

Improving the Structure of the Code of Ethics for Professional Accountants

A consultation issued by the International Ethics Standards Board for Accountants

Comments from ACCA

February 2015

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 170,000 members and 436,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 91 offices and centres and over 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

ACCA works in the public interest, assuring that its members are appropriately regulated for the work they carry out, and promoting principles-based approaches to regulation. We actively seek to enhance the public value of accounting in society through international research, and we take a progressive stance on global issues to ensure accountancy as a profession continues to grow in reputation and influence.

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ACCA welcomes the opportunity to comment on the proposals issued by the International Ethics Standards Board for Accountants (the IESBA). The ACCA Global Forum for Ethics has considered the matters raised, and the views of its members are represented in the following.

OVERALL COMMENTS

We strongly support the objectives of this project, and agree that it is in the public interest to make the Code more understandable and, in some respects, more easily enforceable. These desired outcomes, themselves, further the ends of higher standards of ethical behaviour among professional accountants. However, the task is a complicated one, as some of the sections of the consultation paper are interrelated and some proposed outcomes may be considered to conflict to some extent.

We are concerned that the length of the Code has not been highlighted as a barrier to its navigation and its ability to be understood. Care should be taken to avoid unnecessary repetition, which both lengthens the Code and discourages the user from reading and understanding the Code's fundamental requirements.

SPECIFIC ISSUES

In this section of our response, we address the ten questions set out in the consultation paper section *Questions for Respondents*.

Question 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?

We agree that the broad approach, including the elements set out in sections III to VI should considerably help to achieve this objective. Our comments concerning the development of an electronic version of the Code are expanded upon under question 8 below. However, we should like to highlight here that the paper/pdf version should be the focus of this project initially. While it is important to think ahead in order to ease the process of creating an electronic version, the specific requirements of an electronic version must not dictate how the Code itself is structured.

ACCA hopes that this project will continue, and that the IESBA will expose proposed changes to the Code following due consideration of the responses to the current consultation. We urge that, throughout this process, opportunities to

reduce the length of the Code should be taken, including appropriate cross-referencing to the underlying conceptual framework. These measures will help to highlight the importance of the conceptual framework, and encourage users of the Code to carefully consider the framework and the ethical principles within it (which have always been described as ‘fundamental’). The Code essentially comprises the fundamental principles and the conceptual framework. Most other sections of the Code serve to provide application guidance, explaining how to observe or protect the fundamental principles.

Distinguishing requirements from guidance

We particularly support the clear statement made in paragraph 12 of the consultation paper – upholding the significance of the conceptual framework approach, and how it serves to protect fundamental ethical principles, rather than requiring compliance with rules imposed upon the professional accountant. We can see advantages in adopting a structure that is similar to existing International Standards on Auditing. However, this should not be to the extent that the Code is perceived as moving towards a more prescriptive approach. There are, in fact, few absolute requirements within the Code beyond the requirement to observe and protect the fundamental principles.

We support the proposal that use of the present tense should usually be avoided, in order to minimise ambiguity. We also believe that avoiding the use of the word ‘shall’ within the application and other explanatory material will enhance clarity. It will also encourage the reader to consider more carefully the requirements, to which they will be referred where necessary.

In responding to this consultation, we have found the illustrative examples provided in appendix 1 very useful, as the explanation in section III of the paper was perceived to be unclear. It appears that the proposal is to separate the three components – Purpose, Requirements, and Application and other explanatory material – within each section, starting with the general application of the Code. We would support this proposal, although the illustrative examples would suggest that some sections could appear somewhat imbalanced (or even contrived) due to the manner in which the paragraphs have been allocated between the three components. Our review of the illustrative examples gives rise to the following observations:

- Every section illustrated includes a heading ‘Terms Used in this Section’, which includes a statement that references to a ‘professional accountant in public practice’ include his or her firm. This creates a great deal of repetition, increases the length of the Code, and is also incorrect in some cases. We suggest that paragraph 100.002 (or its equivalent) states that the meaning includes a practising firm where it is appropriate according

to the context. It should also be unnecessary to state (in every section) whether ‘professional accountant’ means one in business, in practice, or both. This is clear from the Part of the Code in which the section is placed.

- We support the proposal to underline defined terms the first time they appear in each paragraph. However, we would suggest deleting the words ‘colored blue and’ in paragraph 000.000, as this might create a problem for member bodies reproducing the Code.
- A brief review of the table of concordance would suggest that a drafting of a restructured Code might include all existing paragraphs within the current Code, plus many more. It is difficult to determine the source of paragraphs 000.000 to 000.002. However, they appear rather repetitious. Any unnecessary increase in the length of the Code would be detrimental to its clarity.
- Section 100: Having reduced the amount of repetition in the preface to the Code, opportunities should then be sought to avoid unnecessary paragraphs in section 100. The other illustrative examples carry some paragraphs headed ‘Purpose of this Section’. But section 100 includes the heading ‘Purpose of the Code and this Section’. The purpose of the Code should be contained within the preface, leaving the vast majority of section 100 to be clear requirements.
- We understand that the illustrative examples have been provided with the objective of retaining all the current content of the Code, and are not final proposals for the wording of a restructured Code. However, it will not be possible to issue a future exposure draft along these same lines, as decisions will have to be taken soon with a view to reducing repetition within the Code and improving the flow of the Code’s requirements. Therefore, it is worth commenting now that some of the paragraphs within the application material are superfluous. We also believe that the requirement to identify threats (100.007 (a)) should appear earlier in section 100.
- Section 120: It appears that the intention is to include paragraph 120.002 in each section. Given that it simply cross-refers to a fundamental requirement, which must already be understood by the professional accountant, this paragraph serves no purpose. We believe that the illustrative examples demonstrate that, in fact, it is unnecessary to include the heading of ‘Purpose of this Section’ in each section. In most (if not all) cases, a single introductory paragraph would be clearer, or else each section should start with ‘Requirements’.
- Section 300: This section contains no paragraphs headed ‘Requirements’. This is quite appropriate, and it demonstrates that, in some sections, only the heading of ‘Application and Other Explanatory Material’ is necessary.

- Section 310: Paragraph 310.004 restates a fundamental requirement. Although this may be considered necessary in this section, generally the use of appropriate cross-referencing may reduce the length of the Code. Moreover, cross-referencing serves to reinforce the fundamental requirements of earlier sections of the Code.
- Sections 400 and 420: It appears that the heading ‘Terms Used in this Section’ could be ‘Terms Used in this Part IV’, and appear in section 400 only, in order to avoid unnecessary repetition. We also believe that there is an opportunity to address, in section 400, the relationship between independence and objectivity.

Reorganisation of the Code

We agree with the relevant factors enumerated in paragraph 19 of the consultation paper, although we believe that it is more important that the numbering system facilitates clear understanding of the structure of the Code and effective cross-referencing, rather than being unduly driven by the ease with which new paragraphs may be inserted. We comment further on this under question 3 below. We recognise also the importance of clear linkage to the conceptual framework, but would encourage greater use of cross-referencing in order to encourage the reader to revisit section 100 whenever necessary.

We agree with the proposal to move the current Part C of the Code forward, so that all the provisions relating to professional accountants in practice would be together. However, given the objective of grouping Parts of the Code in this way, we would question whether the final sentence in the suggested paragraph 000.008 remains appropriate.

Use of language

We generally support the proposed measures to enhance clarity, as set out within paragraph 23 of the consultation paper. The main issues to resolve are set out in paragraphs 24 and 25. We would not support a separate section of the Code in respect of review engagements – both because of the excessive length of the Code that would result, and because of the unnecessary complication that would arise when updating the Code. We suggest that Part IV would be more easily understood if the words ‘audit’ and ‘review’ were used only where necessary for reasons of accuracy. Therefore, instead of defining the terms ‘audit team’, ‘audit engagement’, ‘audit client’ and ‘audit report’, the defined terms would be ‘team’, ‘engagement’, ‘client’ and ‘report’.

With regard to the understanding of ‘professional accountant’, we believe that the language is only sufficiently clear if there is explicit reference to the

professional accountant's firm wherever appropriate. We do not believe that this will necessarily be cumbersome.

Other aspects of the approach

We comment specifically on the identification of responsible individuals under question 7 below, and on the numbering of paragraphs under question 3. We have concerns we wish to highlight in both areas.

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?

Subject to comments already made above, we believe that the proposed simplification of the language, and the segregation of the sections relating to independence are positive steps towards making parts of the Code more easily adopted into laws and regulations. However, care must be taken to ensure that future changes to the Code are appropriate for such adoption.

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 proposed numbering system appears to be predicated on the need to be able to expand the Code easily. While we acknowledge the value of this, we do not anticipate that expansion of the Code should take place very often, and we believe that ease of navigation of the Code is more important. The proposed system does not facilitate clear cross-referencing, and so may result in a Code of excessive length.

The following proposed numbering system may be a preferred alternative. If each of the five Parts of the Code was assigned an Arabic number, rather than a Roman one, the numbering within each Part may logically follow. For example, paragraph 1 of section 1 of part 1 ('General Application of the Code') becomes 1.1.1.

Question 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 do not believe that the benefits of ‘rebranding’ the Code or issuing it as separate standards would outweigh the disadvantages of doing so. It is not clear how it might ‘improve the transparency of changes made’. It might have the desired effect of highlighting the importance of the conceptual framework, although it might inadvertently obscure it. Given that there would be benefits anticipated from restructuring and reordering the Code – bringing all the requirements for professional accountants in public practice together – on balance, we would not be in favour of then splitting the Code up into several separate standards.

The only sections that are appropriate for separation from the Code are those relating to independence. These provisions relate to specific types of engagement, and compliance is important, as is enforceability. The remainder of the Code concerns ethical concepts, which often require the exercise of personal judgement. Therefore, the majority of the Code is designed to influence behaviours, and not to provide standards that are enforceable when a particular benchmark is not reached.

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

We have commented on this under question 1 above.

Question 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?

We note the following in paragraph 28 of the consultation paper:

‘In the view of IESBA, a global code should be sufficiently flexible to accommodate different circumstances that firms need to take into account when prescribing the specific responsibility of individuals within the firm for actions related to independence.’

We would agree with this. We also believe that a restructured Code should encourage individuals to focus on ethical considerations, even when (as in the case of independence) the position of their firm as a whole is being considered. We support the proposals set out in paragraphs 29 and 30 of the consultation

paper. However, we would caution that clear policies and procedures that identify appropriate individuals within a firm who carry ethical responsibility could result in other individuals within the firm being complacent, and so refraining from taking ethical responsibility. Ethical responsibility must be accepted as a *collective* responsibility. If wording such as that illustrated in paragraph 30 is to be used, it should be accompanied by a clear statement that responsibility vested in others does not remove or lessen a professional accountant's personal responsibility.

We would support a requirement that firms identify appropriate procedures for communication and consultation in respect of matters involving ethics. Beyond such a requirement, explanatory material might suggest effective means of implementing the requirement, including guidance suitable for small and medium practices.

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

We believe that all professional accountants, throughout an organisation, are responsible for ethical compliance. Therefore, we would discourage provisions that identify responsible individuals, and we feel that the illustrative wording in paragraph 33 is unnecessary, and risks confusion in smaller firms. Guidance similar to that suggested in paragraph 33 might, nevertheless, be useful if limited to suggesting whom should be informed or consulted in respect of ethical issues arising.

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?

An electronic version of the Code that facilitates easy navigation around the Code would be useful, although easy navigation should be achieved throughout the paper version of the Code first. An electronic version should not be allowed to compensate for shortcomings in the paper version. However, features such as windows or hover text to instantly provide definitions would enhance usability.

We believe that an effective restructuring of the Code, including improved clarity though the language used, would mean that any advantages of filtering and the use of hyperlinks, as suggested in paragraph 38, would be minimal. We also believe that having an electronic version of the Code as the official version would be inappropriate for a code of global relevance.

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

The suggestion in the consultation paper is that a restructured Code would become effective one year after it was finalised. Given that there is no intention to change the requirements of the Code, this period may be considered unnecessary. However, IFAC member bodies must be allowed time to appropriately adopt the restructured Code, and many firms will be required to update internal documentation. Therefore, the indicative timeline would appear reasonable, subject to the impact of other IESBA projects. Nevertheless, ACCA is of the opinion that this is a significant project, and it is important to arrive at the right structure for the Code, rather than be unduly constrained by the timeline.

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

We have no further comments, except for those set out under 'general comments' below.

GENERAL COMMENTS

ACCA has developed this response following an internal due process involving preparers and users, those in developing nations, and those who will use the Code in translation. This input, such as from our Global Forum for Ethics, has informed the whole of this response. However, we would make the following further observations.

SMPs / SMEs

This consultation is of particular importance to small and medium practices (SMPs) and small and medium enterprises (SMEs). Therefore, we are pleased to see the acknowledgement in the consultation paper (paragraph 4) that lack of resources is perhaps the biggest obstacle for SMPs to understanding the Code and using it effectively. The same may be true in respect of a professional accountant employed by an SME.

Translations

Ease of translation is a desired outcome of this project, referred to only briefly in the background to the consultation (section II) and in section VIII, which states that ease of translation will be considered at the drafting stage. Although one might assume that section V of the consultation paper (on the use of language

throughout) would have some focus on ease of translation, this is not clearly stated. We suggest that such considerations should be seen to have greater importance to a global standard-setter.

TECH-CDR-1322

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