

**Structure of the Code—Updated Report of Research Findings****Background**

1. In February 2012, the IESBA agreed to consider how it might improve the structure of the Code to raise the visibility of the requirements and prohibitions in the Code (Visibility), and clarify who is responsible for meeting them (Responsibility). Also, various stakeholders have commented on issues associated with the structure, format and clarity of the Code. Some of these issues relate to the usability of the Code and may be impacting adoption and implementation.
2. The Working Group (WG) was formed in December 2012. The WG presented a preliminary report summarizing its research findings at the September 2013 IESBA meeting. The research addresses whether there is a case for change.

**Research – Overview**

3. The research is addressing whether there is a case for change and, if so, exploring the nature of any changes that may be necessary. If the IESBA concludes that change is warranted, it will be important for the Board to assess the importance and urgency of matters to be addressed, bearing in mind that any changes will bring additional burdens on stakeholders who have to translate, adopt and implement the Code. Unless more immediate action is appropriate and the Board concludes it has sufficient information, the research may lead to the issuance of a formal consultation paper.
4. The WG members interviewed, or sent interview questions to, 34 participants, including stakeholder representatives from Europe, Australasia, Asia, North and South America, and Africa. Stakeholder groups included regulators, national standard setters (NSS) and IFAC member bodies. The questions specifically addressed those matters on which the WG was seeking input and did not cover a reconsideration of the requirements and prohibitions in the Code. The research questions specifically addressed the following matters:
  - Separating requirements and prohibitions from guidance
  - Understandability (including Plain English)
  - Translatability
  - Repackaging (Navigability)
  - Complementary materials
  - Other forms of delivery media
  - Electronic Code
  - Prescribing specific responsibility of individuals in Section 290<sup>1</sup>
  - Any other matters the respondent wished to note
5. Between June and the end of October 2013, the WG has obtained input from 32 selected participants. The WG has reviewed and categorized the responses. This agenda paper presents a preliminary analysis of the responses to the research. Input has not been obtained from the International Forum of Independent Audit Regulators (IFIAR) as an entity because of restrictions in

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<sup>1</sup> Section 290, *Independence – Audit and Review Engagements*

their current charter although input has been obtained from some of its members. The International Organization of Securities Commissions (IOSCO) provided a number of suggestions of relevance to this initiative in their comment letter to the January 2013 IESBA strategy survey.

## Analysis

6. An analysis of the findings indicates a broad-based appetite for change. There is support for increasing the visibility of requirements, for the Code to be written in a clearer style and for complementary materials to help users better understand the Code.
7. The Terms of Reference state that the objective of the initiative is “to identify and recommend to the Board ways to improve the usability of the Code.” In terms of approach to the analysis, the WG has grouped options into those that would change the Code and those that would not, as well as into sub-groups of usability and understandability, and navigability. Usability is defined by the WG as “helpful and practicable,” understandability as “clear as to meaning,” and navigability as “finding relevant guidance.” Responsibility is considered to be different from issues that address the usability of the Code and is addressed separately.

## Options that Would Change the Code

8. Usability and Understandability
  - Separating requirements and prohibitions from guidance (Visibility)
  - Using plain English (including translation issues and definitions)
  - Moving guidance off-Code
9. Navigability
  - More sub-headings and improved contents list
  - Splitting the Code into more sections
  - Moving Independence (Sections 290 and 291)<sup>2</sup> into a separate area
  - Presenting Sections as separate standards
  - Making sections/subsections more self-contained
  - Packaging the Code for different users

## Options that Would Not Change the Code

10. Usability and Understandability
  - Off-Code guidance
  - Complementary materials,
  - Other forms of delivery media, e.g. short summaries of the Code

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<sup>2</sup> Section 291, *Independence – Other Assurance Engagements*

11. Navigability

- Electronic Code

**Options That Would Change the Code**

*Separating Requirements and Prohibitions from Guidance*

12. A number of research participants expressed the view that restructuring the Code is primarily the consideration of how the visibility of the requirements and prohibitions in the Code or parts of the Code could be enhanced, for example, by providing a clear distinction between requirements and application guidance, possibly in the style of IAASB standards. Further, the length of the Code was cited as a reason for restructuring it.
13. Input in favor of Visibility includes the following:
- Legal advice received, and views expressed by auditor, securities and financial institution regulators question the enforceability of the Code, concluding that it is potentially less enforceable than the standards currently applicable to chartered accountants because it does not segregate requirements from guidance.
  - As securities regulators, we have concerns with the inability to enforce the Code due to, among other matters, the lack of precision of various requirements throughout the Code and the flexibility for auditors to exercise significant judgment in complying. We believe the Board should review the requirements within the Code to enhance the Code's enforceability by securities regulators. The current structure is a barrier to adoption of the Code.
  - Visibility is certainly a problem in relation to implementing the requirements. IESBA should separate the requirements from the commentary; should adopt a requirements-only code, with commentary at the back (or immediately after the requirements) so that it is clear which is which (like the auditing standards). More background on the reasons for conclusions would also help.
  - We believe that the IESBA should adopt a "clarity" format for the Code to provide clear mandatory objectives and a clear distinction between mandatory requirements and application guidance.
  - We also see the visibility of the various requirements and prohibitions as important in the context of on-going convergence activity.
  - The current structure means that obtaining an understanding of the various provisions in relation to a specific circumstance is not straightforward for readers.
  - We would recommend separating the examples by bringing them into guidance which supplements the Code.
  - The independent standard setter's independence standards adopt a 'requirement, then explanation' structure. This does cause problems of, for example, inconsistency, but is generally preferred by our ethics committee. As one put it, 'with IESBA, there is a long preamble so the main point is buried somewhere further down'. A complete separation of requirements (or 'the main point') from the guidance is not thought helpful as people do not like having to navigate all over the place.

- The current Code contains principles, requirements and guidance for professional accountants. These elements are mixed throughout all sections of the Code. The guidance consists of both explanations of the rules and examples of how they should be applied in practice. The interchanged use of these three categories does not align with the approach to standard setting in civil law jurisdictions. Therefore this inhibits adoption and implementation in these jurisdictions. We would thus like to suggest, without changing their content and meaning, separating the presentation of these three elements of the Code into separate sections, containing: 1) requirements, 2) explanation of the requirements and 3) further guidance, including examples.
  - Marking the differentiation between rules and guidance leaves a leaner and therefore clearer set of requirements, whereas separate documentation provides all the explanation and examples needed. This structure should be used consistently by keeping the general provisions which apply at all times in front, followed by the ones relating to a specific circumstance, and then cross referencing between the two. The enhanced visibility of differentiation of an Introduction, Requirements, Examples and Application Material (similar to the division used in the ISA clarity project) could inspire the restructuring of the Code.
14. Input in favor of the status quo includes the following:
- The Code is based on the fundamental principles and the decision-making framework. Paragraph 100.4 specifies that when the word 'shall' is used a requirement is imposed. This, we think, is sufficient for a principles-based ethics code. Having the requirements and guidance together assists professional accountants in considering the threats, their significance and available / appropriate safeguards. The current approach allows for coherence between principles and explanation that assists in the Code's understandability and usability.
  - Auditing is complex and I do not believe simple prohibitions would be better.
15. An additional argument in favor of Visibility is that it would help translators identify the requirements.
16. Given the support for increasing Visibility, the WG anticipates the next stage is to explore possible ways to increase Visibility. A number of suggestions were provided by research respondents in this regard.

#### *Plain English*

17. Some users, especially those whose first language is not English, have reported difficulty in understanding the Code, especially the long and complex sentences. NSS and IFAC member bodies that translate the Code have commented similarly. Input from stakeholders included the following:
- The Code's definition of certain words to mean something other than their standard definition is confusing and leads to misinterpretation of the Code. Examples are "audit," defined to include "review," and "firm" defined to include "network firm."
  - There are several instances of quasi-definitions in the code ('for the purposes of this section, x equals y'). Each use of a defined term should be highlighted, as in practice users dive in and out of the code rather than reading it from cover to cover.

- Sentences are long and unwieldy, not helped by use of phrases such as ‘the professional accountant in public practice’.
  - Certainly agree that it should be written in plain English and if it is going to be done, do it properly rather than tinkering. Need short sentences and removal of obscure nuances.
  - The complexity of the drafting makes it difficult to understand. The long, qualified sentences are tortuous, and must be able to be drafted more simply. Part of it is trying to sound legalistic, when what is needed is simple language. It is a hybrid between principles and incredibly detailed stuff.
  - The style of wording reflects the hybrid, quasi legalistic style.
  - The Code is considered to be too long which adds to its complexity and lack of understanding by different stakeholders. The provisions could benefit from a more ‘plain English’ writing style, such as choosing simpler words without needless jargon.
  - Translation would be facilitated if the Code’s use of terminology would take into account the fundamental different approach to some legal concepts by common law and civil law jurisdictions.
18. A small number of stakeholders reported that the length and complexity of sentences do not appear to have caused undue difficulty and that auditing is complex and requires complex language.
  19. The WG believes that a style guide/style conventions/drafting conventions for use on future projects may help reduce the complexity of language in future changes to the Code. In this regard, at the June 2013 IESBA meeting, the WG presented a style guide included in the AICPA’s April 2013 exposure draft, *Proposed Revised AICPA Code of Professional Conduct*, as an example of style conventions that could be adopted. The Board considered the AICPA example to be too general for the Board’s purposes and asked the WG to explore redrafting some sections of the Code in plain English and to progress drafting conventions.
  20. The WG notes that there are multiple ways to write in plain English. The WG has obtained four different examples of plain English as illustrations (see Agenda Item 4-B), to contrast a journalistic plain English style applied to Section 220 (Conflicts of Interest) and paragraphs 290.102-290.117 (Financial Interests) with a quasi-legal plain English style.
  21. The WG has not yet explored drafting conventions pending Board consideration of the plain English examples.
  22. The Code was described by one respondent as having a “quasi-legal” style. Writing the Code in plain English may assist users in understanding complex issues, assist users who translate the Code and establish good writing disciplines for the Board. Using a legal drafter may make the Code more acceptable to those adopting it for legal purposes. The WG has not yet considered the relative merits of a plain English Code and of a legal drafting style.
  23. The WG has also not yet discussed the issues raised in the examples of plain English but believes that they highlight the sorts of issues that the Board would need to address if a plain English editor were used. Using paragraph 220.1 of the Conflicts of Interest section as an example, matters that might need to be addressed include:

- The level of colloquialism that is acceptable, e.g., the use of “you” as opposed to “the professional accountant in public practice,” and “may be faced with” changed to “you could run into.”
  - Changing the meaning inadvertently, e.g., changing “a particular matter” to “a particular professional service”, and moving the final sentence (cross referencing assurance) to be the second sentence makes the section appear to be about auditing.
24. If the Board were to explore Plain English editing further, the WG believes that it would be helpful to develop a style guide in advance of the editing process. This would define the boundaries within which the plain English editor would work and any bright lines the Board wishes to be observed. The WG will consider the Board’s current drafting conventions and the Plain English illustrations and any other appropriate sources in developing a style guide.
25. Establishing a plain English guide for use by the Board on future projects would require limited resources and it would have limited impact as it would only influence future projects. However, redrafting the Code in plain English would be a more significant task. If plain English were used on future projects, the Code would end up containing Sections written in very different styles. The WG plans to consider whether a change to plain English should be undertaken incrementally.

#### *Definitions*

26. It is understood that users are not always aware when words and phrases in the Code are definitions and when reference is needed to the list of definitions to fully understand the provision in the Code. This includes quasi-definitions when words or phrases are given different meanings from their normal use, e.g., “audit engagement” includes “review engagement,; and “firm” includes “network firm” in Section 290.
27. Users would be helped if there were a clearer indication of meaning when a key term is used. Examples identified by the WG include:
- In earlier versions of the Code, key terms were identified with an asterisk the first time they were used.
  - In Australian tax legislation, every defined term is asterisked.
  - Bolding, capitalization, and italics could also be used but have their limitations.
  - An electronic Code could link each defined term to its meaning.

#### *Moving Guidance Off-Code*

28. Guidance, including examples, could be removed from the Code and perhaps the rationale for the requirement could be added to the guidance. This would deal with pressure to add specific applications (e.g., broker-dealers). This would reduce the length of the Code and clarify what type of comment is where. The disadvantage of this option is that material outside the Code may be omitted or ignored.

#### *More Sub-Headings and Improved Contents List*

29. This could be achieved without difficulty. One respondent noted that there are inconsistencies and inaccuracies in the use of sub-headings in the Code.

### *Splitting Code into More Sections*

30. This would make sections smaller and more manageable. It would be relatively easy to do but the change would be disruptive to IFAC member bodies for little benefit, unless undertaken as part of a larger exercise.
31. Sections 290 and 291 on independence should be separated from the rest of the Code, which would reduce its overall length. These sections can be easily made stand-alone and read on their own, which may make the Code easier to digest for professional accountants who are not involved in assurance engagements. A separate independence section will emphasize that all assurance services are subject to the independence requirements, even if those are not statutory audits. This is especially important in light of the increase of external assurance services on non-financial information, such as sustainability reporting. A focus on independence may add to the reliability of these services by professional accountants and increase the confidence of the regulators and the public.
32. It may be more effective to put the emphasis on a separate independence section, as opposed to the Code as a whole in progressing adoption and implementation.
33. A merger of chapter 290 and 291 would reduce the length of the text and prevent repetition.

### *Presenting Sections as Separate Standards*

34. The Code could be subdivided into a number of individual standards, like auditing and accounting standards. This would simplify the process when changes are made to parts of the Code and facilitate users' finding relevant sections/standards. However, the change would be disruptive to IFAC member bodies unless undertaken as part of a larger exercise. The WG noted that an argument against this option is that it disrupts the logical flow of the Code.
35. Present sections 290 and 291 as International Standards on Independence (with appropriate material from Part A included), differentiating clearly between the requirements for public interest entities (PIEs) and non-PIEs.
36. Rename the Code the 'Ethics and Independence Code' which emphasizes the importance of both components.

### *Making Sections/Subsections More Self-Contained*

37. Either as well as, or instead of presenting sections as separate standards, sections could be redrafted to be more self-contained. This would reduce the need for cross referencing between sections and moving between sections but as a consequence individual sections would be more repetitive and consequently longer.

### *Packaging the Code for Different Users*

38. Either as part of, or instead of, an electronic Code the sections of the Code can be structured to present only the relevant sections to users. For example, professional accountants in business (PAIBs) would be presented with Parts A and C; auditors would be presented with the entire Code, etc. This would make the Code more relevant to users and reduce the apparent length by omitting content irrelevant to their needs. Also, if guidance were omitted from the Independence sections, thus leaving only requirements and prohibitions, this may facilitate the adoption of the Code directly

into local legislation. The WG could consider whether it is feasible to separate Independence from the conceptual framework. The WG could also consider whether the threats and safeguards approach could be removed from Independence or whether it would be acceptable to regulators were the threats and safeguards approach to remain within the Independence sections.

39. If Independence were separated from the rest of the Code, it may be necessary to have a more explicit link between the Independence material and the fundamental principles, in particular objectivity.
40. Input in favor of repackaging the Code includes the following:
- Some regulators are only responsible for independence.
  - Some IFAC member bodies mainly or only have practitioners or PAIBs.
  - Sections 290 and 291 might be easier to understand if presented as standards (with appropriate material from Part A included).
  - Differentiation of the material between professional accountants in public practice and PAIBs would be helpful.
  - It might help perception issues on the bulk of the code.
  - The Code is very unbalanced. Independence should be separated out as a stand-alone document, maybe even a separate standard.
  - Most accountants would only be interested in one of these sections, and it would be helpful for it to be self-contained.
  - There is certainly a case for at least separating out Section 290 more. Its rule-based approach is ‘infecting’ the rest of the code. Separation will allow different styles to be used more.
41. Input not in favor of repackaging the Code includes the following:
- Electronic media can achieve this through filtering.
  - Not keen on having Section 290 split into PIE and non-PIE as it implies different principles.
  - Audit professionals are accustomed to the current structure of the Code.
  - This could generate ambiguities and confusions.
  - There would still need to be an overall notion of a code of ethics, containing all the statements, or there may be a completeness issue.
  - IESBA Code is already separated into sections applicable to the type of professional accountant
42. Splitting Section 290 into PIE and non-PIE sections may assist users in finding the sections relevant to their needs. However, this option would require a significant rewrite of the Code and could impact the meaning.

### *Moving Independence into Separate Part/Area*

43. Sections 290 and 291 are disproportionately larger than any other sections and they are more rules-based than the rest of the Code which is more principles-based.
44. The main advantages of moving Independence into a separate area would be to make the Code more manageable and accessible to the profession outside audit, e.g., PAIBs, consultants, small- and medium-sized entity (SME) business advisers, tax specialists etc. It would be relatively easy to do but the benefits may not be significant and the change would be disruptive to IFAC member bodies for little benefit, unless undertaken as part of a larger exercise.

### **Options That Would Not Change the Code**

#### *Off-Code Guidance*

45. It has been reported that users in less developed economies, small and medium practices (SMPs) and PAIBs may have limited access to, or limited resources for, training that would help enhance understanding of the Code. Examples of guidance outside the Code could include case studies, flow charts, decision trees and bases for conclusions. These would assist users in consistent interpretation and understanding of the Code. However, it would be necessary to avoid accidentally extending a “quasi-Code” into new requirements. There also may be a risk that users confuse the boundary between the Code and off-Code guidance.

#### *Complementary Materials*

46. Complementary materials have the potential to aid understanding of the Code. A Basis for Conclusions that explains the rationale behind sections of the Code is an example. This is contrasted with the current Bases for Conclusions which mainly address the rationale for significant changes from the Exposure Draft. Reference was made by two respondents to an ethics toolkit which was produced by International Accounting Education Standards Board (IAESB) in the past but is no longer available. Other examples include:
  - Frequently-asked questions FAQs
  - Case studies
  - Overview charts
  - A paper which summarizes an issue – e.g. fee dependency – and the rationale for the related Code provisions, might be useful.
  - A basis for conclusions for everything
  - Charts and decision trees for complex requirements
  - Interpretations on how to apply the Code
  - Checklists
47. Input in favor of complementary materials include the following:
  - A principles-based approach needs explanations.
  - Complementary materials aid the understanding of the Code by users.

- The Code alone is insufficient.
  - “IESBA is too precious about the integrity of the code and it can produce more guidance outside of the code, which should concentrate on principles and policies.”
  - They would help trainers.
48. The WG notes that in addition to IESBA delivery media, the IESBA could consider linking the Code to ethics content developed by others, for example, case studies prepared by member bodies. This matter, which was not explicitly covered in the research, could rapidly increase the content available to users. However, the WG does recognize that this would blur the distinction between IESBA content produced under due process and “unofficial” content.
49. Complementary material could be commissioned by the IESBA. The WG could explore the idea of publishing case studies, or checklists on the kinds of matters an auditor might consider in accepting an engagement to audit a PIE or another entity. This could then be a form of checklist with a series of questions that the auditor would need to consider. Each question might have some thought prompts. For example, for a SMP accepting an audit engagement for a non-PIE client, possible questions might be: “have you discussed the potential appointment with all other partners and confirmed that there is no family or financial relationship with any partner that would prevent acceptance?” “Have you communicated with the incumbent auditor to determine if there is any professional reason why you should not accept the appointment?” “Do we have experience in this business sector?” “Is the sector high-profile/risky?”

*Other Forms of Delivery Media, Such as Short Summaries of the Code*

50. The high level summary of prohibitions applicable to audits of PIEs issued by IESBA in 2012<sup>3</sup> is an example of other forms of delivery media. A number of other examples were suggested by respondents, including: diagrams, flow charts, decision trees, case studies, training materials etc.
51. The main advantages of other forms of delivery media are that they:
- Do not disrupt the Code.
  - Can be useful aide-memoires for users.
  - Can be useful to promote the Code to regulators.
  - Can be useful tools for training materials for educators.
  - May make the Code accessible to those who otherwise would not read it.
52. The main disadvantage of other forms of delivery media is the risk of its being used instead of the Code, potentially resulting in important details in the full Code being missed.
53. Two of the research participants noted that a summary would be unnecessary if the Code is restructured.

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<sup>3</sup> See <http://www.ifac.org/sites/default/files/publications/files/IESBA%20High%20Level%20Summary%20of%20Prohibitions-Updated.pdf>

*Electronic Code*

54. The Code currently is made available in a PDF version in addition to the printed handbook. Further developments can be envisaged, including hyperlinks, interactive search facilities (“other users who searched this also searched this,” etc.), and a mobile app. If the Board chose to prioritize an electronic Code, it would need to decide if at some point the paper or electronic version would be the “official” version. An electronic version, if it superseded the paper version as the official version, may address structural issues identified elsewhere in this paper, for example improving navigation. If the IESBA were to allow IFAC member bodies to adopt the electronic version, it may facilitate direct adoption of the Code.
55. Adding hyperlinks is not expected to be resource intensive and some IFAC member bodies have already done this. If more fundamental changes were planned it would be necessary to give further consideration to how users would use the electronic version. Large firms generally have incorporated the Code into their in-house policies and procedures. An electronic Code in English is unlikely to benefit those countries where the Code has to be translated. The WG also understands that in some countries, internet access is not sufficiently reliable to allow users to rely on an electronic version. Research participants were not opposed to an electronic Code but did not consider it to be a high priority, compared with other proposals to enhance the usability of the Code.
56. Input in favor of an electronic Code includes the following:
- Firms use video clips to illustrate ethical behavior with links to key points. It is worth exploring graphic illustration. This would help SMPs.
  - An electronic Code would be a significant enhancement and would improve usability.
57. Input not in favor of an electronic Code includes the following:
- It is not a high priority. The first priority is to enhance the clarity of the Code.
  - Not an issue for members as we do it for them.
  - An IESBA version would only benefit English-speaking countries at least initially.
  - Electronic would be nice to have but does not address any of the underlying problems with the Code.
  - Nice idea but translation would cause a big workload.
  - The firms will always do their own version for their own use.
  - People will generally need to follow their own local/firm code and most of these will have at least some slight variation, so the IESBA website Code will be a backstop reference.
  - Good idea, but need case studies and implementation materials much more.
  - Some evidence as to how the Code is currently used would assist the IESBA to identify impediments and appropriate developments. If most members use the local version of the IESBA Code, then the proposed developments should occur at the national rather than the international level.
58. Preliminary research has been undertaken by IFAC Communications staff into examples of an electronic Code that may be possible. These range in order of sophistication from hyperlinking of

the existing PDF version to an HTML version with hyperlinks (already done by a number of IFAC member bodies), to a mobile-optimized version, to an app. However the WG notes that an Electronic Code is not a high priority for many respondents.

## **Prescribing Specific Responsibility of Individuals in Section 290**

### *The Issue*

59. Section 290 does not, in most cases, prescribe the responsibility of individuals within the firm related to independence because responsibility may differ depending on the size, structure and organization of a firm. Examples include the following:

- A firm shall identify and evaluate threats to independence. (290.10)
- In evaluating the significance of a threat, qualitative as well as quantitative factors shall be taken into account. (290.11)

60. Paragraph 290.12 of the Code states the following:

This section does not, in most cases, prescribe the specific responsibility of individuals within the firm for actions related to independence because responsibility may differ depending on the size, structure and organization of a firm. The firm is required by International Standards on Quality Control (ISQCs) to establish policies and procedures designed to provide it with reasonable assurance that independence is maintained when required by relevant ethical requirements. In addition, International Standards on Auditing (ISAs) require the engagement partner to form a conclusion on compliance with the independence requirements that apply to the engagement.

61. The question is whether Section 290 is sufficiently precise to enable professional accountants to comply with, and regulators to enforce, the responsibility of individuals within the firm for actions related to independence.

62. The WG is considering whether to propose that 290.12 be modified to state that the firm should establish policies and procedures that clarify responsibilities.

63. The WG notes that there are 85 shall statements in Section 290 that use the passive voice and 42 that refer to “a firm” (see table in “Analysis of Responsibility in Section 290” section below).

### *Reasons for Greater Precision in Defining Responsibility*

64. The IESBA understands from comment letters on its past exposure drafts that the Responsibility matter poses challenges in terms of the Code's enforcement and therefore its wider adoption.

65. IOSCO noted, in its input to the IESBA's strategy survey in 2013, its concern regarding securities regulators' inability to enforce the Code due to, among other matters, the lack of precision of various requirements throughout the Code and the flexibility for auditors to exercise significant judgment in complying with the requirements. IOSCO suggested that the Board should review the requirements within the Code to enhance the Code's enforceability by securities regulators.

66. Reasons presented as part of the research for greater precision in defining responsibility included the following:

- The local ethics standards are very precise about responsibility: what is the responsibility of the engagement partner, and what of the 'ethics partner' (a partner which all but smallest

firms must appoint), etc. They feel this is important, to ensure consistency and to reinforce the need for tone at the top. The ethics partner needs to be fairly senior in the hierarchy, to ensure genuine compliance, not just with the letter of the law.

- From an enforcement perspective, it helps to be able to hold individuals to account.
- Responsibility is not clear for enforcement because “the firm” has multiple meanings. An experienced regulator can understand the meaning but the ambiguity can lead to different interpretations.
- Three regulators stated that from an audit regulator's perspective, the enforceability of the provisions of the Code should be the primary priority.
- Specifying responsibility for action helps accountability.
- Make sure that each provision clearly indicates who is exactly addressed by the requirement therein. For instance, it is currently not always clear if a requirement relates to individual professional accountants, firms or network firms.

#### *Reasons for Not, in Most Cases, Prescribing Responsibility*

67. Reasons presented from the research for not defining responsibility included:

- The engagement partner is automatically held responsible.
- The local standards apply to members, students and firms. Responsibility does not present undue difficulty. The regulator occasionally speaks with a firm before determining who is responsible.
- This is not regarded as problematical in practice, as ISQC 1<sup>4</sup> provides for these responsibilities at firm level. ISA 220<sup>5</sup> requires the engagement partner to form a conclusion on compliance with independence requirements, and ISRE 2400<sup>6</sup> requires the practitioner to comply with relevant ethical requirements, including those pertaining to independence.
- This is not an issue since our disciplinary process is very much focused on the individual.
- No difficulty with this because responsibility matters are dealt with in various provisions of the law.
- When the Code is not specific enough, the law (specifically the Act on Auditors) stipulates further requirements.
- The independent standard setter's independence standards do specify those responsible, but we never found there to be a problem before these applied, or in instances where Section 290 can be used. In terms of whether the code should be more specific, views vary. Some consider firms are best placed to do this. Others believe there would be merit in doing so: a need to set responsibility appears to be a common theme.

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<sup>4</sup> International Standard on Quality Control (ISQC) 1 , *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>5</sup> International Standard on Auditing (ISA) 220 , *Quality Control for an Audit of Financial Statements*

<sup>6</sup> International Standard on Review Engagements (ISRE) 2400 , *Engagements to Review Historical Financial Statements*

- It has not really caused any difficulties with inspections, as the regulator can usually bring responsibility back to the correct person. Legislation finds a person to deal with.
  - Allocation of responsibilities has not been a problem hitherto. The Ethics committee chair (a volunteer) thinks that it is right for the code to specify that firms should have arrangements to allocate responsibilities but would be inappropriate for it to try and do so.
  - The firm’s manual does allocate responsibilities as part of its procedures. However, this is not within the policies. An international code should not allocate responsibilities. It should focus on policies and be wary of getting into too many procedures.
  - If allocation were the only issue in the way of regulators agreeing to adopt IESBA, it would be worth it.
  - There are some passives in the code where it seems obvious that IESBA did have someone in mind: these could be rooted out.
  - It may be that the Board could give some off-code guidance on how to determine responsibilities.
  - SMPs tend not to raise this as an issue causing any specific difficulties/challenges. SMPs, especially sole practitioners and/or those operating out of one office, are likely to be easier to determine who is responsible and validate that they are fulfilling their responsibility. ISQC 1 and ISA 220 already prescribe certain responsibilities at firm level and others at engagement partner level.
68. Although supportive of changing the structure of the Code, two respondents opposed clarifying responsibility:
- We believe this project is important if the IESBA has been advised by regulators that a significant impediment to accepting the Code is its structure. If greater acceptance of the Code could be achieved by restructuring the Code, this is something we recommend the Board consider. The project description also refers to clarifying who is responsible for meeting them. We do not believe it is important to specify an individual who is responsible, as was discussed at length and rejected in connection with Independence Task Force 1. Thus, we would rate this very unimportant.
69. The need for greater prescription may be a lack of familiarity with principles-based standards. A suggestion was made at the May 2013 IESBA-NSS meeting that regulators from a “principles-based” culture have less difficulty in enforcing responsibility provisions than those from a “rules-based” culture. However this is not universally true. An example was noted by the WG of a regulator from a principles-based culture that would prefer greater prescription.
70. Comments were made by research participants from jurisdictions which have not adopted the Code to explain how they allocate responsibility:
- The standards make members responsible for non-members, so it is always possible to identify someone who is responsible.
  - Under the local Code, we may hold “member” responsible for action/lack of action of others in certain cases. Generally, engagement partner would have responsibility but depends on circumstances.

*Analysis of Responsibility in Section 290.*

71. The WG has analyzed the use of the passive voice and “shall” statements in Section 290 to understand the extent that responsibility is not specifically identified:

<b>Responsibility</b>	<b># “shall” occurrences?</b>	<b>Comment</b>
Passive Voice, where the responsibility is not defined and would require guidance from the IESBA.	69	It is not possible to infer who is responsible for undertaking the “shall” statement. Most examples are: <ul style="list-style-type: none"> <li>• “An evaluation shall be made of the significance of any threats”; or</li> <li>• “safeguards shall be applied to eliminate the threat”</li> </ul>
Passive Voice, where change to the active voice would not change the meaning.	16	It is possible to infer who is responsible for undertaking the “shall” statement. The passive voice appears to be unnecessary.
Firm	42	Clearly states that the “Firm” is responsible. Ambiguity may arise as firm includes network firm (paragraph 290.3). It may be unclear which individual is responsible in a complex firm.
Professional Accountant	5	Although professional accountant includes a firm (Definitions), four instances relate to documenting and one is a principle. Appears to be clear.
Audit Team	5	The definition of “Audit Team” is sufficiently broad that it would be difficult to identify who within the team is responsible; although the paragraphs in 290 are clear in identifying it is the audit team that is responsible. “Team” implies a group who work together although the definition includes a chain of command up to Chief Executive.
Lists of persons	8	Responsibility is clear
The individual	4	Responsibility is clear
Miscellaneous	5	Responsibility is clear
<b>TOTAL</b>	<b>154</b>	