

**Draft Minutes of the Meeting of the  
International Ethics Standards Board for Accountants  
June 23-24, 2010  
Paris, France**

	<b>Members</b>	<b>Technical Advisors</b>
<i>Present:</i>	Ken Dakdduk	Lisa Snyder
	Nina Barakzai	Tony Bromell
	Robert Franchini	Sylvie Soulier
	James Gaa	Stephen Spector
	Caroline Gardner	[Tony Bromell]
	Peter Hughes	
	Wui San Kwok	Andrew Pinkney
	Alice McCleary	Tiina-Liisa Sexton
	Michael Niehues	Petra Gunia
	Marisa Orbea	
	Volker Röhricht	Tim Volkmann
	Robert Rutherford	
	Isabelle Sapet	Jean-Luc Doyle
	Aiko Sekine	Roman Adler
	Kate Spargo	
	Don Thomson	Kim Gibson
	Sandrine Van Bellinghen	Christine Cloquet
	Brian Walsh	[Tony Bromell]
<i>Regrets</i>		Liesbet Haustermans
	<b>Non-Voting Observers</b>	
<i>Present:</i>	Juan Maria Arteagoitia	
	Koichiro Kuramochi	
<i>Regrets</i>	Richard Fleck	
	<b>PIOB</b>	
<i>Present</i>	Antoine Bracchi	

## **IFAC Technical Staff**

*Present:* Jan Munro  
Jim Sylph

## **Guests**

Jason Evans (AICPA staff)

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

Mr. Dakdduk opened the meeting and welcomed participants. He thanked Ms.Sapet and Mr. Doyle for their support with the meeting preparations and the Compagnie Nationale des Commissaires aux Comptes and the Conseil Superieur de l'Ordre des Experts-Comptables for hosting the meeting.

Mr. Dakdduk welcomed Mr. Bracchi, observing the meeting on behalf of the Public Interest Oversight Board (PIOB).

Apologies were received from Ms. Barakzai for the second day of the meeting, who would be giving her proxy to Mr. Walsh, and from Mr. Fleck.

Mr. Dakdduk reported that the PCAOB would no longer be observing the IESBA meetings. The PCAOB had made the strategic decision not to send observers to meetings of the IESBA or the International Auditing and Assurance Standards Board (IAASB). The PCAOB will continue to be a member of the Consultative Advisory Groups of the two Boards. In addition, the PCAOB staff suggested that the PCAOB would be willing to meet periodically with the chairs of the IESBA and IAASB.

#### *Minutes of the Previous Meeting*

The minutes of the February 2010 IESBA meeting, and the March IESBA conference call, were presented for approval and were approved as presented.

#### *IFAC Board Meeting*

Mr. Dakdduk reported that he had made a presentation on the activities of IESBA to the IFAC Board at its February meeting. The IFAC Board was very interested in the IESBA projects and there was a good discussion of the issues.

#### *IESBA Consultative Advisory Group (CAG)*

The CAG met in March 2010. CAG members provided input on the draft IESBA Strategy and Work plan, which the IESBA considered in its March 2010 conference call to approve the exposure draft of the plan.

The CAG also discussed convergence and CAG members expressed support for the idea of preparing a document that more clearly identified the independence requirements in the Code related to public interest entities. This matter would be addressed by the IESBA in Agenda Item 4.

The next CAG meeting will be on September 13, 2010 in London. Mr. Dakdduk encouraged all Board members to attend a CAG meeting, particularly when it was in a convenient location for them.

#### *Responding to Suspected Fraud and Illegal Acts*

A Task Force, chaired by Mr. Franchini, has been established to address this project. The other Task Force members are Ms. Gardner, Ms. Sapet, Ms. Sekine, Ms. Spargo and Mr. Walsh. The project proposal was discussed at the March CAG meeting. CAG members expressed strong support for the IESBA addressing the issue. CAG members discussed whether the project should require reporting or enable reporting. The Task Force will meet in mid-July to consider this matter and other comments from CAG members, and revise the project proposal as necessary. The project will then be discussed again with the CAG at its September 2010 meeting and taken to the IESBA at its meeting in November 2010 for approval.

#### *Planning Committee*

Mr. Dakdduk stated that Mr. Walsh had agreed to join the planning committee; the other planning committee members are Mr. Fleck, Mr. Franchini, Mr. Niehues, Ms. Sapet, and Mr. Röhricht. The Planning Committee met directly after the February IESBA meeting and again in May. The Planning Committee discussed the definition of a professional accountant and IESBA convergence initiatives. The Planning Committee will meet again in July to consider responses to the IESBA Strategy and Work Plan. It will also discuss the requirement in the preface of the Code, and in the Statement of Membership Obligations, that a member body “shall not apply less stringent standards” than those in the Code.

#### *IFAC SMP Committee*

Mr. Dakdduk reported that he and Ms. Munro had attended the IFAC SMP Committee meeting in March to provide an overview of the IESBA initiatives, including adoption and implementation support materials, and discuss how the SMP Committee and IESBA can work more closely together. He noted that some SMP members had expressed concern regarding the implications of some of the independence requirements in an SMP/SME environment. In particular, concern was expressed with the provision related to tax advocacy. There had been a good discussion on how the SMP Committee can provide input to the IESBA and the SMP Committee is determining whether it should send an observer to each IESBA meeting. Mr. Dakdduk welcomed and recognized Mr. Helmut Klaas, from the SMP Committee, who was observing the meeting and will report back to the SMP Committee to determine whether an observer would be sent to future IESBA meetings.

*International Organization of Securities Commissions*

Mr. Dakdduk reported that he and Ms. Munro had participated in a conference call in March with some members of the IOSCO Auditing Sub-committee. The purpose of the call was to provide a briefing on the proposal to prepare a document that isolates the independence requirements in the Code related to public interest entities. The members on the call expressed support for the proposal.

Mr. Dakdduk stated that he and Mr. Sylph and Mr. Schilder, IAASB Chair, would be meeting with IOSCO Standing Committee No 1 at its July 2010 meeting.

*National Standard Setters Meeting*

Mr. Dakdduk reported that the second IESBA – National Standard Setters (NSS) meeting, which had been scheduled for April 28, 2010 in Vienna, Austria, had been cancelled because of travel disruptions caused by the volcanic ash cloud. The meeting will be rescheduled in the fall of 2010<sup>1</sup>.

*Other Meetings*

Mr. Dakdduk reported that he and Ms. Munro had joined an IFAC delegation to meet with representatives of the Institute of Chartered Accountants of India (ICAI). ICAI is in the process of reviewing the IESBA Code to determine what conforming changes should be made to the ICAI Code.

Mr. Dakdduk reported that Ms. Sapet made a presentation to the Moroccan annual congress of accountants in public practice. The focus of the presentation was on the independence provisions in the revised Code and, in particular, implications for SMEs.

Mr. Dakdduk reported that he had met separately with Hans Hoogervorst, Monitoring Group Chairman and Stephen Majoor, International Forum of Independent Audit Regulators Chairman. The objectives of the meetings were to talk about the activities of IESBA and discuss how the IESBA is approaching convergence. The meetings were constructive and Mr. Dakdduk had accepted an invitation to make a presentation to IFIAR at its September meeting.

Mr. Dakdduk indicated that the IESBA's outreach activities would continue to increase and reminded Board members to let Ms. Munro know if they were making any presentations or speeches on the Code. Ms. Munro indicated that she would be pleased to provide assistance with such presentations.

*Strategy and Work Plan 2010-2012*

Ms. Munro reported that the comment deadline for the exposure draft ended on June 15, 2010 and to date 35 responses had been received. A cursory review of the responses indicated general support for much of the plan. Many respondents had stressed the need for a period of stability in the Code to provide time for member bodies to adopt and implement the Code. Some respondents felt that a higher priority should be given to the

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<sup>1</sup> The meeting has been rescheduled for October 18, 2010 in Dublin, Ireland

project on ethical requirements for accountants in public practice providing non-assurance services to non-assurance clients and the project addressing independence requirements for assurance engagements performed by professional accountants not in public practice. There was mixed support for a project addressing the application of the related entity definition in the audit of collective investment vehicles. Some respondents indicated that such a project should be started sooner than was indicated in the current timetable and others expressed the view that such a project not be undertaken, in large part because the investment vehicles are structured quite differently from jurisdiction to jurisdiction.

The SMP Committee welcomed the initiative to consult more widely on SMP/SME matters but expressed disappointment that there was not more focus on SMP/SME issues in the plan.

IOSCO expressed support for the projects proposed but felt that the Plan should give more attention to non-audit services provided to listed entities. IOSCO encouraged the IESBA to re-read IOSCO's previous comment letters to develop a work program that would be more robust in addressing public interest matters.

Mr. Dakdduk noted that the comment letters would be carefully considered by the Planning Committee in its determination of what changes to the plan would be appropriate to address comments received.

## **2. Conflicts of Interest**

Mr. Niehues introduced the topic. He noted the IESBA approved a project proposal on Conflicts of Interest at its October 2009 meeting and that since the approval, the Task Force met in March and May. The members of the Task Force are Ms. Barakzai, Mr. Hughes, Mr. Rutherford, Ms. Soulier, and Ms. Van Bellinghen.

The project proposal calls for consideration, at an early stage in the project, of whether the Code should contain a definition of a conflict of interest. Mr. Niehues reported that the Task Force considered whether one definition would serve professional accountants in public practice and professional accountants in business. The Task Force also considered whether a definition would be most appropriate or whether a description would be more useful. He reported that the Task Force was of the view that an overall broad definition would be most appropriate and, in developing such a definition, initially focused on the components that would comprise the definition. The Task Force felt that if it was not possible to develop one overall workable definition, the Task Force would then consider whether two definitions should be developed or whether it should take the descriptive route.

### *Professional Service*

The first element of the definition identified by the Task Force was that of a professional service to be performed by the professional accountant. The term “professional service” is applicable to all professional accountants and, therefore, includes professional accountants in business and in public practice. The term is defined in the Code as:

Services requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

The Task Force is of the view that a professional service is the genesis of a conflict of interest, because it is the performance of the service that creates the situation in which conflict or contention arises for the professional accountant.

The Task Force considered potential conflict of interests involving a former client or employer. The Task Force considered the position taken by the courts in the “Prince Jefri.” In that case, the courts concluded that there while there was a continuing duty of confidentiality to a former client, there was no duty of loyalty. In considering the application of the principles in this case to professional accountants, the Task Force was of the view that while the duty of confidentiality continued even after a client or employment relationship was terminated, there was not a continuing duty of loyalty. The Task Force, therefore, concluded that while a conflict of interest could arise from a proposed professional service or an existing professional service, a conflict of interest could not arise after the professional relationship had been clearly terminated.

The IESBA discussed the Task Force’s views and the following points were noted:

- It needs to be very clear what is covered by the term “professional services”;
- While the term “professional services” is defined in the Code and includes professional accountants in practice and professional accountants in business, it is not a term that resonates with professional accountants in business. Such individuals would think of themselves as involved in business decisions as opposed to providing professional services;
- It is not clear whether the term “professional services” would include the activities a professional accountant undertakes when serving on a board;
- Earnings management could give rise to a conflict of interest, the conflict could be between the short-term and long-term interests of the shareholders;
- The conflicts faced by professional accountant in business are often personal conflicts, for example, the bonuses of colleagues may be dependent upon the share price of the company and there may be a conflict between the interests of the shareholders and the employees who are recipients of compensation schemes;
- While Section 330 is called “Potential Conflicts,” a better title might be “conflicts of duties”;
- There may be an expectation that the project will address ethical conflicts, for which guidance is already set out in the Code;
- If ethical dilemmas and issues relating to former clients and employers are excluded from the scope of the conflicts of interest project, the IESBA will need to consider how these matters should be addressed;
- It is important that the Code address the conflict that a professional accountant faces when asked by a supervisor to do something that is contrary to the fundamental principles;

- Conflicts of interest faced by professional accountants who are directors should be addressed. It does not seem clear that this would be included by stating the conflict of interest is created only through by the performance of a professional service;
- Professional accountants in the government sector may feel pressure to report in a manner that will attain certain goals or numbers that are politically favorable. While the term “professional service” does include the work of professional accountants in government, this may not be apparent to readers of the Code or to those professional accountants.
- The issues faced by professional accountants in public practice and by professional accountants in business might be so different that there should be two separate task forces to address the matters;
- It might be useful to consider “services provided by a professional accountant” as opposed to “professional services.”

#### *Other Professional Business Relationships*

The Task Force considered whether other professional business relationships could create a conflict of interest. Examples of such relationships included a firm entering into a joint venture with a software company that was not a client. The Task Force is of the view that these types of relationships are normal business activities that would be governed by local legal requirements. Section 110 of the Code, *Integrity*, specifically Section 110.1, describes the expected behavior of professional accountants when dealing with “other professional relationships.” The Task Force is, therefore, of the view that a conflict of interest would not arise through a professional business relationship provided no professional services were being provided.

#### *Relationships with One or More Parties*

The Task Force considered what relationships must exist for a conflict of interest to be created. Mr. Niehues noted that the Task Force had indentified three categories of relationships where a professional service could create a conflict of interest:

- *Professional accountant and one third party* – The professional services performed by the professional accountant conflict with the interests of a third party (i.e., a client or employer). For example, a professional accountant in public practice owns a business that competes against a client. The performance of a professional service for the client creates a conflict of interest between the client and the accountant because the accountant’s separate business is a competitor of the client. This could be viewed as a “self interest conflict” due to the fact that the professional accountant’s self interests are at stake and conflict with the client.
- *Professional accountant and two third parties for which professional services are rendered* – This occurs when a professional accountant performs services for two parties that have a conflict. For example, a professional accountant in business may serve two clients who are trying to acquire the same target company.
- *Professional accountant and two third parties, one party for which the professional accountant performs services and one with which the accountant has a business relationship* – an example of this situation may include a scenario

where an accounting firm audits a software company, and the firm is in a joint-venture with another software company that is a competitor.

### *Reasonable Third Party*

The project proposal contained a possible definition of a conflict of interest, which included a reasonable third party test. The Task Force considered whether this was appropriate. The definition of independence contains the reasonable and informed third party test because independence is a proxy for objectivity. Objectivity is a state of mind and, therefore, an outside party cannot know whether an accountant has an objective state of mind. Independence, therefore, incorporates the notion of independence in appearance in that the accountant avoids facts and circumstances “that are so significant a reasonable and informed third party would be likely to conclude... that ...integrity, objectivity or professional skepticism has been compromised.” Mr. Niehues also stated that the conceptual framework requires that professional accountants apply safeguards to eliminate or reduce to an acceptable level threats to compliance with the fundamental principles. The definition of an acceptable level includes a reasonable third party test. Due to these factors, the Task Force decided it was not appropriate to incorporate the reasonable third party test into the definition of a conflict of interest.

The IESBA discussed the Task Force proposals and the following points were noted:

- While the argument of the Task Force is correct, a perceived conflict of interest is problematic and could bring discredit to the profession.
- A professional accountant may be able to render services objectively. However, a perceived conflict of interest could taint a firm and the profession. Also, consideration should be given to what the market perceives.
- The Task Force should consider whether the guidance should contain a discussion of the views of a reasonable and informed third party in determining whether a conflict or perceived conflict exists, even if this is not included in the definition itself.
- If the reasonable third party test is included, this would mean that the accountant would have to consider a hypothetical individual who is not a party to the transaction.
- If a professional accountant obtains consent from all the parties that are involved in the conflict of interest, does this alleviate the need for a third party test in determining the appropriate safeguard? That is, do the views of the parties take precedence over the views of a reasonable third party when deciding how to address a conflict of interest?
- Care should be taken that the definition of a conflict of interest does not become too similar to the definition of independence.
- Even if the determination of whether a conflict of interest exists is a matter of fact, it might be useful to consider actual conflicts, potential conflicts, and apparent conflicts.

### *Linkage to Fundamental Principles*

Mr. Niehues reported that the Task Force considered linking the definition of a conflict of interest to the fundamental principles. The nature of a conflict of interest can affect the professional accountant's ability to perform professional services in the midst of conflicting interests and remain objective. The Task Force also considered confidentiality and noted that while being in possession of confidential information may cause a conflict for the professional accountant, it does not create a conflict of interest. The Task Force noted that the fundamental principle of objectivity states that in order to remain objective a professional accountant must not compromise his or her judgment due to a conflict of interest. The Task Force was concerned that including "objectivity" in the definition of a conflict of interest would be circular in nature. The Task Force, therefore, concluded that in order to link the definition with the fundamental principles, the definition should contain the phrase "...to perform the service free of bias and undue restriction or influence." This language would be similar in nature to the language of Section 120 and would not be circular in nature.

The IESBA noted the following points concerning the linkage to the fundamental principles:

- While the linkage to objectivity is the strongest, links to other fundamental principles may exist.
- The linkage between the definition of a conflict of interest should include all of the fundamental principles of the Code. This approach would be holistic in nature.
- Confidentiality should be reconsidered for inclusion in the definition.

### *Categories of Conflict of Interest*

Mr. Niehues reviewed the categories of a COI and stated that these were preliminary and needed further consideration by the Task Force.

- *Professional conflict.* This is a conflict that may arise due to competing interests of two parties to whom the professional accountant provides professional services. For example, a professional accountant in public practice may represent two or more parties that are competitors in bidding to acquire a target company.
- *Commercial conflict.* A commercial conflict may arise due to the competing interest of two parties when the professional accountant performs professional services for one of the parties. For example, the course of action of an accounting firm may be contrary to the personal business of one or more members of the firm.
- *Other conflicts.* This would include any conflict that could not be defined by one of the two previous categories.

The Task Force considered whether discussion of the nature of services provided by the professional accountant would be helpful in identifying a conflict of interest. The Task Force recognized that while there are some services that inherently have greater

potential for creating a conflict of interest, whether a conflict of interest is created needs to be judged on a case by case situation. The Task Force, therefore, concluded that an analysis of the differing types of professional service would likely not be helpful.

The IESBA discussed the matters and the following points were noted:

- There are two main categories of conflicts of interest – one in which the professional accountant’s interests are in conflict with that of the client or employer and one in which a professional accountant serves two clients and one client’s interests are disadvantaged relative to the other client.
- It may not be beneficial to categorize conflicts of interests.
- Auditing two clients might be viewed as a conflict of interest in certain situations, however, the conflict of interest could be managed. Conversely it might be viewed that there is no conflict because in this situation goal is to conduct an audit in accordance with generally accepted auditing standards. The auditor is not aligned with the interests of either client and is not advocating or advancing the interests of one over the other so the performance of the audit does not disadvantage one client over the other.
- It would be helpful if the definition could incorporate the notion of serving the public interest as opposed to only referring to the interests of the related parties. Possibly the linkage is through “bias” or “undue influence.”
- The definition should be expanded to more than just business interests and business relationships; the scope should include personal relationships.
- The notion of potential professional services needs to be incorporated. If a professional accountant is asked by a competitor of an audit client to assist in the acquisition of that particular audit client, the professional accountant might decline the engagement due to a potential conflict of interest. Therefore, no professional service has occurred.
- The Task Force might benefit from having additional members with more expertise in business.

Mr. Niehues thanked IESBA members for their input and stated that it would be carefully considered by the Task Force.

### **3. ISA 610 Using the Work of Internal Audit**

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 [the clarified] ISA 610 to reflect developments in the internal audit environment and changes in practice regarding the interactions between external and internal auditors.” Given the linkage with the Code of Ethics, Mr. Franchini is serving as a correspondent member on the IAASB's Task Force. The IESBA received an update on the project at its October 2009 and February 2010 meetings. The IAASB plans to approve a draft ISA 610 for exposure at its meeting in the week of June 14, 2010.

### *Direct Assistance*

Mr. Franchini reported that the IAASB and representatives of the IAASB CAG at their March meetings and the IESBA at its February meeting expressed concern about the proposed reference to audit procedures performed by internal auditors as “presumed to provide *less reliable* evidence,” although noted that the Task Force had drawn on the concepts regarding audit evidence in ISA 500.<sup>2</sup> However, further changes made by the Task Force to the draft revised ISA 610 have made the reference superfluous as the basis for the external auditor’s judgment on the nature, timing and extent of procedures that is needed to be performed draws on the same requirements and guidance as when using the work of the internal audit function. Accordingly, all references to “less reliable evidence” have been removed.

### *Engagement Team*

The views of the IESBA were sought on the matter of direct assistance at its October 2009 and February 2010 meetings, including whether the extant IESBA Code<sup>3</sup> prohibits such practices. One question in particular was asked: whether by performing audit procedures on the external audit these individuals may, under the prevailing definitions in the ISAs and the IESBA Code, be deemed to be members of the engagement team?<sup>4</sup> The IESBA concluded that the definition of engagement team in the IESBA Code did not encompass internal auditors providing direct assistance to the external auditor.

The IESBA agreed with the direction taken by the IAASB.

## **4. Convergence**

Mr. Dakdduk introduced the topic. He noted that in its discussions on convergence, the IESBA has recognized that there is much work to be done to further the IESBA’s objective of convergence. When developing the *Proposed Strategy and Work Plan 2010-2012*, the IESBA identified certain initiatives to promote convergence of independence requirements. One of the initiatives was to seek input on the types of improvement to the Code that standard setters and regulators believe should be made to the Code to gain acceptance and recognition in their jurisdiction.

The IESBA agreed that a document identifying those provisions would be used in discussions with national standard setters and regulators. Mr. Dakdduk reported that Mr. Pinkney had developed the draft document that contains four parts:

- Part 1 – Overarching provisions
- Part 2 – Specific provisions – by topic
- Part 3 – Provisions relating to changes in circumstances
- Part 4 – Relevant terms

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<sup>2</sup> ISA 500, “Audit Evidence”

<sup>3</sup> The IESBA’s *Code of Ethics for Professional Accountants* (IESBA Code).

<sup>4</sup> The engagement team is defined as all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.

Mr. Dakdduk noted that Agenda Paper 4-B was a supporting document, with the first column containing the actual text from the Code and the third column containing a synopsis of the provisions that apply to the audits of public interest entities. The synopsis was carried forward to the standalone document on Agenda Paper 4-A. He noted that once the IESBA was comfortable with the content of the standalone document, it would be used to benchmark the independence requirements against the requirements in key jurisdictions.

The IESBA discussed the draft document and the following points were noted:

- It might be better to group the provisions addressing inadvertent violations in one place;
- It would be helpful if the document contained an explanation of the four sections;
- The document might be shortened if some of the provisions were presented in a tabular format;
- The fundamental principles should be more prominent in the document;
- When benchmarking the document to other jurisdictions, the IOSCO survey could provide a useful starting point;
- The discussion of the purpose of the document should include a statement that the document demonstrates the strength of the Code;
- Care needs to be taken to ensure that the simplification does not change the meaning of any of the provisions;
- The discussion on custody of client assets seems out of place because it is not an independence issue; and
- A shorter document that outlines only the prohibitions might also be a useful tool in discussions with standard setters and regulators.

Mr. Dakdduk thanked IESBA members for their input and stated that their comments would be considered during the next revision of the document.

## **5. Monitoring Group Report**

Mr. Dakdduk introduced the topic. The Monitoring Group has issued a Consultation Paper to seek input from interested parties on the Monitoring Group's preliminary conclusions resulting from its assessment of the implementation of the 2003 IFAC Reforms (the Reforms). He noted that an IFAC Task Force, chaired by Göran Tidstrom, will develop an IFAC response to the report.

Mr. Sylph stated that the Monitoring Group timeline called for issuing the final report by the end of November 2010. He indicated that the discussion by the IESBA was timely because this would enable him to consider the views of IESBA members in his drafting of the IFAC response.

The IESBA discussed the recommendations contained in the Monitoring Group report and the following points were noted:

*Recommendation 1 – The Monitoring Group recommends that IFAC appoint a mix of Audit Board and Ethics Board members appropriate to the need for both technical competence and objectivity in the work of each respective Board such that there is parity — or perhaps even a majority — of Board members with professional career experience that substantively goes beyond that of an auditor.*

- Objectivity is a fundamental principle that is required by the Code;
- Nine of the 2010 IESBA members have wide experience outside of the auditing profession.

*Recommendation 2 – The Monitoring Group recommends that IFAC discontinue the practice of reserving a specific allocation of Audit Board and Ethics Board seats for a particular type of background—in this case for FOF nominees—and instead consider FOF nominees among all the candidates it evaluates in deciding upon the optimal mix of Board members based upon all the relevant dimensions of balance and diversity.*

- The recommendations in the Monitoring Group Report seem to be narrower in focus than the IFAC reforms. The reforms addressed all of IFAC, whereas the recommendations seemed to be focused on the IAASB and the IESBA;
- It is important that the IESBA membership includes individuals who are expert in independence matters.

*Recommendation 4 – The Monitoring Group will evaluate how the expertise and perspective of those who are or have been auditors is best included in setting ethics and auditor independence standards, and thus whether the trade-offs indicate it would be advisable for other structures for ethics and independence standard setting—or at least for the composition of the Ethics Board—to be utilized.*

- It would be useful to know if the Monitoring Group had any specific examples in mind in making this recommendation;
- The activities of the IESBA are broader than independence for the audits of public interest entities;
- It is important that IESBA is seen to be open to suggestions for positive change;
- The IESBA always needs to guard against self-interest, even if it is the perception of self-interest. Self-interest is something Boards of Directors guard against and a balanced Board is often what is sought. When looking at a Board of Directors, the balance of practitioners/non-practitioners would not be the only factor; one would also look to the qualities that each individual brought to the table;
- The trend in the accountancy profession is to move from self-regulation to an outside body, however, it is important to strike the right balance – auditors have to implement the independence standards so it is important to know whether a particular recommendation can be properly implemented to achieve the objective;
- In many jurisdictions IOSCO members establish independence standards for audits of public interest entities;
- It is important that the Monitoring Group recognize the role of the Public Interest Oversight Board (PIOB), the fact that a PIOB member observes every meeting of each IFAC Public Interest Activity Committee (PIAC). There have been

- instances, not necessarily at the IESBA, when the PIOB observer has challenged or reminded the PIAC of the need to consider the public interest;
- Perception is important and it would seem that the Monitoring Group has the perception that the implementation of the practitioner/non-practitioner split has not been effective. Even with the 50:50 split, the chair, deputy-chair and Task Force chairs are all practitioners;
  - Absolute balance is not so important if the IESBA has access to the technical expertise;
  - A different Board structure might mean that the IESBA could operate without all the levels of oversight, which could then speed up the process;
  - In order to produce high quality standards that are in the public interest, the IESBA needs to have the input of individuals with current knowledge of the environment in which its standards will be implemented;
  - The definitions of practitioner and non-practitioners are set by IFAC;
  - The Monitoring Group report refers to fine tuning of the processes; and
  - The issue of the split between practitioner and non-practitioner is not the only point, it is important to also consider the organizations that have nominated the individual.

*Recommendation 5 – The Monitoring Group recommends that IFAC change the manner in which expert technical information and support is made available to the Boards. This would make it clearer that the Board members themselves, and not the Technical Advisors, are the principals in the Board’s discussions, deliberations and decision making.*

- It is important that Board members, and not technical advisors, take centre stage in the debate of issues;
- The debate in meetings has changed over the past few years with Board members now leading the debate;
- Technical advisors have been members of IESBA Task Forces;
- It would be interesting to know if the Monitoring Group recommendation stemmed in part from the fact that technical advisors are not subject to the nominations process;
- If an IESBA member is an experienced practitioner with an audit firm, one can question whether he or she needs a technical advisor;
- If technical advisors are to provide support to their members, it is important that they attend the meetings to follow and observe the debate as it evolves;
- Comment from technical advisors at a meeting should be made through the IESBA member that they support.

*Recommendation 10 – The Monitoring Group recommends that IFAC put in place the arrangements for the Boards to provide feedback to individual Monitoring Group members regarding a member’s input to the Boards if it does not appear that the Boards will take up the input in a final Standard in the manner that the Monitoring Group member recommended.*

- This is a requirement under the existing reforms;
- IFAC will consider an appropriate mechanism for reporting back to the Monitoring Group to explain how the issues were considered by the PIAC and if any recommendations were rejected, the reason for their rejection.

*Recommendation 12 – The Monitoring Group recommends that IFAC remove the provision for proxy voting by the Boards. Correspondingly, IFAC would likely need to think about the timing and manner in which Board members themselves vote on a final document—either in or outside of Board meetings—and how the Board reports the results.*

- There are advantages in keeping proxies because there might be an occasion when a Board member, who cannot be present at the relevant part of the meeting, had a strong view that he or she would want expressed during the meeting;
- Conversely, the nature of the debate during the meeting could cause a member to change his or her view; this cannot happen if the individual is not present at the meeting;
- If the use of proxies is retained, it might be useful to suggest that public members can only give their proxy to another public member.

IESBA members had no specific comment on recommendations 3, 6-9, 11, or 13-18.

Mr. Sylph thanked IESBA members for their comments.

## **6. Definition of a Professional Accountant**

Mr. Rutherford introduced the topic. He noted that he is the IESBA representative on an Task Force constituted by IFAC (the "IFAC Task Force") with the objective to develop a common definition of the term *professional accountant* that can be used throughout IFAC and by IFAC's independent standard-setting boards. The IFAC Task Force includes representatives from the PIACs and also from IFAC's Committees. The working presumption of the IFAC Task Force is that any definition intended to be used within the standards would need to be subjected to the normal due process of each board. Therefore, further consideration will need to be given to the timing of this process and how comments can be reconciled between the boards. The IFAC Task Force has met once, for an hour and a half by conference call on May 19<sup>th</sup>. The purpose of the call was to discuss a preliminary issues paper.

The Code contains the following definition of a professional accountant:

*An individual who is a member of an IFAC member body.*

Issues concerning the definition have been identified through the IFAC Member Body Compliance Program and by the IAESB in the recent revision of the IAESB's *Framework for International Education Standards for Professional Accountants* (the Framework). In summary the concerns expressed are:

- The current definition does not convey an understanding of the roles and functions of a *professional accountant* and therefore does not assist in the public's understanding of the term.
- In some jurisdictions, accountants are not necessarily a member of an IFAC member body.
- In many cases the term "professional accountant" is seen to apply only to auditors.

The IFAC Task Force discussed the following preliminary revised definition:

"An accountant is an individual who has expertise in accounting, auditing, finance or tax, which will normally include one or both of the following:

- The measurement, recognition, preparation, validation, summarization, analysis, and disclosure of financial and, where applicable, nonfinancial information, or
- Auditing of and provision of assurance and advisory services on financial information and, where applicable, nonfinancial information.

A professional could be considered an individual engaged in an occupation that meets both of the following:

- Held to a high ethical standard
  - Acts with integrity and in the public interest.
  - Agrees to rules of conduct and possesses the requisite skills, training, and experience to make the judgments necessary in applying those rules of conduct.
  - Subject to enforcement by membership in a professional (in our case, accountancy) organization or through another regulatory mechanism recognized within its jurisdiction as upholding defined high standards of performance.
- Requiring specialized knowledge in a widely-recognized body of learning
  - Obtained through formal education programs and practical experience requirements.
  - Demonstrated level of competence by assessment.
  - Uses professional judgment based on principles and operates with a degree of autonomy.
  - Kept current through continuing education/continuing professional development.

A professional accountant may also hold a certification or license, or may have some widely recognized authorization or qualification to deliver specified accountancy services."

The IESBA discussed the matter and the following points were noted:

- The IESBA only has jurisdiction over individuals who are members of member bodies of IFAC;

- It is important that IFAC has a consistent definition that works for all of the PIACs and Committees;
- Since the Code is issued by the IESBA and then adopted by member bodies, one can argue that there does not need to be a change in the definition;
- The existing definition of a professional accountant might be a deterrent for those organizations that are not member bodies of IFAC who want to adopt the Code; and
- Perhaps the obligation for enforcement should come only through the Statement of Membership Obligations.

Mr. Rutherford noted that the goal of the IFAC Task Force is to have a draft definition developed by the end of June. In July, a second issues paper would be developed that would present a draft definition agreed by the IFAC Task Force and provide background on the IFAC Task Force's discussions. The second discussion paper would be used to present to the IFAC Boards and Committees for feedback. It is intended that this take place in the second half of 2010, with the view to obtaining all the Board and Committee feedback by the end of the year. He thanked IESBA members for their input and stated that their views would be conveyed to the IFAC Task Force.

## **7. IAASB Project on Reviews and Compilations**

Ms. Sapet introduced the topic. She noted that the IAASB has a project to revise ISRE 2400 and ISRS 4410 to provide standards for services that cater to assurance and related services regarding financial statements, other than audits. She serves as a correspondent member to the IAASB Task Force.

### *Compilations*

At its meeting in February 2010 the IESBA discussed the IAASB Task Force's preliminary views that as a minimum, users should be told in the practitioner's report that independence is not required to perform a compilation engagement. The IAASB Task Force proposed to recommend to the IAASB that there be a requirement for the practitioner to disclose, in the report, the fact of the existence of any significant interests or relationships that the practitioner believes are of interest to the intended users of the compiled financial information. The IESBA, at its February 2010 meeting, expressed concern with this approach. The IESBA noted that the practitioner would need guidance on the types of interests and relationships that should be disclosed. The IESBA suggested that a preferable approach would be to state that the engagement had been conducted in accordance with the Code.

The IAASB Task Force considered the input from the IESBA and revised the draft standard that will be discussed by the IAASB at its June 2010 meeting. In summary the approach to be taken with respect to independence and ethics is as follows:

- A statement in the requirements that the practitioner complies with the relevant ethical standards, including objectivity, and professional competence and due care.

- A statement in the application guidance that “in complying with the IESBA Code, threats to the practitioner’s compliance with relevant ethical requirements are required to be identified and appropriately addressed.”
- A statement in the application guidance that even though the Code “does not require independence in a compilation engagement, national ethical codes and laws or regulations may require the practitioner to be independent in order to perform a compilation engagement, or may specify disclosure rules or requirements, for example, concerning impairment of the practitioner’s independence when that is the case.”
- In the compilation report require a statement that the practitioner has complied with the IESBA Code of Ethics for Professional Accountants.

The IESBA discussed the proposal and it was noted that readers could misinterpret the reference to complying with the Code as implying that the practitioner was independent. It was also noted that the report would state that the practitioner has performed the engagement in compliance with the ISRS. The ISRS requires the practitioner to comply with the Code. It is not, therefore, necessary to mention compliance with the Code in the report.

#### *Reviews*

Ms. Sapet reported that the IAASB Task Force proposed the following approach to be taken with respect to independence and ethics in the ISRE:

- A statement in the requirements that the practitioner complies with relevant ethical requirements;
- A statement in the application guidance that relevant ethical requirements include independence.

The IESBA agreed with the approach taken.

Ms. Sapet thanked the IESBA members for their input and stated that she would discuss the matters with the IAASB Task Force.

### **8. Comments from the Public Interest Oversight Board**

Mr. Dakdduk invited Mr. Bracchi to make some comments.

Mr. Bracchi commented that he had enjoyed observing the meeting. With respect to the project on convergence he noted this is a very important project and the standalone document that was discussed was a necessary paper. He encouraged the IESBA to keep the document as short as possible because, from a public interest perspective, this was important so that people did not substitute the document for the Code itself.

On the project addressing conflicts of interest he urged the IESBA to define the project narrowly. He expressed concern that, if the project were to be defined too broadly there is a danger that the focus will be lost.

Mr. Dakdduk thanked Mr. Bracchi for his remarks.

**9. Future Meeting Dates**

November 3-4, 2010 Singapore, Singapore  
February 7-9, 2011, New Delhi, India  
June 15-17, 2011, Europe – location TBD  
October 17-19, 2011, New York, USA