

Ken Siong  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

31 October, 2012

**Exposure Draft – Proposed Change to the Definition of “Those Charged with Governance”**

Dear Ms Munro:

We are pleased to comment on the proposed change to the definition of “those charged with governance” in the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (the Code).

We understand that a respondent to the Exposure Draft “Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code” noted that the Code’s definition of “those charged with governance” is not consistent with the definition in International Standard on Auditing 260 (ISA 260), *Communication with Those Charged with Governance*. Subsequently, the Board concluded that the communications required under the Code should be to the same group of people as the communications required under ISA 260 and the two definitions should be more closely aligned. We support the Board’s proposal to more closely align the two definitions. However, we have some specific suggestions as to how best to achieve such alignment.

The IESBA requested comments on two specific questions and we will address each individually.

**Question 1: Do respondents agree with the proposed change to more closely align the definition of “those charged with governance” to the definition contained in ISA 260, *Communication with Those Charged with Governance*?**

We support the IESBA’s proposal to revise the definition of “those charged with governance” to align with the ISA 260 definition as illustrated in the Exposure Draft. We believe use of consistent definitions between the Code and relevant ISAs provides greater clarity for practitioners. We agree that this proposal will not require any significant change in systems or practice and we do not foresee any unfavourable consequences associated with this proposal.

**Question 2: Do respondents agree that in each case as noted in the Exposure Draft, communication to “those charged with governance or a subgroup thereof” would be appropriate?**

We fully agree that communication with a subgroup of those charged with governance may be appropriate in each case identified in the Exposure Draft. However, we do not agree with the IESBA proposal to refer to “or a subgroup thereof” explicitly in each instance when the Code refers to communication with those charged with governance. ISA 260 does not include such language wherever communication to those charged with governance is referenced and we believe that the concept of appropriate communication with a subgroup of those charged with governance is better addressed up front in Section 290.28 rather than repeated throughout the Code. Accordingly, we suggest the following edits to Section 290.28 and the removal of “or a subgroup thereof” from all other 290 sections of the Code.

**Those Charged with Governance**

**290.28** Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client ~~or a subgroup thereof~~ regarding relationships and other matters that might, in the firm’s opinion, reasonably bear on independence. Such communication enables those charged with governance ~~or a subgroup thereof~~ to:

- (a) consider the firm’s judgments in identifying and evaluating threats to independence,
- (b) consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level, and
- (c) take appropriate action.

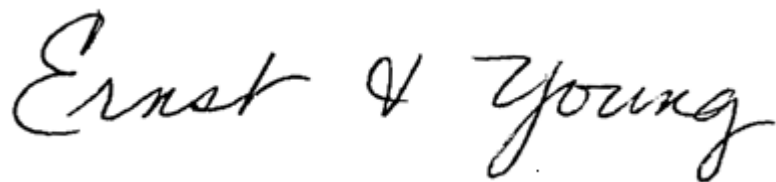
Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

In complying with requirements in this section to communicate with those charged with governance, the firm shall determine the appropriate person(s) within the entity’s governance structure with whom to communicate. Depending on particular circumstances, it may be appropriate to communicate with a subgroup of those charged with governance, such as an audit committee or an individual. If not clearly identifiable, the auditor may need to discuss and agree with the engaging party the appropriate subgroup with whom to communicate and it may vary depending on the matter to be communicated. ~~If the firm communicates with a subgroup of those charged with governance, for example an audit committee, or an individual,~~ the firm shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

We believe a more comprehensive discussion of communications with a subgroup of those charged with governance in Section 290.28 without repeated references to a “subgroup thereof” elsewhere in the Code will provide greater clarity for practitioners. More specifically, the phrase “those charged with governance or a sub-group thereof” without further explanation may lead practitioners to consider that communication with a subgroup is always an alternative, when in fact there may be cases when communication with a subgroup is insufficient and a communication to all those charged with governance is more appropriate.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Susan Nee (+44 20 79 8 0 08 77).

Sincerely,

A handwritten signature in black ink that reads "Ernst & Young". The script is cursive and fluid, with the ampersand being particularly stylized.

Ernst & Young Global