



28 February 2014

Our ref: ICAEW Rep 38/14

Ken Siong
IESBA Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York 10017
USA

Dear Mr Siong

Proposed Strategy and Work Plan, 2014-2018

ICAEW is pleased to respond to your request for comments on the *Proposed Strategy and Work Plan, 2014-2018*.

Please contact me or Tony Bromell at ICAEW should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Iain Lawson

Chair, ICAEW Ethics Standards Committee



ICAEW REPRESENTATION

PROPOSED STRATEGY AND WORK PLAN 2014-2018

Memorandum of comment submitted in January 2015 by ICAEW, in response to the International Ethics Standards Board for Accountants (IESBA) consultation paper *Proposed Strategy and Work Plan 2014-2018* published in December 2013.

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Proposed Strategy and Work Plan 2014-2018* published by IESBA on 18 December 2013, a copy of which is available from this [link](#).

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 142,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

MAJOR POINTS

4. It is wholly right and proper for any standard setter to undertake a programme of continual review of whether its standards are fit for purpose, and if action is considered necessary, to prioritise the allocation of its resources in areas of greatest potential benefit to stakeholders. Accordingly we welcome IESBA's periodic consultations with stakeholders about its future intentions. Indeed, consultation could be undertaken more frequently, on a rolling basis: the work plan could be a great deal shorter and less complex than the one issued.
5. We particularly support increased outreach by IESBA both in respect of the promotion of the IESBA code of ethics (the code) and getting involved in emerging ethical issues:
 - 5.1. As regards the code, there is little point producing and maintaining high quality international standards if they are not understood, appreciated and applied by professional accountancy bodies and relevant regulators. Similarly, a standard setter should be aware of the reasons why its standards may not be universally adopted and applied by its member bodies so that it can reflect this in its redrafting of guidance.
 - 5.2. It is also important that IESBA be seen to be on the front foot and it should take a proactive stance in respect of key emerging ethical issues.
6. We set out in the next section, our comments on the specific issues raised by IESBA in its consultation paper. These comments are based on a number of general observations:
 - 6.1. As noted above, a continual programme of review of standards, and of outreach to those responsible for applying the standards, is important.
 - 6.2. However, change for the sake of being seen to be doing something, is ultimately counterproductive. To be effective, professional standards must commend the understanding and respect of the professions that apply them as well as those who oversee them. Change should be evidence-based.
 - 6.3. Frequent small changes should also be avoided. We and other respondents to past consultations have highlighted the need for periods of stability in the IESBA code of ethics (the code). During 2013 IESBA issued four different sets of changes to the code, with three different effective dates. This suggests a lack of concern for, or under-

appreciation of, the resource needed by professional bodies to implement, publicise and explain these changes, and their members to absorb and apply them.

- 6.4. A lot of issues that members have with applying standards do not necessarily require changes to those standards. It is more often an issue of how to apply the threats and safeguards approach or additional guidance on existing requirements. This is often more efficiently and helpfully dealt with outside of the standards.
- 6.5. We continue to support a principles-based code as being more robust than a rules-based one and more appropriate in an international context. Inevitably, even in a principles-based code there will be some absolutes but these should be applied only where necessary.

RESPONSES TO SPECIFIC QUESTIONS

Q1: Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why?

7. With the important caveats referred to below, we support the continuation of the four work streams added in 2012. We trust that changes considered to be necessary to the code, will not be brought in piecemeal.
 - 7.1. Long association and Non-audit services – we support these projects as part of the ongoing programme of review, though we are not aware of overwhelming evidence to suggest that the current requirements are no fit for purpose. In respect of these projects we highlight:
 - 7.1.1. the need to keep black-and-white, or bright-line requirements to the minimum necessary – they can result in unintended consequences;
 - 7.1.2. where change is made, it should be supported by evidence of need for change;
 - 7.1.3. where the issue is considered to be need of additional explanation, this may be achieved better, outside of the code itself, particularly in view of the current state of flux in the guidance for European member bodies.
 - 7.2. Review of Part C – we partly support this project:
 - 7.2.1. Approximately 70,000 of our members work outside of practice and our experience is that Part C, though short and relatively unchanged for some time (or maybe because of that), is largely fit for purpose. We are not clear that there is evidence to support wholesale change to Part C as being necessary or desirable, so if significant change is made, IESBA should be clear, through relevant research (perhaps in emerging markets) as to what the need is.
 - 7.2.2. An area where we do believe a review is needed, is how to address pressure to engage in unethical practices. This is without doubt the biggest issue in this area and IESBA gives little guidance at present.
 - 7.3. Structure of the code – we support the project as a key priority. Even applying the code in its original language, there can be issues of understanding and location. This has to be got right before any further changes are issued. In respect of implementing changes arising from this project, we highlight the need to keep the frequency of code changes to a minimum.

Q2: Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.

8. Subject to the general points made in paragraph 6 above, we support the general direction in which the stated strategic themes seek to point IESBA over the next five years.

Q3: Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.

9. We support the prioritisation of projects currently in progress. Resources are not infinite and it is better to prioritise completion of existing projects over starting new ones.
10. As regards the proposed new work streams, we set out our comments below:
 - 10.1. Guidance regarding safeguards – It is not clear to us that there is a problem with the code's requirements where the code specifies particular safeguards as mandatory. It is important to guard against change without evidence of need. However, as regards instances where the code includes a general requirement for safeguards but offers examples, we are aware that smaller practitioners in particular sometimes struggle to think of examples of safeguards that they can apply, which might be and be considered to be, appropriate. This is not necessarily a problem that requires the code itself to be amended – it is clear where specific safeguards are not required, that those listed are only examples. This is an area where additional guidance outside of the code might be most appropriate.
 - 10.2. Audit quality – Auditor independence is an important component of professional scepticism and thus audit quality, but is not the only one. It is therefore right that general considerations around this topic are led by the IAASB. We understand therefore, that the timing of any IESBA work cannot currently be specified. Audit quality is an important topic: indeed the most important one in the audit arena. However, it is important that IESBA's considerations do not result in a large overlap between the code of ethics, which is about setting conditions necessary to maintain an ethical mind-set, and auditing standards, which are more about necessary audit objectives and procedures.
 - 10.3. Collective investment vehicles (CIVs) – We would not support amendment of the code to address the audit of specific types of industry. This would sit uneasily with a principles based code and would distract from the key points. We do understand that there are some significant issues with determining who auditors of CIVS should be independent of. However, this is not an issue with the fundamental requirements, more a need to illustrate how they should be applied in particular situations. This would be better addressed by producing 'off-code' guidance as to the interpretation and application of the general principles in a specific situation, perhaps through a series of small case studies. An approach involving amending a definition with some variation on 'except for...' risks an impression that different standards of independence are being allowed for, for different types of audited entity, as a result of inconvenience. In addition it constrains accountants' abilities to apply the threats and safeguards approach in a professional and appropriate way.
 - 10.4. Fee dependency – We are not aware of evidence that would suggest a need to amend the code's requirements in this area. It is reasonable to keep developments under review (within the European Union, for example, there is about to be introduced a non-audit fee/audit fee limit for public interest entity audits). However, a new regulatory requirement somewhere is not of itself evidence of a need for change to the code, and we have a concern that projects always seem to lead to change, regardless of the evidence. A better approach might be to undertake pre-project research into behavioural aspects of auditors spending a significant amount of time on one client. This will put the Board in a better position to determine if there is an issue to address.

Q4: Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated).

11. No. We believe that available IESBA resource should be focused primarily on outreach (as discussed in paragraph 5 above), identification of how the code is applied, and the structure project.

E tony.bromell@icaew.com

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