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Our ref **SS/288**  
Contact **Sylvia Smith**

4 March 2014

Dear Mr. Siong

### **Proposed Strategy and Work Plan 2014-2018**

We are pleased to have the opportunity to comment on the above Consultation Paper issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network.

We support the IESBA's objectives of setting high-quality standards for professional accountants and facilitating the convergence of international and national ethics standards. In our view, the strategic themes identified by the Board are a strong base for achieving these objectives. However, we encourage the Board to consider taking the following actions to help ensure the continued global relevance of the Board and of its pronouncements:

#### **1) Adoption of the Code by key jurisdictions**

We strongly encourage and support increased outreach by IESBA targeted specifically to obtaining increased global uptake and visibility of the Code. We believe that this is important to the future success of the Board and therefore needs to be a strategic priority. The extent to which a set of standards (e.g., the Code) is adopted by regulatory authorities and IFAC member bodies around the world is critical to the perceived relevance of these standards. Outreach activities should be focused on ensuring the Code is accepted, recognized and utilized globally by key jurisdictions.

#### **2) Determining the need for standards**

An important factor in influencing the level of global acceptance and convergence as it relates to the Code is maintaining high quality ethical standards that meet the needs of stakeholders and protect the public interest. When it appears that changes to the Code may be necessary, we agree that a formal needs assessment and consideration of a formal project proposal, based on consultation with stakeholders, should be undertaken. To be an effective needs assessment, it is

important to both identify the relevant stakeholders and define the parameters of what is meant by acting in the public interest. The result will be a Code that is viewed as being sufficiently robust and a well-founded baseline for ethical standards in the global market.

### **3) Clarifying the meaning of the public interest in the context of the Code**

Recent challenges faced by the Board with proposed standards suggest differences of views amongst stakeholders as to the meaning of the public interest, to how in practice this responsibility applies to the various roles played by professional accountants and whether it varies depending on their role or nature of professional services provided. This is an area that would benefit from further clarification since it underpins the principles and requirements of the Code and can therefore influence the direction of future standards. It also differentiates professional accountants from other professionals who provide similar services but who are not required to follow the Code. We therefore encourage IESBA to consider how it can clarify what it means for public accountants to work in the public interest and why this defines our role and reputation.

We have included more detailed comments and responses to the specific questions posed in the Consultation paper in the attachment.

Please contact Sylvia Smith at +44 20 7694 8871 if you wish to discuss the contents of this letter.

Yours sincerely

*KPMG IFRG Limited*

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## Appendix A: Response to Specific Questions

*Do you support the four work streams the Board added to its SWP in 2012, i.e. Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why.*

We believe it is important for the Code to have a structure that is understandable and more user friendly. We are supportive of the structure of the Code project and suggest it be prioritized ahead of the other three work streams.

In terms of the other three work streams, we strongly believe that the Board should add projects to its agenda only after it has performed a detailed needs assessment to establish the necessity for change in standards. We are unaware of a detailed needs assessment in these areas. We therefore recommend that this be undertaken as part of the background work being carried out in relation to these work streams to determine whether and how best to proceed with these work streams. For example, a needs assessment may indicate that additional guidance, provided outside of the Code itself, may provide a solution to some of the perceived issues.

*Are the strategic themes identified for the period 2014-2018 appropriate?*

Subject to the comments we have made in the main body of our letter relating to the need for specific actions to ensure the continued acceptance and relevance of the Code, we support the themes identified as relevant in informing the activities of IESBA over the next five years.

*Are the actions identified with respect to each strategic theme, and their relative prioritization, appropriate? If not, please explain why.*

We support prioritization of projects in process over the start-up of new ones. As mentioned above, we would give the structure of the Code the highest prioritization of the projects currently in process.

Guidance regarding safeguards – we question whether there is a problem with the Code's requirements where it specifies particular safeguards as mandatory. The issue may relate more to challenges faced by some practitioners in identifying specific safeguards to be applied. If a needs assessment indicates that this is in fact the problem, then this issue may be better addressed through additional guidance outside of the Code as opposed to actually amending the Code.

Audit quality – We believe it is appropriate that considerations around the topic of audit quality are led by the IAASB. Given that auditor independence is critical to the value of an audit, it is logical for the Board to consider the impact of the work of the IAASB on the Code. However, it is important that IESBA's considerations complement the ISAs by establishing an ethical framework that supports the exercise of appropriate professional judgment.

Collective Investment Vehicles - We acknowledge there are challenges with the application of the provisions of the Code as it relates to Collective Investment Vehicles (CIVs), however we believe that, so far as the related entity rule is concerned, the principles of control and significant influence should be valid in all cases and any interpretive guidance appropriate to address the audit of entities in a particular industry is best provided outside the Code itself.

Fee dependency - We do not support a proposal to initiate a new project on fee dependency. While we acknowledge that there has been a challenge to the robustness of the safeguards the Code requires to mitigate the potential threats to independence, we are not aware of evidence that suggests the current provisions, which were debated and established as a result of a formal project undertaken in 2007, are not adequate. While it is reasonable to monitor global developments in this area, a new regulatory requirement implemented in a jurisdiction does not evidence a need for change to the Code. We therefore recommend that the Board continue to monitor global developments and that it make a decision to undertake a project to revise the Code only after it completes a proper needs assessment, as mentioned in our earlier comments.

*Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e. deferred or eliminated).*

As mentioned in our earlier comments, we believe that IESBA should add an action to the five-year strategy to consider what it means to “act in the public interest”. Recent discussion of this principle suggests that there might not be a universally held view of what it means to act in the public interest and what could reasonably be expected of an accountant in public practice.