



23 March 2012

Our ref: ICAEW Rep 35/12

IESBA

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Dear Ms Munro

**IESBA PROPOSES CHANGES TO THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS TO ADDRESS CONFLICTS OF INTEREST**

ICAEW is pleased to respond to your request for comments on '*IESBA Proposes Changes to the Code of Ethics for Professional Accountants to Address Conflicts of Interest*'.

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

**IESBA PROPOSES CHANGES TO THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS TO ADDRESS CONFLICTS OF INTEREST**

**Memorandum of comment submitted in March 2012 by the ICAEW, in response to IESBA consultation paper, *IESBA Proposes Changes to the Code of Ethics for Professional Accountants to Address Conflicts of Interest* published in December 2011.**

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## 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 Conflicts of Interest*' published by IFAC on 20 December 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 138,000 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. Although the substance of the requirements is already included within the code, the revision is helpful. We have no significant issues to raise with the proposal, though we suggest some wording changes in the detailed responses below.

## RESPONSES TO SPECIFIC QUESTIONS

**Q1: Do respondents find the description and examples of conflicts of interest helpful?**

5. Yes

**Q2: Do respondents find the reasonable and informed third party standard appropriate?**

6. Yes. This is already implicit through the general requirements to consider the perspective of the reasonable and informed third party in section 100, but it is helpful to be reminded of the requirement in this context.

**Q3: Do respondents find the "reason to believe" threshold for network firms in evaluating conflicts of interest appropriate?**

7. Yes. Where potential conflicts are not known about and the relationships are sufficiently remote, it follows that it is unlikely that there will be any actual threat to objectivity. A requirement to search would be disproportionate in such circumstances.

**Q4: Do respondents find the guidance concerning safeguards to manage conflicts of interest and obtaining and documenting consent, as set out in paragraph 220.7, appropriate?**

8. Yes, though having regard to the usefulness of the code to SMPs, it might be helpful to:
  - put what is currently the last safeguard (the only one present that could be applied by a small practice) first; and
  - add review by a third party as a safeguard.

**Q5: Do respondents concur with the three conditions set out in paragraph 220.8 required to be met before a professional accountant can proceed to accept or continue with an engagement when a conflict of interest exists but consent cannot be obtained because it would in itself breach confidentiality? Are the examples within paragraph 220.8 helpful?**

9. Yes. The implied strengthening of the presumption to require consent is welcome: in our experience too many people do not seek consent, for reasons that do not stand up to scrutiny.
10. Some of the proposed examples used the word 'representing'. We believe that this relationship refers more to that between a legal professional and his or her client. 'Engaged by' might be more appropriate.
11. We note that paragraph 220.7 recommends documentation where consent is implied or verbal. We believe 220.8 should make a similar recommendation where consent is not sought for reason of breach of confidentiality.

**Q6: Do respondents agree with the general requirement to identify, evaluate and manage conflicts of interests as set out in proposed Section 310 of the Code?**

12. Yes

**Q7: Do respondents find the reasonable and informed third party test appropriate?**

13. Yes. See response to question 2 above.

**Q8: Do respondents find the conforming changes proposed for Sections 320 and 340 useful? Are they appropriate and adequate?**

14. Yes, although we are not sure why the degree to which the information might be misleading has been deleted from paragraph 320.5. In terms of exercising professional judgement and balancing the consequences of potential different types of action, this seems to continue to be relevant.

**Q9: 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?**

15. On the whole yes. We do not agree that the code does not currently require reasonable and informed third party perception to be considered: it is required in section 100. However the impact is assessed as low so there is no practical change in impact.

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