

International Ethics Standards Board  
for Accountants (IESBA)  
International Federation of Account-  
ants (IFAC)  
Attention Mr. Siong  
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Date	RE	Reference	Attachment(s)
14 March 2014	IESBA Strategy and Workplan 2014 - 2018		-

Dear Mr. Siong,

The NBA welcomes the opportunity to comment on the proposed IESBA Strategy and Workplan, 2014-2018. Ethics and Independence have been seriously addressed in the Netherlands during 2012 and 2013 which led to newly adopted Ethics and Independent requirements as of January 1<sup>st</sup>, 2014: clarified rules with a simplified structure in which rules, guidance and examples are separated. Furthermore, new requirements on independence will be introduced by the European Union in the same period that is addressed by the IESBA Strategy and Workplan.

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In light of these developments, the IESBA strategy and workplan has our utmost attention.

A high quality Code, which is supported by both the stakeholders and the accountancy profession, is essential for the public to trust that the accountancy profession acts in its interest. In order to meet this objective, we feel that the Strategy and Workplan of IESBA should result in five years' time in a Code that:

- has a structure that facilitates the adoption of the Code;
- is principle based but sets clear borders on specific topics;
- sets fundamental principles that apply for all accountants without distinction between accountants in public practice and other accountants;
- makes no distinction between an audit, a review of financial statements and other assurance.

We will structure our comments and remarks through the specific questions IESBA mentioned in section IV of the consultation paper.

# 1. Do you support the four work streams the Board added?

## 1.1 Long association

Part of the adjustments made in the Dutch independence rules were related to long association. We therefore support the review of the provisions in the Code that deal with long association of senior personnel with an audit client. The review carried out in the Netherlands resulted in:

- No distinction between audit and review engagements or other assurance engagements;
- All services provided by the senior employee must be taken into consideration;
- If the auditor should conclude that after an involvement of seven years there is no threat related to long association this conclusion must be motivated, approved and documented;
- For the audit of the financial statements of a Public Interest Entity, mandatory rotation of the audit firm after 8 years.

Furthermore, in December 2013 the European Parliament reached an agreement with its member states on the reform of the audit sector. Part of this agreement is mandatory rotation of audit firms. Audit firms will be required to rotate after an engagement period of 10 years. After maximum 10 years, the period can be extended by up to 10 additional years if tenders are carried out, and up to 14 additional years in case of joint audit, i.e. if the company that is being audited appoints more than one audit firm to carry out its audit. A calibrated transitional period taking into account the duration of the audit engagement is foreseen to avoid a cliff effect following the entry into force of the new rules.

We strongly recommend IESBA to take the above mentioned issues in consideration during their review of this topic.

## 1.2 Non-assurance services

We support the work stream related to the non-assurance services provisions. In the Netherlands the independence rules were adjusted in relation to the non-assurance services. Most important adjustments were:

- Non-assurance services are prohibited if the audit firm also performs the audit of the financial statements for a Public Interest Entity;
- There is no distinction made between audit or review engagements and other assurance engagements.

Furthermore, the Dutch independence rules no longer present detailed articles for selected types of non-assurance services. The rules constitute a framework which can be used for all types of non-assurance services, thus providing consistency on this topic and enabling to respond to new types of non-assurance services.

## 1.3 Review of part C of the Code

During our reassessment of the ethics requirements in the Netherlands, we came to the conclusion that the distinction in the Code in sections A, B and C was not desirable. The fundamental principles should be identical for all accountants. Furthermore, requirements mentioned in section C can also be applied to accountants in public practice. We therefore removed sections B and C and made one section applicable for all accountants. We advise the Board to combine her review together with the review of the structure of the Code, resulting in one Code for all accountants.

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## 1.4 The structure of the Code

We feel that a reconsideration of the structure is not sufficient. Efforts should be aimed to change the structure as soon as possible. During the NSS-meetings, it has been mentioned numerous times that the current structure is a limiting factor for international adoption of the Code. In the Netherlands the current structure of the Code made that the Code could not be implemented by law.

In paragraph 2.2 of this letter we will disclose how the ethical and independence guidelines are currently structured in the Netherlands.

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## 2. Are the strategic themes identified for the period 2014 – 2018 appropriate and are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate?

### 2.1 Maintaining a high-quality Code of Ethics for application globally

We support the strategy of IESBA to limit the introduction of new guidelines and focus the attention to acceptance and implementation of the current Code, under the condition that, if during 2014–2018 new issues arise which demand for new guidelines, sufficient time and effort can and will be made available to address them.

As mentioned in this letter under the strategic theme “promoting and facilitating” guidance is essential. Therefore this should not be limited to safeguards but also needs to address the identification of risks and practical guidance for both accountants in public practice and accountants in business.

We share the believe that the Board remains an active participant in the broader audit quality debate. Furthermore, we believe that behavioral aspects need more attention. The Ethics and independence requirements are based on a conceptual framework. The explicit rules mentioned in the requirements are minimum requirements. In order to ensure that the application of the conceptual framework results in preferred behavior, more guidance should be provided on what that preferred behavior should be.. The consultation paper shows that the Board is seriously taking into account the perspectives of the small and medium sized practice (SMP)/small and medium sized entity (SME) constituency.. It therefore plans to liaise closely with the IFAC SMP Committee and seek its input on projects and initiatives of relevance to that constituency. We acknowledge the importance of liaising with the SME / SMP committee. We think this also applies to professional accountants in business and therefore would advise IESBA to work closely with the PAIB Committee.

### 2.2 Promoting and facilitating the adoption and effective implementation

#### *A recognizable and accessible structure of the Code*

The Code in its current form contains both rules, guidance and examples in one document. During 2012 and 2013 the NBA has consulted with government, regulatory bodies and other stakeholders in the Netherlands about the way the ethics and independence rules could best be structured. This resulted in a revised structure:

- The Ethics rules and Independence rules are presented in two separate regulations;
- For each regulation an explanation is presented containing guidance both on a general level and article related;
- On specific topics guidance is provided, showing practical examples of both risks and possible safeguards.

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In our experience this structure helped the government and regulators to understand the intent of the Code better and ultimately to agree.

### *Enforceability*

In order to increase the enforceability for both the regulators, auditor oversight bodies and audit firms, we feel that more guidance and examples should be made available. This guidance and examples should address the subjectivity which is in the Code, for example in terms such as material / materiality, significant, routine or mechanical nature.

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### *Other issues regarding this theme*

As mentioned in the introduction of this letter, new Ethics and Independence regulations were adopted in the Netherlands as of 1 January 2014. During the preparation of the new regulation we have gained some insight which relate to the way the Code is interpreted and therefore might be a restrictive factor for the adoption of the Code. We would like to share these lessons learned with the Board:

- The balance between a principle based and rule based approach is a difficult one. On one hand oversight bodies and professional accountants prefer a principle based approach in order to be flexible and to cover all possible situations that can occur. On the other hand they seem to prefer a rule based approach in order to prevent a difference of opinion in identifying risks and apply safeguards;
- Both professional accountants and stakeholders tend to have the assumption that when a financial, business or other relation is not specifically prohibited, the threat resulting from such relation can always be safeguarded;
- In order to increase awareness and acceptance of the risks and safeguards mentioned in the Code more emphasis should be put on the independence in appearance and more explanation on the way certain financial, business or other relations influence the public opinion regarding the auditor and its independence.

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Based on the above mentioned experiences we decided that our Ethics and Independence requirements should be principle based but also must set clear borders on specific topics. We advise IESBA to include this topic in the Strategy and Workplan.

## **2.3 Evolving the Code for Continued Relevance in a Changing Global Environment**

We feel that the Code should be generally applicable for all professional accountants. We therefore advise the Code not to apply time and resources to a specific topic which affects only a limited number of accountants, such as Collective Investment Vehicles.

Part of a changing global environment is the increasing relevance of non-financial and prospective information. Information such as corporate responsibility, projections and procedures are being used by stakeholders of companies more intensively than previous years and accountants are asked to provide assurance to these types of information. In the Netherlands this has resulted in a Code that does not make a distinction between audit and review engagements and other assurance-engagements. We advise the Board to include a project to examine whether sections 290 and 291 could be merged into one independence standard.

## **2.4 Increasing Engagement and Cooperation with Key Stakeholders**

We agree with the identified theme.

### 3. Are there any actions not included?

#### 3.1 International development

We advise the Board to actively monitor the international developments regarding rules and regulations for accountants and assess whether these developments should lead to adjustments or expansion of the Strategy and Workplan. For example we refer to the agreement the European Parliament has reached with its member states on the reform of the audit sector.

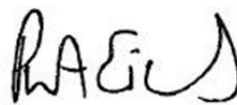
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For further information on this letter, please contact Jan Thijs Drupsteen via email at [j.th.drupsteen@nba.nl](mailto:j.th.drupsteen@nba.nl).

Yours sincerely,  
NBA, the Netherlands Institute of Chartered Accountants



Huub Wieleman,  
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Peter Eimers,  
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