NRF

The Nordic Federation of Public Accountants

Nordiska Revisorsförbundet – Nordisk Revisorforbund – Norræna Endurskoðendasambandið – Pohjoismainen Tilintarkastajaliitto

Secretariat: Box 6417, SE–113 82 Stockholm, Sweden; Tel. +46 (0)8 506 138 20; Fax +46 (0)8 506 112 45; E-mail info@nrfaccount.se

Senior Technical Manager
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

30 April 2007

E-mail: Edcomments@ifac.org

Dear Colleagues,

IFAC Code of Ethics Section 290, *Independence – Audit and Review Engagements* and Section 291, *Independence – Other Assurance Engagements*

The Nordic Federation of Public Accountants (NRF) consists of five IFAC Member Bodies, DnR (Norway), FAR SRS (Sweden), FLE (Iceland), FSR (Denmark) and KHT/CGR (Finland) with another two IFAC Member Bodies, FRR (Denmark) and HTM/GRM (Finland) as Observer Bodies.

NRF is pleased to submit the following comments to The International Ethics Standards Board for Accountants (IESBA)'s Exposure Draft of the *Code of Ethics Section 290, Independence – Audit and Review Engagements* and *Section 291, Independence – Other Assurance Engagements.*

NRF's comments do not substitute but supplement comments by individual NRF Member or Observer Bodies.

General position
On an overall level NRF supports the proposed ED which means an improvement to the existing code.

NRF supports the comments on the ED that have been submitted by FEE.

NRF would especially like to emphasise FEE's observation that the introduction of yet more absolute prohibitions into section 290 moves that section further away from the principles based approach.

Like FEE, NRF has noted with satisfaction that IESBA has refrained from providing a detailed definition of what sort of entities should be regarded as an ESPI. NRF believes that the definition should be narrow and that only entities of real significant public interest shall be considered as such.

In addition we would like to submit the following remarks.

Proposed rotation of key audit partners
The definition in the ED of a *key audit partner* is quite wide, since it includes the engagement partner, the individual responsible for the engagement quality control review, and other audit partners on the engagement team such as lead partners on significant subsidiaries or divisions who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the audit firm will express an opinion.

In the EC Directive on Statutory Audits of Annual Accounts and Consolidated Accounts (2006/43/EC) the definition of *key audit partner* only makes it mandatory to include (apart from the statutory auditor who signs the report, in the unlikely event that he or she is not one of the following):

- the statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm
- in the case of a group audit, the statutory auditor(s) designated by the audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries.

NRF agrees that a legal standard that has been established in such an important capital market as the European Union is a natural benchmark that has to be considered in the efforts to achieve global harmonisation. But NRF fails to see the wisdom in introducing even more restrictive standards without very good reasons.

Introducing rotation rules for other partners than those primarily responsible for carrying out the statutory audit will create practical problems of a nature that, if the rules are applied indiscriminately, will lead to a reduction in audit quality. This is true particularly, but not exclusively, in small countries with a limited number of professionals. The rotation of other partners, such as those engaged in quality review and in divisions, may visibly improve the appearance of independence, but if the effect is to remove from the global team an industry specialist or another expert who contributes strongly to a high audit quality, the potential negative impact on audit quality is significant and may increase the risk of audit failure. These risks are not limited to small or medium-sized audit practices, although the lack of specialist resources in such practices will make them particularly serious.

NRF would also like to point out that excessive rotation could have a negative impact on the professional career opportunities for auditors. When an auditor has been lead partner on a significant subsidiary or division he or she will not be able to advance and become key audit partner for the parent company and the group due to the rotation requirement. Especially if the auditor is specialised and no other similar engagements are available, this will mean an involuntary interruption in his or her career. This will inevitably affect the image of a career as an auditor, and thus the profession's ability to attract the right people.

Instead of simply extending and applying the rotation rule NRF would support an extension of the "threats and safeguards" approach, where audit partners of subsidiaries and divisions and partners engaged in quality review of the work performed are subject to stringent and documented safeguard procedures.

If you would like further clarification of the points raised in this letter, we shall be happy to discuss them in more detail with you.

Yours sincerely,

THE NORDIC FEDERATION OF PUBLIC ACCOUNTANTS

Lars Träff
President of NRF

Björn Markland
Secretary of NRF