
AUTHORITY OF THE CODE

Background

The Code of Ethics was initially issued as a model on which to base national ethical guidance. When the independence requirements were issued in November 2001, they were issued as an international standard and no member body of IFAC or firm was allowed to apply less stringent standards – i.e. the independence requirements had a different authority from the rest of the Code. This anomaly was eliminated when the Code was re-issued in 2005.

The Preface to the extant Code of Ethics states that:

“The Code of Ethics establishes ethical requirements for professional accountants. A member body of IFAC or firm may not apply less stringent standards than those stated in this Code. However, if a member body or firm is prohibited from complying with certain parts of this Code by law or regulation, they should comply with other parts of this Code.

Some jurisdictions may have requirements and guidance that differs from this Code. Professional accountants should be aware of these differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation.”

Statement of Membership Obligations

The IFAC Statements of Membership Obligations (SMOs) cover a member body’s obligations to support the work of IFAC, the work of the International Accounting Standards Board, and obligations regarding quality assurance and investigation and discipline. SMO 4 addresses the obligation with respect to the Code of Ethics.

SMO 4 is on the IFAC Board agenda for revision at its September meeting. The revision is necessary to reflect the revised authority of the Code as stated above. It is proposed that the revised SMO will contain the following statements:

“Member bodies should notify their members of the provisions of the IFAC Code of Ethics and other pronouncements developed by IESBA.

IESBA exposes proposed revisions to the IFAC Code for public comment. Member bodies are encouraged to notify their members of all exposure drafts issued by IESBA and to encourage them to comment on behalf of those members that have an interest in ethics for professional accountants.

The IFAC Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework and guidance for applying those principles.

Member bodies should not apply less stringent standards than those stated in the IFAC Code of Ethics. If a member body is prohibited from complying with certain parts of the Code by law or regulations, it should comply with all other parts of the Code.

Where responsibility for the development of national codes of ethics lies with third parties, member bodies should, in implementing their obligations of membership, have as a central objective the convergence of the national code with the IFAC Code. Member bodies should use their best endeavors to persuade those responsible for developing those national codes to incorporate the IFAC Code.”

Forum of Firms

The Forum of Firms (FOF) is an organization of international firms that perform audits of financial statements that are or may be used across national borders. Members of the Forum voluntarily agree to meet certain requirements as detailed in the FOF Constitution. The constitution contains the following with respect to the Code of Ethics:

“Membership shall be open to Networks and to Firms upon giving notification to the Secretary of the Forum that they meet the following criteria for eligibility, namely that they (or their constituent entities, as applicable):

...

(d) Agree to meet the Forum’s membership obligations, with respect to transnational audits, which require Members to:

...

(iii) Have policies and methodologies which conform to the IFAC Code of Ethics for Professional Accountants and national codes of ethics.”

The Constitution defines a transnational audit as:

“an audit of financial statements which are or may be relied upon outside the audited entity’s home jurisdiction for purposes of significant lending, investment or regulatory decisions: this will include audits of all financial statements of companies with listed equity or debt and other public interest entities which attract particular attention because of their size, products or services provided.”