiality as established by the UK courts.

Ms. Patti further noted that the professional accountant will have to make the judgment as to whether a matter should be reported. The accountant cannot rely solely on whether the parties agree that the matter should be reported.

Mr. Morris commented on the proposed timing of the project. He noted that the scope of the project is broad because it addresses professional accountants in practice and professional accountants in business. He felt that the issues for the professional accountant in business may be more difficult than for the professional accountant in practice. It might, therefore, be more efficient to split the project into two work streams. Mr. Franchini indicated that this was a matter that the IESBA would consider as the project progressed.

Mr. Pickeur noted the banking industry created the compliance function as a response to managing reputational risk. The compliance function has protocols for reporting outside of the organization and is the only department that would report outside of the organization. He offered to provide some documents describing the compliance function. Mr. Franchini thanked Mr. Pickeur and noted that the Task Force would consider the documents. Mr. Fleck noted that law firms had similar departments.

Mr. Koktvedgaard noted that the problem starts in the entity itself and it would be important to consider the corporate governance of the entity. Mr. Franchini agreed noting that it would be much easier to deal with an issue when there was a good corporate governance structure with strong independent directors and a strong audit committee.

Mr. Fleck noted that few courts would penalize an individual who reported a bona fide matter without malice in the honest belief that they were activity in the public interest.

Mr. Koktvedgaard noted that the matters usually involve a suspected fraud or illegal act as opposed to a known fraud or illegal act and, as such, there could be serious consequences for reporting outside of the entity. It was, therefore, very important to be cautious. Mr. Franchini agreed, noting that there must be reasonable ground for the suspicion.

Mr. Fleck noted that the tentative timeline contained in the project proposal seemed long. Mr. Baumann commented that the project seemed to be a difficult one and providing for the interim consultation paper added to the length of the project. Mr. Franchini indicated that the Board felt that the interaction of a requirement to report and the fundamental principle of confidentiality was problematic and thus the project proposal called for an interim consultation paper to obtain early input on the balance between the two matters.

Mr. Franchini thanked CAG members for their comments and indicated the matters raised, including the project timetable, would be carefully considered by the Task Force as it further refined the project proposal.

D. Strategy and Work Plan 2010-2012

Mr. Dakdduk introduced the topic. He noted that, in preparation for the development of the 2010-2012 plan, the IESBA surveyed key stakeholders in June/July 2009. A draft plan was developed in consideration of the survey comments and input from CAG members. The IESBA discussed the draft plan at its October and February meetings. The IESBA had scheduled a conference call on March 23, 2010 to discuss any significant changes to the plan resulting from input from CAG members and to approve the plan for exposure.

Mr. Damant commented that it was important for the IESBA to try and solicit specific comment from the investor community. Mr. Dakdduk agreed, noting that the matter had been discussed at the February IESBA meeting. It was challenging to get comment from these stakeholders and, therefore, he would like to do some more specific outreach to try and increase input from the investor community.

Mr. Fleck noted that the APB in the UK had recently issued an important consultation paper and he had made personal contact with investors and that had increased the input from that community. He noted that many investor organizations did not have a formal mechanism through which to obtain the views of their constituents.

Mr. Baumann noted that the PCAOB faced the same challenge in obtaining input from investors. There had only been two investor responses to two recent consultation documents. He noted that while the PCAOB had its Standing Advisory Group, it was a challenge to get investors on that group. The PCAOB has recently formed an investor advisory group which has not yet met.

Mr. Johnson agreed that it was important to obtain the input from investors and it was equally important for people to understand the issues, process and challenges that are faced by auditors. He noted that audit firms cannot deliver that message in a credible manner because investors would be concerned the firms were acting in a self-serving manner. He noted that the public interest would be served if every effort could be made to disseminate clear information about good practice which will then help users understand what they are asking for and whether it can, in fact, be delivered.

Mr. Baumann commented that while auditing was as challenging as ever he had heard reports of management stating that if the audit fee was not cut by up to 25% the audit would go out to tender. He commented one had to believe that this would have a negative effect on audit quality and would not, therefore, be in the interests of the investors.

Mr. Koktvedgaard stated that the expectation gap was a complicated debate that had been discussed by the IAASB CAG when considering the changes to the audit report. He noted that there was an expectations gap on the ethics side as well.

Mr. Dakdduk thanked the CAG members for their comments on the need to obtain more input from investor groups. He noted that he had discussed the matter with IFAC leadership.

New Projects

Mr. Dakdduk noted that the plan called for the IESBA to commence two projects that were deferred in 2008-2009 to permit the IESBA to focus on the independence and drafting conventions projects. The two projects are:

- Conflicts of interest; and
- Responding to suspected fraud and illegal acts.

The plan also calls for the IESBA to commence a project addressing the application of the related entity definition in the audit of collective investment vehicles. The Code requires an auditor to be independent of certain related entities of an audit client. The definition of a related entity is based on control and significant influence (for example, an entity is a related entity of an audit client if the client has control over that entity). This construct does not work well with collective investment vehicles, including mutual funds. For example, while a fund manager may determine the types of instruments in which the vehicle invests, the manager does not “control” the vehicle in the same way that an individual who owns a majority of the equity of a corporation controls that corporation. The project will consider which entities should be considered to be a related entity of such investment vehicles.

Ms. de Beer asked whether the conflict of interest project would address only auditors. Mr. Dakdduk responded that the scope would address all professional accountants. Ms. de Beer noted that this was appropriate because it was important that professional accountants in business are made more aware of the Code and have guidance that is specific to them. Mr. Dakdduk agreed, noting that it was important to increase the visibility of the Code for professional accountants in business.

Mr. Fleck noted that if the conflicts of interest project was to look at the definition of a conflict of interest it would be useful for the Task Force to consider the *Bolkiah v. KPMG* case.

Mr. Johnson stated that FEE had conducted some research on reporting under anti-money laundering legislation. He noted that the level of reporting varied considerably from jurisdiction to jurisdiction. For example, in some jurisdictions there had been thousands of instances of reporting, in one jurisdiction only a few instances and in one none at all. He noted that these cultural differences will make the IESBA project a challenging one.

Ms. Bastolla stated that this project was of significant interest to the internal audit profession and the IIA had developed standards in this area.

Mr. Pickeur commented on the proposed timing of the fraud and illegal acts project, noting that four years was a very long period of time for any project. Mr. Dakdduk noted

that the IESBA felt that because the project was a challenging one it would be necessary to issue a consultation paper before issuing an exposure draft. It was agreed that the matter would be discussed in more detail later in the meeting when the fraud project was discussed.

Mr. Fleck commented that the need for a project on collective investment vehicles seemed in part to come from the implications of the scope of the application of the SEC investment company complex requirements. Mr. Franchini noted that the SEC requirements are based on the governance structures of US mutual funds and other jurisdictions may have different governance structures.

Ms. Blomme noted that there had been a brief discussion on the collective investment vehicles project at FEE and while there might be a need for such guidance in the US it seemed to be of less relevance in Europe because the products are structured quite differently from jurisdiction to jurisdiction.

Mr. Koktvedgaard asked why the IESBA had determined that the project on collective investment vehicles was a high priority given the input from the survey had indicated that some other projects had been a higher priority. Mr. Dakdduk noted that the collective investment vehicle project had been selected over some other projects because the IESBA was of the view that this was a matter that was increasing in importance. Collective investment vehicles are common structures and have a large number of users.

Ms. Sucher noted that the project of providing ethical guidance for accountants providing non-assurance services had been rated by respondents to the survey as a high priority. She expressed the view that it would be unfortunate if the IESBA did not address this matter sometime in the future, especially given the linkage to the reputational risk issue.

Mr. Dakdduk noted that while the Code does not contain guidance that is specifically tailored to professional accountants providing non-assurance services, Part A would be relevant and the principles, combined with the application of professional judgment, would provide guidance. He stated that the discussion indicated that the exposure draft should contain a rationale for the selection of the projects. Mr. Koktvedgaard stated that he accepted the decision of the IESBA and felt that the rationale should be provided in the exposure draft.

Mr. Diomeda stated that there are a variety of services that are not assurance services offered by professional accountants and there is a risk that the public interest role does not have sufficient prominence when these services are offered. Mr. Johnson agreed stating that if there is a problem created by a non-assurance service this has an impact on the reputation of the firm, on the reputation of the profession and therefore on the confidence in audits.

Mr. Fleck stated that it would be necessary to give some thought on how to take this matter forward. The CAG would discuss the matter at its next meeting and provide the IESBA with some views.

Ms de Beer noted that the IAASB CAG, under the direction of Mr. Damant, had developed a feedback mechanism that the CAG found very useful. Mr. Dakdduk indicated that the IESBA would look at this model.

Adoption and Implementation

Mr. Dakdduk noted that the plan also calls for implementation and adoption activities. Mr. Dakdduk noted that some material had been developed in 2009 when the revised Code was issued. The material includes:

- Three PowerPoint presentations: one providing an overview of the Code; one providing an in-depth discussion of the independence provisions and another providing an in-depth discussion of the independence provisions applicable to public interest entities;
- A document providing an overview of the independence provisions contained in the Code;
- Two comparisons of the revised Code of the previous Code, one high-level and one detailed; and
- A comparison template that can be used to compare the requirements in a jurisdiction with those contained in the revised Code.

During the period of the plan, the IESBA will continue to assess what additional material or activities would be useful to support those who are adopting and implementing the Code. Providing this additional assistance should increase adoption and implementation efforts by member bodies.

Mr. Johnson noted that a lot of assistance had been provide for the implementation of ISAs and much of this assistance had been developed for the SMP environment. He indicated that it was important that the IESBA provide assistance with respect to the revised Code. The role played by member bodies varied from jurisdiction to jurisdiction; in some jurisdictions there is considerable activity and in others very little. He noted that the initial IAASB focus seemed to be in the areas of group audits and related parties, neither of which are a high priority in an SMP environment. The IAASB has now started to incorporate strategic messaging that is focused on SMPs. Mr. Koster commented that this was an area where cultural factors would be of relevance, noting that in the Middle East, in particular, this needed attention.

In response to a question from Mr. Bradbury, Mr. Dakdduk stated that the IESBA would, if there was a demonstrated need, be open to developing case studies to assist in the application of the Code.

Mr. Fleck noted that the SMP ISA guide was almost as lengthy as the ISAs themselves. It may, therefore, be useful to look at which specific areas of the Code might benefit from the development of SMP implementation assistance. Much of the perceived complexity of the Code arises from the complexity of large audits. He indicated that the IESBA might wish to think about how to make the requirements for SMPs more visible.

Mr. Kocktvedgaard questioned whether the IESBA intended to liaise with auditor oversight bodies and noted that if these bodies promoted the Code, this might result in greater adoption of the Code. Mr. Dakdduk indicated that, now the revised Code had been issued, the IESBA intended to reach out to such bodies. Mr. Johnson expressed the view that engaging with these bodies would be useful. It would provide the IESBA with the opportunity to explain the provisions of the Code and gain an understanding of any concerns with those provisions. In the longer term it might also help reduce the level of “gold-plating”, that is additional requirements in jurisdictions.

Convergence

With respect to its objective of facilitating convergence, several challenges had been identified. Mr. Dakdduk noted that some had commented on the structure of the Code and, in particular, the visibility of the independence provisions. There also seemed to be some challenges regarding the understanding of the conceptual framework approach, as evidenced by a view expressed that it was possible to circumvent a prohibition if appropriate safeguards were applied. He also noted that some concern had been raised about the workings of the provisions regarding inadvertent violations.

In order to identify and understand perspectives on convergence, the IESBA has planned several initiatives:

- An intensive program of consultation with regulators and national standard setters to identify and understand their perspectives on convergence and to obtain their views on how the Code can be a catalyst to achieve greater convergence; and
- Developing a document, that more clearly identified the independence requirements in the Code related to public interest entities. This document will be used in discussion with national standard setters and regulators to seek input on the types of improvements to the Code that the standard setters and regulators believe should be made for the Code to gain acceptance and recognition in their jurisdictions; and
- Seeking input on whether in a group audit situation, where the national independence standards in the jurisdiction of the parent auditor contain requirements that are more stringent than those contained in the Code, the parent auditor would accept foreign auditors of foreign subsidiaries complying with the independence requirements in Code.

Ms. Patti commented that she was very supportive of the idea of developing a document clearly identifying the independence requirements relating to PIEs. She asked what type of action the IESBA might then be prepared to take and whether, for example, the IESBA would consider re-opening aspects of the Code. Mr. Dakdduk responded that, while he could not speak for the Board and one would have to see once the standalone document had been prepared, if a significant gap was identified it would be difficult for the Board not to address the matter. Ms. Patti encouraged the IESBA to review the IOSCO response letter to the drafting conventions exposure draft. She noted that, while it was not all-encompassing, there were matters raised in that letter which, while perhaps not within the scope of the drafting conventions exposure draft, were of concern to IOSCO. Mr. Dakdduk indicated that IESBA would revisit the comment letter.

Mr. Kocktvedgaard expressed the view that the project was important. He asked whether IESBA knew which jurisdictions had adopted the Code. Mr. Dakdduk responded that the IFAC Compliance Advisory Panel (CAP) monitored these matters and the IESBA was liaising closely with the CAP. He also noted that the effective date of revised Code was January 1, 2011.

Mr. Baumann noted that Mr. Fleck and Mr. Grant from the UK Auditing Practices Board (“APB”) had met with representatives from the US Securities and Exchange Commission (“SEC”) to discuss independence matters. He asked what the next steps might be. Mr. Fleck stated that the purpose of the discussion had been to consider the differences in the ethical frameworks in the two jurisdictions. He noted that while there might be some conceptual differences there were few and far between compared to the differences in detail. He stated that the APB and the SEC were continuing to discuss these differences and this might lead to a consideration of the issues that the APB might address such as, for example, pre-approval of non-audit services.

Ms. Sucher asked how many jurisdictions used the Code as a benchmark for independence requirements for foreign auditors. Mr. Fleck expressed the view that if the matter was not explicitly addressed in the national Code it would likely be the default position.

Mr. Pickeur stated that it was important to focus on the advantages of convergence. It would be useful to provide practical examples of the benefits of the Code. He also noted that greater convergence should lead to fewer violations and this was a matter important to regulators. Mr. Dakdduk agreed, noting that while there are many theoretical arguments in favor of convergence, it was important to also develop the business case.

Ms. Blomme noted that the stage of convergence in areas of accounting and auditing was more advanced than in area of independence. She stated that FEE was preparing a comparison of the revised Code with existing European legislation. The comparison would draw out all the major differences and should help European member bodies in their discussions with regulators.

Mr. Baumann stated that he was interested in the firms’ global quality control systems that monitor compliance. Mr. Johnson noted that the cost of developing and maintaining such systems was significant and was prohibitive for the smaller networks.

Mr. Dakdduk noted that some had encouraged the IESBA to think about the materiality provisions that were contained in the Code. Mr. Johnson stated that he would be concerned if a firm had to resign from a large group audit because of an immaterial violation in a small subsidiary.

Mr. Dakdduk thanked CAG members for their input. He noted that the Strategy and Work Plan exposure draft would be amended to address the matters raised and the IESBA would approve the exposure draft at its conference call later in the month.

E. Direct Assistance from Internal Auditors

Mr. Franchini introduced the topic. He noted that The International Auditing and Assurance Standards Board (IAASB) has a project to revise ISA 610 *Using the Work Of Internal Auditors*. The objective of the project is to “revise ISA 610 to reflect developments in the internal audit environment and changes in practice regarding the interactions between external and internal auditors.” The Task Force is proposing to expand the scope of ISA 610 to address instances of internal audit staff providing direct assistance to the auditor. Given the linkage with the Code of Ethics, the IAASB extended an invitation to the IESBA to appoint a task force member. The IESBA accepted the invitation and Bob Franchini is a correspondent member on Task Force.

The IAASB Task Force approach with respect to direct assistance is broadly as follows:

- Expand the scope of ISA 620 to explicitly address direct assistance;
- When obtaining direct assistance from internal auditors:
 - require the external auditor to evaluate the level of competence and degree of objectivity of the internal auditors;
 - require the external auditor to direct, supervise and review the work, recognizing that internal auditors are not independent and therefore their work is presumed to provide less reliable evidence. The level of direction and supervision will ordinarily be more extensive than that provided to members of the audit team.

Mr. Franchini noted that the Code addresses management responsibilities and states that a firm shall not assume a management responsibility for an audit client. The IESBA considered whether the Code needed to be clarified to indicate that internal audit direct assistance on the audit is not a management responsibility. The IESBA concluded that no clarification to the Code was necessary. IESBA members felt that it would be clear to readers of the Code that the directing and supervising internal auditors when providing direct assistance to the external auditor would not be considered to be a management responsibility.

Mr. Baumann asked whether the requirement on direction and supervision should say that that it “shall” be more extensive. Mr. Franchini responded that the Task Force had considered this and was of the view that while in the vast majority of situations the direction and supervision would be more extensive, they may be examples where this was not appropriate. For example, if the extent of the internal auditor assistance was to match items and the end product was all of the items matched. In such a circumstance it would be difficult to see how direction and supervision could be more extensive.

Mr. Johnson stated that his personal view was that he did not support obtaining direct assistance from internal auditors because there were independence issues that could not be addressed. The internal auditor is not independent and should not, therefore, be performing procedures that would otherwise be performed by the independent external auditor.

Mr. Franchini noted that if an external auditor is able to use the work of the internal audit department it would seem logical for the external auditor to be able to use the same work had it been performed directly for the external auditor. He expressed a view that the Task Force has done a good job in limiting the degree of reliance that could be placed the work of the internal audit function and noted that perhaps the same caution should be given as to the extent to which the external auditor uses direct assistance.

Ms. Bastolla stated that she understands the debate about the provision of direct assistance and recognizes that that this is not the practice in some jurisdictions. She noted that she was glad that the ISA was going to be expanded to explicitly address direct assistance by internal auditors. In her view the standard gave the appropriate emphasis to direct assistance, striking the right balance between saying too much or too little about the topic. Although internal auditors may sometimes provide direct assistance, the practice is not very common, as providing direct assistance is not internal auditing's primary purpose..

Ms. Bastolla noted that in the discussion that has taken place it seemed there seemed to be a view that in most cases where direct assistance was provided by internal auditors, the internal auditor would be relatively junior and perform relatively minor tasks. She indicated that this did reflect the capability of the modern internal audit function. For example, she noted she had provided direct assistance as an internal auditor in highly complex areas of a bank. The very reason that this direct assistance was requested was because of internal audit's detailed and in-depth understanding of the bank and its operations and the complexity of transactions.

Mr. Johnson stated that his personal view was that the more you go up the "value chain" the more difficult it is to use direct assistance because of the independence issues.

Mr. Morris stated that he did not think that the provision of direct assistance should be curtailed; rather it should be subject to the appropriate direction, supervision and review.

Ms. Sucher noted that there were differing views in IOSCO. For example, in the United States, direct assistance was permitted and was accepted, whereas it was prohibited in Japan. She noted that in her opinion supervising internal auditors providing direct assistance was not a management responsibility under the Code. The Code is referring to supervision of client employees in their day to day activities.

Mr. Koktvedgaard stated that may be instances where internal audit and management functions do overlap – for example, if the internal auditor is providing direct assistance in the testing of internal control and identifies areas for improvement in internal control would this lead to a management function because management is responsible for internal control? Mr. Franchini noted that if the external auditor made such recommendations this would not be considered a management responsibility.

Mr. Franchini thanked CAG members for their comments and noted that the views expressed by CAG members were generally similar to those of the IESBA. He indicated that the comments would be carefully considered by the IAASB Task Force.

F. PIOB

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

Ms. Peters thanked Mr. Fleck. She noted that she had enjoyed the discussion on confidentiality and was pleased that the IESBA understood that the duty of confidentiality may come from venues other than the courts.

She noted that she had enjoyed the CAG discussion. In particular the discussion on the projects that were in the Strategic Plan and those that were not included had been very interesting. She noted that she was pleased that CAG members clearly had the public interest in mind as they tried to understand the decisions taken by the IESBA. She was pleased that it had been indicated that the Strategic Plan would be expanded to include some of the rationale why some projects had been selected and others had not.

She noted that the PIOB will be waiting with great interest to see the public interest paper that is under development at IFAC. She noted that if all parties were working in the public interest it would be useful to have a definition but the exact definition must depend, depending upon where you stand in the process.

G. Close of Meeting

Mr. Fleck thanked all members for their attendance and closed the meeting.

Future Meetings:

- September 13, 2010 (London, UK)
- March 7, 2011 (New York, US)
- September 14, 2011 (Prague, Czech Republic)