

April 25, 2017

IFAC Small and Medium Practices (SMP) Committee Response to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft: *Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice (PAPPs)*

INTRODUCTION

The SMP Committee (SMPC) is pleased to respond to the IESBA (the Board) on this Exposure Draft (ED). The SMPC is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small-and medium-sized entities (SMEs). The constituents of the SMP Committee are small-and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members of the SMP Committee have substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member bodies representing 22 countries from all regions of the world.

GENERAL COMMENTS

The SMPC has closely followed the IESBA Structure of the Code project and provided comment letters for the Board and Task Force's consideration as it has progressed since 2015. Overall, we have been broadly supportive of the general direction and approach taken by the Board.

It is important that the Board continues to maintain a principles-based approach in proposing any changes to the Code and does not, unintentionally, impose rigid requirements that may prove difficult for SMPs to apply. Our recent [Global SMP Survey 2016](#) once again highlighted that one of the constant challenges faced by SMPs is keeping up with changes in regulations and laws.

The SMPC generally supports the IESBA's objectives and the holistic approach to clarify that the requirements and application material in the Extant Part C applies to PAPPs. However, we remain concerned that PAPPs may continue to think that Part C of the Code is not applicable to them. It is only when the connection is made that accountants working in public practice may find themselves in ethically problematic circumstances that do not involve clients and hence face the same issues and ethical dilemmas as Professional Accountants in Business (PAIBs) that PAPPs may appreciate the implications of the extant provisions in Part C.

SPECIFIC COMMENTS

We have outlined our responses to each question (*in italics*) in the ED below.

Applicability of the Provisions in Extant Part C to PAPPs & Its Location in the Code

1. *Do respondents agree with:*



*(a) The proposed applicability paragraphs; and
(b) The proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code.*

If not, why not?

We agree with the proposed applicability paragraphs and their proposed locations as recommended in the ED.

However, the proposed examples in Para 120.4 A1 and Para 300.5 A1 illustrates the need to communicate clearly IESBA's intent in this context. The relationship between an employee and employer will generally mean that a professional accountant who is an employee does not have a choice of actions, other than to face dismissal when directly instructed to undertake an action that may appear questionable. Indeed, there may be instances where if all the relevant facts and circumstances underlying that instruction had been known to the employee, the instruction would have proven less or even not questionable. The references to Section 270 indicates the dilemma as to available safeguards. In practice, the notion of restructuring or segregation of duties may not be available in all accounting firms or practices. Thus the circumstances and relative significance of such an action would be highly relevant. For this reason, we strongly believe that the proposed requirement paragraphs R120.4 and R300.5 need to clarify that significance and possible frequency of occurrence may play a role in determining whether the threat to an individual PAPP's compliance with the fundamental principles had exceeded an acceptable level. The use of more examples in this respect may also be helpful.

It is also important to distinguish clearly the applicability of related provisions to the engagement partners and the other members of the engagement team since the PAPPs cover both and the threats encountered are different to each other.

Request for General Comments

The IESBA's contention in the Explanatory Memorandum (Para 15(b)) that its proposed approach would not impose an undue burden on PAPPs may not be accurate. As the individual professional accountant is tasked with deciding which sections of the Code need to be referred to, it follows that each individual accountant will need to have a good level of working knowledge with all of the Code (i.e., this would have to encompass all of the Code that might ever become relevant in any conceivable professional situation) in order to make such a decision that was well founded. Already many PAPPs in SMPs are finding it extremely challenging to keep abreast of the multitude of revisions to laws, regulations, standards etc. that are directly relevant to their professional sphere. Placing further onus on PAPPs to have a good level of working familiarity with all the materials primarily directed at PAIBs certainly exacerbates the challenge.

The circumstances of SMPs may mean that the employment and other relationships in which PAPPs in such firms find themselves differ considerably from those in larger firms. This may also mean that different safeguards may be available. The reference to Section 270 of the Code will not necessarily be helpful in certain SMPs; specifically, the example in 270.4 A6, in most cases, may not be available. We believe that including some alternative safeguards, beyond ending the employment, (which ought to be an action of last resort) that would be workable in an SMP environment would be helpful.



The IESBA should also consider an awareness campaign and developing communication messages to ensure Professional Accountancy Organizations will contact their own members to inform them that Part 2 of the revised Code (or the extant Part C) is equally applicable to PAPPs.

CONCLUDING COMMENTS

We hope the IESBA finds this letter helpful in informing the Board's deliberations on the Applicability ED. Please do not hesitate to contact me should you wish to discuss any matter(s) raised in this submission.

Sincerely,

Monica Foerster

Monica Foerster
Chair, SMP Committee