



23 January 2012

Our ref: ICAEW Rep 07/12

By email  
janmunro@ifac.org

Dear Ms Munro

**PROPOSED CHANGES TO THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS  
TO ADDRESS A BREACH OF A REQUIREMENT IN THE CODE**

ICAEW is pleased to respond to your request for comments on the consultation paper '*IESBA Proposes changes to the Code of Ethics for Professional Accountants to Address a Breach of a Requirement in the Code*'.

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

Yours sincerely

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## ICAEW REPRESENTATION

### PROPOSED CHANGES TO THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS TO ADDRESS A BREACH OF A REQUIREMENT IN THE CODE

Memorandum of comment submitted in January 2012 by ICAEW, in response to the consultation paper, *IESBA Proposes changes to the Code of Ethics for Professional Accountants to address a Breach of a Requirement in the Code*, published in October 2011.

Contents	Paragraph
Introduction	1
Who we are	2
Major points	4
Responses to specific questions	5

## INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper '*IESBA Proposes Changes to the Code of Ethics for Professional Accountants to Address a Breach of a Requirement in the Code*' published by IFAC on 24 October 2011, 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 which obliges us to work 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 136,000 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. While we do not believe that 'breaches' provisions are necessary to be included in the IESBA Code ('the Code'), we are content for them to be included if others would find them helpful. We are generally supportive of the proposals, though believe that the timing of reporting of breaches to those charged with governance should reflect their potential effect. This is discussed further in paragraphs 7 and 8 below.

## RESPONSES TO SPECIFIC QUESTIONS

**Q1: Do respondents agree that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code? If not why not?**

5. We do not see that the Code needs to include such provisions, as it should primarily address what ethical behaviour comprises, with professional bodies' or other regulators' conduct operations dealing with the consequences of a breach. However, if such measures are thought to be helpful by some jurisdictions, we do not object to their inclusion.

**Q2. Do respondents agree with the overall approach proposed to deal with a breach of an independence requirement, including the proposal that the firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and such action is taken?**

6. Yes

**Q3. Do respondents agree that a firm should be required to communicate all breaches of an independence requirement to those charged with governance? If not, why not and what should be the threshold for reporting?**

7. We have a concern about the practical consequences of requiring all breaches to be reported, along with an implication that in order to fulfil the detailed requirements, communication needs to be on a real time basis. There might be numerous minor breaches on a large international

audit, for example, and frequent reporting of such matters to the audit committee would be likely to divert attention from important breaches.

8. We suggest that the auditor should be able to determine if breaches clearly have no significant effect and report these on a combined basis at a later point in the audit.

**Q4. Do respondents agree that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement? If not, why not and what should the test be?**

9. Yes

**Q5. Do respondents agree that the matters that should be discussed with those charged with governance as proposed in section 290.46 are appropriate? If not, why not? Are there other matters that should be included, or matters that should be excluded?**

10. Yes, subject to the comments in paragraph 7 above.

**Q6. Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA?**

11. We agree with the analysis though note that it seems overly lengthy for the scale of the change.

**Q7. Would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, does the proposed effective date provide sufficient time to make such changes?**

12. We believe audit firms are best placed to answer this question.

**Q8. Is the abbreviated version of the framework described in Section 290 for dealing with a breach of an independence requirement suitable for Section 291? If not, what do respondents believe Section 291 should contain?**

13. Yes

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