



IESBA Consultation Paper:
Improving the Structure of the Code of Ethics
for Professional Accountants

4 February 2015

CA House 21 Haymarket Yards Edinburgh EH12 5BH
enquiries@icas.org.uk +44 (0)131 347 0100 icas.org.uk

Direct: +44 (0)131 347 0234 Email: jbarbour@icas.org.uk

INTRODUCTION

The ICAS Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Ethics Committee welcomes the opportunity to comment on the IESBA Consultation Paper: 'Improving the Structure of the Code of Ethics for Professional Accountants', and I am pleased to forward its comments.

Any enquiries should be addressed to James Barbour, Director, Technical Policy.

Key Points

We are supportive of IESBA's objective to improve the clarity of the Code of Ethics for Professional Accountants.

We welcome the approach which emphasises the importance of the principles-based conceptual framework. We agree that it would be beneficial for the Code to distinguish more clearly "requirements" from "guidance", and support the restructuring of the Code into the three separate components of purpose, requirements and application and other explanatory material. We believe this restructuring would aid users' understanding of the obligations imposed by the Code; however, we believe that the suggested approach may only be advantageous if an authoritative version of the Code is presented in an electronic format. We caution that the proposed restructuring may lead to a considerably longer Code, which, in PDF or similar format, has the potential to be less user-friendly than the current version. However, we do accept that certain jurisdictions may still require too have access to an authoritative non-electronic version of the Code, and therefore, this should also be made available.

We are supportive of IESBA's introduction in December 2014 of an electronic version of the Code. This web based version is noticeably more user-friendly than the PDF version. We believe that the proposed restructuring would further enhance the usability of the electronic code.

Whilst we are supportive of placing the independence material in separate sections of the Code, we reiterate our preference for removing this material from the Code and inserting it into separate ethical standards for auditors/assurers. We also believe that such an approach may make it easier for sections of the Code to be incorporated into law, or referenced from the law, in some jurisdictions.

Specific Responses

1. Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA's objective of making the Code more understandable? If not, why not and what other approaches might be taken?

To some extent we do believe that it would result in achieving IESBA's objective of making the Code more understandable. However, we have concerns as to whether this undoubted benefit will only be achieved by the introduction of a far longer Code, which would potentially act as an increased disincentive for professional accountants to refer to it. This downside could be mitigated by seeking to introduce an authoritative electronic version of the Code which could then enable far easier navigation of the Code and its key terms. We therefore believe that if the proposed approach is adopted that this is inextricably linked to the introduction of an authoritative electronic version of the code.

Additionally, whilst we are supportive of placing the independence material in separate sections we would once again reiterate our preference for a bolder approach to be adopted, i.e. to remove this material from the Code and insert it into separate ethical standards for auditors/assurers. We also believe that such an approach may make it easier for sections of the Code to be required by law or regulation, in certain jurisdictions.

When using an electronic Code, there is the obvious advantage of easier access to specific material, i.e. it is even easier to go directly to whichever section of the Code you specifically need. We also recognise, however, that such an approach also presents a potential threat, in that a user is possibly more likely to miss the introductory guidance. This supports the adoption of the proposed approach, i.e. having “requirements” at the beginning of each section, and references back to the fundamental principles and conceptual framework.

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?

We are not convinced that the proposed approach will make it more likely that the Code is capable of being adopted into law and regulations. Neither do we believe this should be a primary objective of this exercise.

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?

We are supportive of reversing the order of extant Part B and Part C for the reasons given in the consultation document. We would however add that this is more of a cosmetic change than one of true substance.

4. Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?

We believe that there would be benefit in publishing separate ethical standards for audit, review and other assurance engagements. These primarily deal with the issue of independence and we believe there would be merit in clearly removing such matters (sections 290 and 291) from the Code of Ethics as this section contain a number of rules which are better dealt with in standards.

Additionally, we would highlight that this might make it easier for such standards to be incorporated in law, or referenced from the law in some jurisdictions. Unlike the rest of the Code, sections 290 and 291, relate to specific types of engagements which attract significant attention from regulators from a compliance and enforcement perspective. Regulators use rules on “independence in appearance”, as a surrogate for the fundamental ethics principle of “objectivity”.

5. Do you believe that the suggestions as to use of language, as reflected in the Illustrative Examples, are helpful? If not, why not?

As the sentences are shorter in length, on balance, we believe that overall the Code is easier to comprehend. However, we believe that views on this matter would be better sought from those whose native tongue is not English, and indeed, those member bodies and regulators who have to translate the Code of Ethics.

6. Do you consider it is necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approach would you recommend?

Whilst there may be benefits from clarifying responsibility in the Code, we are reasonably satisfied with the proposed approach in the consultation paper that would establish reasonable guidance in this regard to help the user. If the Board believes that there is a need to specifically clarify responsibility in the Code, then this should form the basis of a separate project.

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

Whilst we recognise that some users of the Code may find these examples helpful, on balance, we remain to be convinced that their inclusion represents an improvement to the Code.

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 supportive of the introduction of an authoritative electronic code. Please refer to our comments at question 1 above. We do, however, appreciate that certain jurisdictions may require a non-electronic version of the Code for legal reasons.

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

Whilst not opposing the suggested timeline, we are conscious within the EU, of the ongoing impact on member states in relation to implementing the 2014 EU audit legislation. Therefore, it may be wise to extend the envisaged timetable.

10. Do you have any other comments on the matters set out in the Consultation Paper?

No further comments.