



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

29 August 2007

Our ref: ICAEW Rep 71/07

Jan Munro
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th floor
New York, NY
10017 U.S.A.

By email: Edecomments@ifac.org

Dear Jan

IESBA STRATEGIC AND OPERATIONAL PLAN 2008-2009

The Institute of Chartered Accountants in England & Wales is pleased to respond to your request for comments on the International Ethics Standards Board for Accountants Strategic and Operational Plan 2008-2009.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

TONY BROMELL

Head of Accountancy Markets and Ethics
T +44 (0)1908 546284
F +44 (0)1908 546380
E tony.bromell@icaew.com



ICAEW Representation

ICAEW REP 71/07

IESBA STRATEGIC AND OPERATIONAL PLAN 2008-2009

Memorandum of comment submitted in August 2007 by the Institute of Chartered Accountants in England & Wales, in response to the International Federation of Accountants consultation paper on the International Ethics Standards Board for Accountants' Strategic and Operational Plan 2008-2009.

Contents	Paragraph
Introduction	1
Who we are	2 – 3
Overall comments	4 – 5
Comments on specific proposals	6 – 18

INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the 'Institute' or the 'ICAEW') welcomes the opportunity to comment on the International Ethics Standards Board for Accountants' ('IESBA') Strategic and Operational Plan 2008-2009.

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 128,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The ICAEW ensures these skills are constantly developed, recognised and valued.

OVERALL COMMENTS

4. We note the current work in progress and have commented or will comment, separately where appropriate. We do have reservations as to whether the review of the potential impact of the International Auditing and Assurance Standards Board's (IAASB) clarity project will, inadvertently or otherwise, result in changes in the meaning of the Code. Accordingly we believe any proposed changes should be exposed for a full consultation.
5. As regards potential future work streams, we do not believe there is a strong case for urgent action within the Code on any of the items referred to in the consultation. Indeed it is important that there be a moratorium on piecemeal amendments to the Code for at least a couple of years to allow the volume of regulatory change by the International Federation of Accountants ('IFAC') and others being implemented over the next two years to be absorbed, understood and applied properly. Where changes are being considered going forward, they should utilise an evidenced based decision making process.

COMMENTS ON SPECIFIC PROPOSALS

"The IESBA intends to complete three projects that it already has in progress. These are:

- i) Revisions to the independence requirements contained in the Code as proposed in the exposure draft issued in December 2006 proposing revisions to existing Section 290 Independence – Audit and Review Engagements and proposing new Section 291 Independence – Other Assurance Engagements;***
- ii) Additional revisions to independence requirements as appropriate after consideration of the existing guidance related to the provision of internal audit services to audit client, economic dependence on an assurance client and independence implications of contingent fees; and***

iii) Clarification on how the guidance in Parts A, B and C applies to Accountants in government.”

6. We note the current work in progress. We have commented separately on the ‘Independence 1’ exposure draft and will comment separately on the ‘Independence 2’ proposals currently out for consultation. The project to consider specific issues arising for accountants in government is likely to be of particular use to those accountants who are defined by IFAC as professional accountants in business but whose actual role in government assurance work is more akin to professional accountants in practice.

“In addition, the IESBA will consider the implications on the Code of the new drafting conventions adopted by the Clarity Project by the International Auditing and Assurance Standards Board.”

7. It is clearly appropriate to consider whether the IAASB’s ‘clarity’ project has implications for the Code but auditing standards and the Code are structured in a fundamentally different way and deal with different issues. Any changes made as a result of applying the clarity drafting conventions to the Code could, inadvertently or otherwise, change the meaning, create more rules, increase business costs and reduce choice unnecessarily. Even a straightforward exchange of ‘should’ for ‘shall’ could imply a different imperative.
8. The issues of the costs of compliance with accounting and auditing requirements and competition and choice in the audit market are growing in importance, the former under review by the European Commission and the latter being the subject of discussion within the UK, EU and US. We believe any proposed changes should be exposed for a full consultation to ensure that these issues are properly raised and addressed.

“The IESBA has considered ... which four projects it should next address as a high priority. These are:

i) Fraud and illegal acts – Providing practical guidance related to ethical issues faced by professional accountants in business and professional practice when encountering fraud or illegal acts;

ii) Conflicts of interest – Providing additional guidance related to conflicts of interest which might be faced by a professional accountant;

iii) Independence – Considering whether to supplement independence guidance contained in the Code on matters such as:

- independence implications of legal protection clauses such as auditor indemnification and limitations on auditor liability;***
- application of the independence requirements to audit clients that are mutual funds or other collective investment vehicles;***
- additional guidance on the communication of independence matters to those charged with governance;***
- independence considerations related to providing actuarial services to an audit client;***
- guidance related to the standards against which independence would be judged in engagements to perform agreed-upon procedures and engagements to compile financial statements; and***
- independence considerations of trustee holdings of financial interests in an audit client by the firm or members of the firm; and***

iv) Implementation support – Developing material to facilitate implementation of the Code including Section 290 for small and medium size practices.”

9. We note that the results of the IESBA's Questionnaire on Future Ethics Priorities in May of this year ('the Questionnaire') are not referred to in detail in the consultation document. Nevertheless we see no reason to amend our response in the Questionnaire on this point, in which our key comment was: "We do not believe there is a strong case for urgent action within the Code on any of these items and indeed there should be a moratorium on piecemeal amendments to the Code for at least a couple of years. The volume of regulatory change at international and many national levels has been such as to endanger the ability of professional accountants to comply and of users to understand. IESBA should concentrate on specific areas of guidance outside of the Code and actions other than guidance."
10. We understand the European Commission is considering whether to use the Code as a means of assessing the independence standards of 'third countries'. A period of stability will assist in this and, hopefully, other regulators may be persuaded to follow suit.
11. Thus, we suggest the IESBA should aim not to finalise further changes to the Code until at least 2010.
12. In particular, where the independence proposals are concerned, benchmarking does not of itself indicate a need for change: any review should adopt an evidenced based decision making process. We note, for example that the independent Auditing Practices Board in the UK has recently undertaken and published research¹ and has indicated that it does not see need for significant change in its auditor independence standards. We recommend that IESBA considers this research in depth. Perhaps IESBA should consider a research programme in advance of future standard setting to provide evidence as a base.
13. We note that one of the matters under consideration is a review of auditor liability limitation. We do not believe that liability limitation is an independence issue, a view confirmed in separate independent studies for the UK government and the European Commission.
14. As regards the proposed project on Fraud and Illegal Acts, we reiterate our specific comments in the response to the Questionnaire: "The proposed project on Fraud and Illegal Acts is likely to be too country specific to be dealt with meaningfully in the Code at the global level. However this is an area where IFAC could assist in clarifying and rationalising the public interest focus of accountancy professions the world over, improving our public image, clarifying the distinctions between the roles of lawyers and accountants and strengthening the ability of professional accountants to effectively challenge questionable behaviour. This is best dealt with outside of the Code." It is also important to avoid any duplication with IAASB which is currently developing a clarified ISA on laws and regulations and on fraud.
15. The proposal to develop material to facilitate implementation of the Code for small and medium size practices was not referred to in the Questionnaire. Subject to our comments above on in-Code guidance, we welcome recognition that SMPs do have particular issues with some of the more rule-based requirements and we look forward to further detail in due course.

¹ Available at <http://www.frc.org.uk/apb/press/pub1361.html>

“The IESBA will be consulting on [convergence] through the period covered by the Strategic and Operational Plan, including through the regional forums mentioned under “Communication” above.”

16. As we have stated previously, we believe that increased dialogue to persuade national standard setters a) of the benefits of the threats and safeguards approach and b) to adopt the IFAC Code of Ethics, should be considered a high priority. In terms of detailed convergence, this is clearly desirable but not at any price: we would be very concerned if convergence meant moving to an SEC-style rules based approach particularly at a time when that approach is increasingly being questioned elsewhere.

Other matters

17. The Institute has recently launched a report as part of its thought leadership programme, *Reporting with Integrity*². This considers, amongst other things, whether integrity is sufficiently centre-stage in codes of ethics. As the IFAC Code is the key international code of ethics, we believe the IESBA has a critical role to play in developing these thoughts and would be pleased to discuss this work with you.

18. We referred in our response to the questionnaire to the need for development of case study material to assist ethics training. We believe there is a clear role for the IESBA in this, liaising with the International Accounting Education Standards Board.

© Institute of Chartered Accountants in England and Wales 2007

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is reproduced accurately and not used in a misleading context;
- the source of the extract or document, and the copyright of the Institute of Chartered Accountants in England and Wales, is acknowledged; and
- the title of the document and the reference number (ICAEWREP 71/07) are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

www.icaew.com

tony.bromell@icaew.com

² Available at <http://www.icaew.com/index.cfm?route=127759>