

January 31, 2015

International Ethics Standards Board for Accountants

RE: Request for Comments on Consultation Paper *Improving the Structure of the Code of Ethics for Professional Accountants*

Dear Board Members:

The Auditing Standards Committee of the Auditing Section of the American Accounting Association is pleased to provide comments on the IESBA Consultation Paper 'Improving the Structure of the Code of Ethics for Professional Accountants'.

The views expressed in this letter are those of the members of the Auditing Standards Committee and do not reflect an official position of the American Accounting Association. In addition, the comments reflect the overall consensus view of the Committee, not necessarily the views of every individual member.

We hope that our attached comments and suggestions are helpful and will assist the Board. Please feel free to contact the subcommittee chair should the Board have any questions about our comments and suggestions.

Respectfully submitted,

Auditing Standards Committee
Auditing Section – American Accounting Association

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General Comments

The Committee commends the IESBA (“the Board”) for considering an update to the structure of the Code of Ethics. The following presents a number of specific comments or suggestions, organized by the questions posed by the Board in the Consultation Paper ‘Improving the Structure of the Code of Ethics for Professional Accountants’ (the Consultation Paper). We are only responding to Questions 2, 3, 6, 7, 8 and 9.

Question 2

Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?

In order for the Code to be more likely adopted into laws and regulations, effectively implemented and consistently applied, it must be presented in a logical sequence, easy to navigate, and written in a clear and readable manner. The approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, should accomplish these goals.

The proposed reorganization of the Code and the numbering convention presented in paragraph 20 makes the Code more logical in its sequence of topics, and therefore, easier to use and navigate.

Additionally, the proposed means of enhancing the readability and clarity of the Code as discussed in paragraphs 23 through 25 of the Consultation Paper will greatly aid in the Code being easier to understand, and, therefore, more effectively implemented and consistently applied by the various users, including those whose first language is not English.

Question 3

Do you have any comments on the suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?

The numbering convention discussed in paragraph 20 is similar to the one used in the American Institute of Certified Public Accountants’ *Code of Professional Conduct*. Accordingly, it is logical and allows for future changes (additions as well as deletions) to be made to a topic and/or subtopic without the need to reorder/renumber the paragraphs.

The reversal of the order of extant Part B (Professional Accountants in Professional Practice), and Part C (Professional Accountants in Business) is appropriate. Having the section for the Professional Accountants in Business precede the sections that relate to issues, including Independence, to Professional Accountants in Professional Practice will make the Code more user-friendly and easier to navigate. Additionally, having separate sections for Independence for Audit and Review Engagements and Independence for Other Assurance Engagements will make navigating the Code easier.

Question 6:

a) *Do you consider it to be necessary to clarify responsibility in the Code?*

The current Code does not explicitly include a requirement that a firm have policies and procedures that enable identification of those responsible for maintaining auditor independence. We believe that it is appropriate for the Code to include this information and that the revised paragraph 290.12 shown in paragraph 30 (on page 9) is appropriate. A statement may need to be added to the revised paragraph indicating that assignment of responsibility may vary among firms based on their size, structure, organization, and culture.

In addition, an individual or group of individuals (e.g., senior management) outside of the potential conflict of interest should be responsible for deciding if there are any threats to auditor independence, and, if so, how to diminish such threats to an acceptable risk level. The particular professional qualification of such individuals should be made clear, so that they would be prepared to gather appropriate documentation to justify their decision on whether or not safeguards are needed. This will facilitate implementation of the Code, especially with regards to enforcement and the establishment of disciplinary actions. Given the international nature of the IESBA Code, identifying who is responsible for decisions about independence will also contribute to convergence of various national codes of ethics to the principles established by the IFAC.

b): If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code?

In our view, the illustrative approach used in paragraph 30 is too specific or rule-based. Rules can lead to a compliance mindset (Herron and Gilbertson 2004), and leave loopholes, which can mislead accountants to look for gaps when applying the rules (Cowton 2009). It would be better to take a more principle-based approach (see recommendation below), consistent with the definitions of independence contained in the Conceptual Framework section of the Code.

In addition, it is important that the Code highlight the need for accountants to acknowledge their responsibility towards stakeholders outside of the traditional boundaries of the accounting firm (e.g., employees and customers of the client firm, regulators, and the accounting profession at

large). This is particularly relevant for inexperienced members.

c): If not, what other approach would you recommend?

One of the strengths of the IESBA code is that it is principle-based, instead of being solely rule-based (Spalding and Oddo 2011). The Code offers a rich conceptual framework while also offering specific requirements that give it rigor as well as flexibility for implementation by the various national professional organizations in its member countries. In matters of auditor independence, which are arguably the most challenging ethical issue for public accountants, auditors are frequently under pressure to violate professional codes of ethics (Jamnik 2011). It is in this particularly challenging setting that the use of principles, not of rules, may guide responsible action.

It would be helpful if the Code could illustrate how an accountant would deliberate, in a complex situation, about whether the independence principle is violated or not. In order to promote responsible conduct, the Code could include a short scenario or mini-case describing how an accountant could employ practical reasoning to discern the facts and make a judgment about when independence is impaired. This would be particularly useful for decisions regarding the appearance of loss of independence (“independence in appearance,” as stated in the Code), when the actual facts may differ from impressions held by individuals outside of the ethical dilemma. In such contexts, the Code could illustrate the role of the individual who was designated as responsible for making this judgment regarding independence.

Question 7:

Do you find the examples of responsible individuals illustrated in paragraph 33 useful?

We found the examples of responsible individuals illustrated in paragraph 33 helpful. We were unclear on whether the IESBA plans to include similar examples in each Part of the Code or just include the information once.

Question 8:

Do you have any comments on the suggestions for an electronic version of the Code, including which aspects might be particularly helpful in practice?

We are in favor of an electronic version of the IESBA Code of Ethics for Professional Accountants (“the Code”) and in favor of the electronic version being made the official version. We believe that practitioners’ experience with accessing and applying the principles of the Code can be enhanced by adopting it in electronic format. For example, as is the case with other important comprehensive documents, the Code can contain repetitive information that applies to multiple situations. Instead of the necessity of repeating such information in a traditional

document, an electronic version would be particularly helpful by enabling users to quickly navigate through an abundance of “boilerplate” information only as needed. With today’s technology, an electronic version of the Code should be very feasible. We encourage the IESBA to peruse the opportunities listed in paragraph 38 (on page 11). Including filtering to allow users to easily navigate to the parts of the Code more relevant should be very helpful. Further, cross-linkages should help when implementing the Code and in Code enforcement. Also, should the IESBA decide to include the ‘responsibility’ paragraph(s) of the Code only once, a fairly simple display option could be added so that users who request Code Requirements components will also see the responsibility paragraph(s) 290.12. A similar display option could be used to communicate to users whether the pdf or electronic version of the Code was the official version. Other display options to consider may include information about the process to update the code or contact information if the user has questions regarding the Code.

In addition, to enhance usability and avoid confusion among users, we urge the IESBA to carefully consider placing the material available on a webpage which displays the link to the electronic Code. For example, this material needs to clearly articulate whether the electronic or pdf version of the Code is the official Code. Further, the IESBA may want to consider providing training or navigation guidance on the webpage via directions and perhaps even a brief webcast or YouTube video.

Finally, should the IESBA determine that two parallel independence sections are needed – one for review engagements and one of audit engagements, then perhaps the electronic version should be adopted as the official Code. The sentiment of some members of the Committee is that there is no specific need for such two parallel independence sections.

We also suggest that the FASB U.S. GAAP Codification (<https://asc.fasb.org>) is one example of a successful compilation of standards in electronic format that can serve as a guide when/if the Code of Ethics is adopted in electronic form. With the GAAP Codification, users are able to quickly and efficiently navigate across the electronic platform by sections or by a key word search. With the increasing prevalence of mobile devices, an electronic version of the Code of Ethics stored or quickly retrievable on such devices may greatly assist practitioners at remote locations in accessing information.

In addition to facilitating easy access for those who are already familiar with it, we suggest that an electronic version can increase awareness and use of the Code. In an increasingly complex regulatory environment, industry stakeholders may find it difficult to keep up with changes in standards for the accounting profession that may be promulgated by various governing bodies. With ready access to an electronic version that is continuously updated, practitioners will know that they are accessing and applying the current standards. This would be clearly preferable to the situation in which practitioners continue to rely on a PDF (or hard copy) version of the Code that may or may not be up to date. Electronic access to the Code can easily be linked to other electronic documents and websites/platforms (e.g. the U.S. GAAP Codification). This would increase awareness of the Code of Ethics for those who may not be as familiar with it or for those who are uncertain as to the situations/jurisdictions in which it applies. We believe that the accounting profession is well served when the IESBA Code of Ethics for Professional Accountants is both well-known and well-read. We believe that practitioners’ familiarity with

the Code will be enhanced by its being consistently linked to other well-read electronic documents and platforms. Thus, we favor the adoption of an electronic version as the official version. The Code should be searchable with a few keywords. The IESBA may want to contact the AICPA Professional Ethics Division since they recently included an electronic, searchable version of their code of conduct.

Question 9:

Do you have any comments on the indicative timeline described in Section VIII of this Paper?

We applaud the ambitious efforts of the IESBA to restructure the Code of Ethics and believe that the proposed timeline is appropriate. We note that, just as the IESBA strives for the convergence of international and national ethical standards, the U.S. Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) continue to work toward the convergence of U.S. GAAP and IFRS accounting standards. It would seem that the process of successfully restructuring the IESBA Code of Ethics through international participation over the next couple years would only be helped by additional progress in GAAP/IFRS standards convergence. However, GAAP/IFRS convergence continues to face stiff resistance and continued progress remains far from certain.¹

We are in favor of the unveiling of new standards as early as October 2015, as suggested. Similarly, we believe that it is reasonable to follow the possible timeline of standards finalization in early 2017. We understand that the process of restructuring the Code of Ethics may, at times, require a consensus of opinion from numerous parties. Unavoidable delays are common in such processes. As we discuss in our response to question # 8, we are in favor of the adoption of an official electronic version of the Code of Ethics. We believe, if the decision to adopt an electronic version is made, that the creation of the electronic platform should proceed, to the extent possible, independently from the process of finalizing standards and language with the Code of Ethics. Thus, it is our hope that the transition to an easily accessible and navigable electronic version of the Code of Ethics is not needlessly delayed by additional deliberation regarding issues such as the re-worded language of the Code itself.

¹ http://www.complianceweek.com/blogs/accounting-auditing-update/cox-dissects-gaap-ifrs-convergence-meltdown#.VKcvryvF_Ak

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