SECTION 290 OF THE CODE OF ETHICS: INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS

SECTION 291 OF THE CODE OF ETHICS: INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

Proposed changes to the Code of Ethics for Professional Accountants issued for comment by the International Ethics Standards Board for Accountants of the International Federation of Accountants

Comments from ACCA
April 2007

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Executive Summary

ACCA welcomes the opportunity to comment on the proposed revised section 290 *Independence – Audit and Review Engagements* (proposed section 290) and the propose new section 291 *Independence – Other Assurance Engagements* (proposed section 291) of the *Code of Ethics for Professional Accountants* (the Code) issued for comment by the International Ethics Standards Board for accountants (IESBA) of the International Federation of Accountants (IFAC).

We fully support the IESBA's primary objective of the strengthening of the independence provisions of the Code is to enhance both the perceived and actual objectivity of those performing assurance engagements, thereby enhancing audit quality, as set out in the Explanatory Memorandum.

We are nevertheless concerned that:

- proposed section 290 has moved to become a legalistic, rules-based standard, which can only encourage creative, loophole-based avoidance. We believe the robustness of the principles-based approach is being undermined by the proliferation of detailed underlying rules

- the IESBA does not appear to have acknowledged the public interest differences across the range of review engagements when determining the scope of the proposed section 290

- the change in the definition of independence, if substantive, will be inconsistent with the Code, which is written on the basis that the knowledge of the 'reasonable and informed third party' includes knowledge of all relevant safeguards

- that the elimination of the flexibility for small firms to apply alternative safeguards to partner rotation will mean firms now effectively need to have at least four suitably skilled audit partners in order to undertake audits of ESPIs. This could have a significant effect

on the availability of auditors in a number of jurisdictions around the world, particularly where the client is operating in a specialised or remote area, could result in a significant problem with choice of auditor or extra cost

- the additional restriction concerning the provision of non-audit services, in particular taxation services, do not appear to consider the significance of the threats. Indeed, from the perspective of the users of such services, the consequence of these restrictions will be that the cost of audit and other professional services will be unnecessarily higher

- the IESBA's primary objective of the strengthening of the independence provisions of the Code is to enhance both the perceived and actual objectivity of those performing assurance engagements, thereby enhancing audit quality will not be achieved. The independence provisions of the Code do not strike an appropriate balance between strengthening public perception of the integrity and objectivity of an audit, while still enabling auditors to carry out their work efficiently and not inhibiting commercial activity i.e. they need to be proportionate. As currently drafted, section 290 simply burdens audit firms, in particular small audit firms, and their clients.

General Comments

In this section of our comments we address overall issues.

Our further comments are divided into sections dealing with matters identified in the Explanatory Memorandum forming part of the exposure draft as follows:

- significant proposals
- effective date
- those on which specific comment is sought
- those described as 'other', which are in relation to small entities, developing nations and translations.

In accordance with the request in the Explanatory Memorandum forming part of the exposure draft, we have not commented on matters identified by the IESBA as to be addressed in subsequent revisions of the Code.

We support the IESBA's aim to clarify and augment the existing section 290 to provide auditors with clearer guidance in addressing independence issues.

The issues raised by the Enron and WorldCom collapses are many and varied. Poor governance, market conditions and greed may be cited as causes, as can aggressive earnings management in the face of the inability to meet revenue forecasts and declining stock prices. The key message, however, from the Enron and WorldCom debacles is the danger of prescriptive rules-based standards which encourage creative, loophole-based avoidance. The concepts of 'true and fair' and 'substance over form' are clearly what is needed, alongside a return to the traditional values of 'professional scepticism'.

For the principles-based approach to be robust, it should not be undermined by the proliferation of detailed underlying rules. We accept that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that examples of how these should be applied are necessary. However, the examples should not become prescriptive rules; the aim should be to deter auditors from 'tick-box' compliance with the form of the requirement rather than the substance.

We fully agree with the IESBA's objectives set out in the Explanatory Memorandum but we do not believe these are achieved. The ethical standards should seek to strike an appropriate balance between strengthening public perception of the integrity of an audit, while still enabling auditors to carry out their work efficiently and not inhibiting commercial activity i.e. they need to be proportionate.

In attempting to benchmark the existing section 290 to a number of jurisdictions to identify matters to be reconsidered has inevitably led to additional restrictions. This exercise does not of itself, provide evidence of a need for these restrictions in an international code. A restriction may be considered necessary in one jurisdiction in light of particular set of circumstances; it does not necessarily follow that a similar restriction is appropriate in other jurisdictions.

We do not believe, therefore, that the introducing 'blanket' prohibitions, even in circumstances where acceptable safeguards may be available, is justified either on grounds of enhancing independence or evidence of a need to restrict further the ability of businesses to have access to and obtain their professional service needs cost effectively.

The proposed standard should serve the needs and interests of both the general user and the financial markets. As such, there are a number of matters which need to be taken into account when proposing additional prohibitions, particularly for smaller entities. For example, cost and management time is often greater when non-assurance services are obtained from a provider other than the auditor. In addition, in audits of smaller entities, the additional information acquired when providing other

services enhances audit quality. As currently drafted, section 290 simply burdens audit firms, in particular small audit firms, and their clients.

We support the IESBA's commitment to international harmonisation. However, we are concerned that IESBA may be trying to achieve this objective by benchmarking the existing section 290 to the independence requirements in a number of jurisdictions. While benchmarking analyses are useful for comparing the requirements in different jurisdictions, the results which emerge from such analysis should be used as part of a wider evidence gathering exercise rather than being as a justification for adopting the most stringent prohibitions globally.

In our view additional prohibitions should only be introduced if it is clear that there are significant threats and that public confidence in audit and assurance engagements is adversely affected by activities carried out in line with existing requirements.

The confidence of investors and the public is of key importance for capital markets to operate effectively and efficiently. The interests of stakeholders, who rely on information in the public domain, must be protected. We believe that any system of regulation of the accounting and auditing profession must be transparent and proportionate, and must reflect global best practice.

ACCA as an international body is in a unique position to comment from a global perspective. We believe global problems need global solutions. To that end we believe there should be adherence to international standards. As such standards should promote global best practice and promote the necessary harmonisation of global markets.

Significant Proposals Identified in the Explanatory Memorandum

LANGUAGE AND DRAFTING

As mentioned above (see our comments under the heading General Comments), we welcome the IESBA's aim to make the language, in particular the specific restrictions, more direct and minimise repetition in order to clarify and augment the existing section 290 and thus provide auditors with clearer guidance in addressing independence issues. We have, nevertheless, also expressed our concern that proposed section 290 has moved the independence provisions of the Code too far towards being legalistic and rules-based.

While we are support the work undertaken to use more-direct language, IESBA needs to guard against taking this too far. Directness should not result in more rules, nor should it result in the user assuming that mere compliance with the specific example set out in the Code is sufficient.

We note that the IESBA is not seeking comments on the implications of the Clarity project at this time. We look forward to providing comment on that in relation to the IESBA's proposed strategic and operational plan.

SPLIT OF SECTION 290

We do not agree with the way section 290 has been split. We understand that the need to split the section arose as result of a request by regulators that independence provisions relating to audit be separate and hence clearly visible. The simple way to give effect to this would have been to divide the section into one dealing only with audit and one or more sections dealing with other assurance engagements.

We do not agree with the reasons offered by the IESBA for including review engagements in the proposed section 290.

The first reason advanced is that: 'most assurance engagements are either audit or review engagements'. The point at issue here is presumably the relative usefulness for review engagements of having the requirements separated from those in proposed section 291. The IESBA presents no research to support the view that the number of review engagements is of such significance that separate presentation (or at least combined with equivalent requirements for audit engagements) is necessary. Even if this were the case, we suggest that the conclusion drawn by the IESBA is wrong. The correct conclusion is that review engagements demand a separate section. It is only in the special case where the independence requirements for review engagements are the same as for audit engagements that the IESBA conclusion can arise, and that is a circular argument.

The second reason advanced is that 'the subject matter and subject matter information of the engagement is the same as in an audit engagement'. The discussion of this mentions that there is a different level of assurance obtained (by the practitioner) but clearly this in not considered as a factor that is relevant to independence.

The focus on subject matter and subject matter information is not valid as, if it were, it would also apply to compilation engagements. This may seem a difficult statement to make as there are no independence requirements for such engagements at present[1] but it is clear that a compilation engagement may have identical subject matter and subject matter information to both an audit and a review. It could be suggested that the fault in the argument can be ignored if compilation reports can be ignored, perhaps because the practitioner obtains no assurance[2]. This would be a difficult suggestion to sustain however as the IESBA has dismissed the importance of the level of assurance.

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[1] Other than to included a statement in the accountant's report when the accountant is not independent (paragraph 5 International Standard on Related Services 4410 *Engagements to Compile Financial Statements*).

[2] The user of the practitioner's report may derive assurance even though the practitioner reports no assurance. That assurance is derived from factors such as the knowledge that a professional accountant has undertaken the compilation.

We now advance two arguments to support our recommendation below that proposed section 290 should apply only to audit engagements. These are related, because both are based on the contention that it is not correct to ignore factors that are highly relevant to the level of independence that ought to be achieved for an engagement. The arguments deal with the level of assurance that the user derives from the assurance engagement and with the level of public interest in the assurance engagement.

The level of assurance that the user derives from the assurance engagement depends to a large degree on the assurance obtained and reported by the practitioner. Other factors influencing the user's assurance level include knowledge of the practitioner's competence and independence. It has long been recognised that competence and independence are of less significance to the user when the level of assurance and their interest in the subject matter information are reduced. The competence of auditors is often subject to law and regulation; accounts compilation is generally unregulated. Major institutional investors regard audit quality and auditor independence of paramount importance to capital markets; statutory review engagements may be carried out by persons not qualified as accountants.

The level of assurance is itself important because for a given subject matter, the user derives higher value from higher assurance (though usually at higher cost). Standards should not impose disproportionate costs on engagements to provide lower assurance as the benefit to users (and society) are lower. This has been recognised by other standard setting Boards of IFAC, for example by issuing different standards for audits and for reviews. We recommend, therefore, that the level of assurance be considered when determining the scope of proposed section 290. Because reviews provide lower assurance than audits they should not be subject to the same independence provisions. There is a need to consider the public interest argument below, however, in relation to reviews of entities of significant public interest (ESPIs).

The user's interest in the subject matter is already incorporated into the extant Code through recognition of different levels of public interest (with

more stringent requirements for listed entities). We argue that the public interest differences across the range of review engagements should also be acknowledged by the IESBA when determining the scope of proposed section 290.

Review engagements are proposed to be defined, in essence, as engagements 'conducted in accordance with International Standards on Review Engagements or equivalent'. The International Standards on Review Engagements are currently divided into those applicable practitioners who are also the auditors of an entity and practitioners who are not. The former would have to apply proposed section 290 (if it were to apply only for audit engagements) as required by paragraph 291.1 of proposed section 291. For practitioners who are not also auditors of an entity we see no reason to force the adoption of proposed section 290 unless it is clearly in the public interest on a global basis. It could only be argued that that is the case in relation to ESPIs.

We recommend, therefore, that (using the conventions adopted in the exposure draft):

- proposed section 290 applies only to audit engagements

- proposed section 291 requires that section 290 applies if the assurance engagement is in respect of an audit client, or if the assurance engagement is a review engagement of an ESPI.

In relation to the proposed split of extant section 290, we are not convinced by the arguments advanced in the Explanatory Memorandum that any consideration has been given to different ways to divide the material, whether into two sections or more. We would have liked there to have been a wider consultation on the form of the independence sections of the Code, as at this stage, we do not believe that the consultation will elicit sufficient responses to do other than pursue a two-section format.

There is a growth in providing assurance on sustainability reports issued by major global corporations. These are often assured by reference to International Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial*

Information. There is a strong public interest argument in support of applying proposed section 290 to such engagements. This may, however, be countered by an argument on cost/benefit.

The application of the proposed sections to small engagements, particularly by small practitioners could have been addressed through the provision of a section or sections applicable to those circumstances. Typically, such circumstances involve considerable differences from larger engagements in the degree of public interest and in relation to the threats encountered, their significance and the availability and relative effectiveness of safeguards. For example, the paragraphs dealing with network firms could be eliminated from such a section.

In view of these examples and others that might arise from further consultation, we recommend addressing the wider issues of the format of the Code in a subsequent consultation (perhaps in conjunction with considering the implications for the Code of the new drafting conventions adopted under the IAASB Clarity Project).

RESTRICTED USE

The key requirement for any restricted use engagement where different independence provisions have been applied is that the intended users are aware of and agree to the terms applied. While this is clearly stated, it does not specify that the report should contain this information. In our view, paragraph 290.501 should specify that the terms be made clear in the restricted use report.

DEFINITIONS

Engagement team

We support the IESBA's intentions concerning the revision of the definition of engagement team in regard to experts. However, we believe the revised definition has unintended consequences in that experts involved in the engagement may unnecessarily be subject to the independence provisions. In our view, the definition needs to distinguish between individuals who

carry out audit and review engagements (including experts within the firm) and experts who are consulted. The auditor will need to evaluate the objectivity of experts engaged in the latter capacity but this would not require their compliance with the full requirements of section 290. In practice, when auditors approach experts, they themselves assess whether or not any conflicts of interest exist.

Key audit partner

The definition of key audit partner needs to be clarified to refer to group or consolidated accounts rather than financial statements on which the firm expresses an opinion. It is the relationship between the auditor and the client at the group level which is likely to give rise to the familiarity threat.

SECTION 290 INDEPENDENCE – AUDIT AND REVIEW ENGAGEMENTS

Network firms

We note that comments are not sought on the paragraphs dealing with network firms. These paragraphs provide an example of material that could be eliminated from a section if the independence section of the Code were to split in a different manner to that proposed (see our comments under the heading Split of section 290).

Entities of significant public interest

We agree with the extension of specific listed entity requirements to other entities of significant public interest (ESPIs). We also agree that it would be inappropriate for the IESBA to provide a detailed definition of what sort of entity should be regarded as an ESPI, to any greater extent than is included in the exposure draft.

We are nevertheless concerned about the extent to which related entities may be brought in for non-listed ESPIs. More consistency in the definition of ESPIs is required in order to minimise member body differences. Failing that, dealing with an ESPI that is based in one country with a subsidiary in

another country will be a challenge if it is not a ESPI in the parent country and vice versa.

Financial interests, Loans and guarantees, Close business relationships, and Family and personal relationships

We agree with the proposals under the above headings.

Employment with an audit client

Paragraph 290.135(a) should be clarified in that the 'cooling off' provisions are intended to apply to partners joining the client in a position to influence the accounting records or financial statements *at the group level*. Accordingly, paragraph 290.135(b) should be amended to clarify that the appointment as director and officer applies only to such positions within the parent company.

There is a similar potential confusion with the phrase 'financial statements on which the firm will express an opinion' as used in, for example, paragraph 290.131, which could be interpreted, in the case of ESPIs, to refer to the group level only or to the group and any affiliate levels. The intent should be clarified.

We are also concerned about the phrase '… is not considered unacceptable if…' at paragraph 290.137. This appears to be a carve-out from the normal requirement for assessing threats and safeguards, whereas it is a carve-out only from the absolute prohibition. Similarly, the phrase sits uneasily in a principles-based approach, which places the onus on the professional accountant to assess the threats and safeguards. The paragraph should be rephrased as a requirement to apply safeguards, including at least, those items specified.

Temporary staff assignments, Recent service with an audit client, and Serving as a director or officer of an audit client

We agree with the proposals under the above headings.

Association of senior personnel (including partner rotation)

We are concerned that the withdrawal of the exemption from rotation from the requirement for the engagement and review partners on the audits of ESPIs will mean firms now effectively need to have at least four suitably skilled audit partners in order to undertake such engagements. This could have a significant effect on the availability of auditors in a number of jurisdictions around the world, particularly where the client is operating in a specialised or remote area. This could result in a significant problem with choice of auditor or extra cost. We do not believe that the withdrawal of this exemption is justifiable in the public interest and that the IESBA should carry out research into its effects before removing the exemption.

We also believe that the impact of the withdrawal of the exemption is further exacerbated by the inclusion of key audit partners within the rotation requirements. As with the 'cooling off' provisions, in our view the rotation requirements should be applied only to partners *at the group level* and this should be clarified.

Provision of non-assurance services

Management functions

We agree with the IESBA that adding management threat as a sixth category of threat is not necessary as it is in effect a combination of the five existing categories of threat.

At paragraph 290.160, we would suggest the words 'a sufficient level of understanding of the service, and' be deleted. All that is necessary are the words '…an ability to evaluate …' as this would avoid the situation where the client needs to be an expert (say in tax), which is clearly not the intent.

Preparing accounting records and financial statements

We agree with the proposals under this heading.

Valuation services

We do not believe that there is any evidence to support a need for the tightening of the requirements for ESPIs such that material valuations are prohibited even if they are not subjective in nature. The self review threat arises as a result of the auditor having to audit his or her own work but if there is no significant element of judgement included in that work, the degree of threat is very much reduced. In our view, the IESBA should retain the requirement as set out in the existing section 290, which is in line with the position set out in the European Commission Recommendation on Statutory Auditor Independence.

Taxation services

We agree that the provision of taxation services by auditors, like any other non-audit service, could create threats to independence and these need to be assessed and necessary safeguards applied, or the service not provided. Accordingly, we welcome the revisions to the guidance concerning the provision of taxation services in Section 290. Indeed, the IOSCO Survey on Non-Audit Services[3] notes the need to consider threats while recognising that taxation services are, in many jurisdictions, seen as unique as a result of certain inherent safeguards.

However, we believe that the section proposed is in far greater detail than necessary and seems to support a presumption of threats, which cannot be mitigated by safeguards in many cases. We are concerned, therefore, that the additional restrictions do not appear to consider the significance of the threats.

The proposed changes introduce a number of absolute prohibitions which go beyond those applied in a number of other cases and for which no evidence has been produced that there is a public interest need. Indeed, from the perspective of the users of professional tax services, the inevitable additional costs of sourcing tax assistance and potential issues of

[3] A Survey on the Regulation of Non-Audit Services Provided by the Auditors to Audited Companies, IOSCO, January 2007

choice and audit quality indicate that these additional restrictions are likely to be against the public interest.

We believe that the introduction of such restrictions could adversely affect the quality of tax return preparation and tax calculations, especially for smaller listed entities. If the IESBA has evidence that prohibitions are needed, we suggest that these restrictions should, at most, apply to tax calculations which are material to the group financial statements of ESPIs and are subjective in nature.

- Preparation of tax calculations

  We question whether the prohibition at paragraph 290.178 concerning material tax calculations by auditors for their ESPI clients, irrespective of whether safeguards can be applied, is necessary or justifiable in the public interest. At the very least if a prohibition is to be applied, it should only be to material and subjective calculations as otherwise, the threat is less significant. The additional restriction does not consider the significance of the threat.

  In our view, the 'blanket' prohibition on material tax calculations for ESPI audit clients moves section 290 away from the threats and safeguards approach as there is no proper assessment of the significance of the threat. In the case of material tax calculations, the significance of the threat is greater where an auditor reviews his/her own subjective opinions than where the work has been of a mechanical/routine nature , i.e. where you are applying a tried and tested method.

  At paragraph 290.178, it is unclear what it meant by 'financial statements on which the firm will express an opinion'. We believe that the prohibition, to the extent that it stands, should apply only to the group financial statements.

- Tax planning and other tax advisory services

At paragraph 290.179, it would be useful to clarify that the intention is not to restrict the professional accountant from advising the client on new tax law or regulation but such services are mentioned as an example of a potential threat.

At paragraph 290.181, three possible safeguards are mentioned. In many countries small businesses source their tax assistance from small practitioners, many of them being sole practitioners. In the context of sole practitioners in particular, the only possible safeguard appears to be 'obtaining advice on the service from an external tax professional'. This is likely to add to the cost to the client. Indeed it might render the provision of tax services to audit and review clients unviable, presenting the client with the need to find another source, if available. It would be helpful to add additional examples, such as obtaining pre-clearance or advice from the tax authorities, where available, and extending periodic quality control reviews to tax services, as possible safeguards.

- Assistance in the resolution of tax disputes

Paragraphs 290.184 and 185 prohibit the audit firm from assisting the client in the resolution of a tax matter in certain circumstances. While threats should clearly be considered, the degree of threat will vary. The European Commission Recommendation on Statutory Auditor Independence notes (at section 7.2.5) 'Even when taking a relatively active role on behalf of the client, there can be other specific situations which are generally not seen to compromise a Statutory Auditor's independence. Such situations could include, the representation of an Audit Client before the court or the tax administration in a case of tax litigation. They could also include advising the client and defending a particular accounting treatment in a situation where a Member State's authority, securities regulator or review panel, or any other similar European or international body investigates the Audit Client's financial statements'. It is at the very least important to distinguish between merely representing a client position and the audit firm defending its own opinion, where it has already opined on a certain treatment (this is implied in the second bullet of paragraph 290.183 but '…on which the firm *will* express an

opinion' is not repeated in paragraph 290.184). In this latter case, we do not believe there is an advocacy threat to a future opinion and, therefore, there should be no prohibition.

Internal audit services

We agree with the proposals under this heading.

IT systems services

We question the basis on which the IESBA has decided to move the scope of IT systems services from 'design and implementation' to 'design or implementation'. The IESBA has not provided any evidence of a need to introduce the wholesale prohibition at paragraph 290.197. The safeguards discussed at paragraph 290.195 are, in our view, equally appropriate for ESPIs as threats will not always be of such significance that they cannot be reduced to an acceptable level.

Litigation support services and Legal services

We agree with the proposals under the above headings.

Recruiting senior management

It is unclear to us whether paragraph 290.206 is intended to apply to ESPIs as the second paragraph within 290.206 is not wholly consistent with paragraph 290.207, which clearly does apply to ESPIs.

In addition, the last paragraph within 290.206 is written in a 'permissive' style which sits uneasily within a principles-based code in that activities are permitted provided safeguards can be applied to address any threats, unless specifically prohibited. The paragraph could more helpfully be restated by giving examples of activities where there is likely to be little or no threat to independence.

Corporate finance services

The guidance on corporate finance services has been extended significantly by comparison to that in the existing section 290 but we do not believe it has added much useful discussion. The need for this additional wording should, therefore, be reviewed. In particular the phrase 'reasonable doubt as to the appropriateness of the accounting treatment' at paragraph 290.211(a) is unhelpful. It is a wholly reasonable safeguard to ensure that the auditor can accept any proposed accounting treatment but it needs to be clarified that management is responsible for the accounting treatment and the requirement is, therefore, to ensure, if material, that the proposed accounting treatment is acceptable under applicable GAAP before supplying the service.

Fees and compensation and evaluation policies

We support the inclusion of a section on compensation or remuneration and evaluation policies. This takes a sensible threats and safeguards approach to a potentially important issue.

Gifts and hospitality, and Actual or threatened litigation

We agree with the proposals under the above headings.

SECTION 291 INDEPENDENCE – OTHER ASSURANCE ENGAGEMENTS

We accept that it is necessary to continue to tie the discussion on assurance engagements in with the IAASB Assurance Framework. However, that discussion remains difficult to understand and apply in section 291. The Code should ideally be readable as a stand-alone document and be self-explanatory with relevant definitions or footnotes being imported from the framework.

EFFECTIVE DATE

The timetable is clearly ambitious as it needs to include time for translation, implementation and education. If the revision to sections 290

and 291 are not approved and issued within the timeframe anticipated, the IESBA will need to ensure that any subsequent effective date is moved sufficiently to accommodate such translation, implementation and education.

Also, we do not believe that six months is sufficient time to allow contractual obligations to be met; it should be at least twelve months.

Other Comments

INDEPENDENCE

We note a change in the definition (and at paragraph 290.7) of independence from that in the existing Code. We hope that this is a matter of tidying up wording; we would be very concerned if the removal of the reference to knowledge of all relevant information including safeguards applied, was intended to be a change of substance.

This is because the definition would then be inconsistent with the Code, which is written on the basis that the knowledge of the 'reasonable and informed third party' includes knowledge of all relevant safeguards, including those created by the profession, legislation or regulation.

By removing the reference to safeguards, the definition no longer makes this explicit and the revised definition is open to the interpretation, therefore, that such matters should be ignored. In this instance, the 'tidying up' is detrimental to clarity and we suggest that the extant definition be retained.

SECTION 290 AND 291 – OBJECTIVE AND STRUCTURE

The IFAC Code will be applied globally in a wide variety of circumstances. Accordingly, we believe it is vitally important that the purpose and context of the examples be stressed, as well as the link between independence and the principle of objectivity. Therefore, we propose that paragraph 290.3 be moved to the beginning of section 290 and that paragraphs 290.8 and 290.100 (neither of which mention principles) be expanded to remind the user of the key aspects of the conceptual framework approach and how the examples derive from them.

Similarly, in regard to section 291, paragraph 291.3 should be moved to the beginning of the section and paragraphs 291.8 and 291.100 expanded.

DOCUMENTATION

We agree with the enhanced discussion on this subject at paragraph 290.27. While documentation is not an indicator of independence, it is a key aspect for the credibility and effectiveness of the principles-based approach.

Requests for Specific Comments

Question 1: Is it appropriate to extend all of the listed entity provisions to entities of significant public interest? If not why not and which specific provisions should not be extended? Is it appropriate that, depending on the facts and circumstances, regulated financial institutions would normally be entities of significant public interest and pension funds, government-agencies, government owned entities and not-for-profit entities may be entities of significant public interest?

Yes, though see our comments under the heading Significant Proposals Identified in the Explanatory Memorandum on whether all of those provisions should apply to ESPIs.

Question 2: Is it appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation? If such flexibility is appropriate, what alternative safeguards will eliminate the familiarity threat or reduce it to an acceptable level?

We do not believe it is appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. As mentioned earlier (see our comments under the heading Association of senior personnel (including partner rotation)), we believe this move could have a significant effect on the availability of auditors in a number of jurisdictions around the world, particularly where the client is operating in a specialised or remote area. This could result in a significant problem with choice of auditor or extra cost. It is unclear to us that it can be shown that this is justifiable in the public interest and we believe the IESBA should carry out research into the effects before removing the exemption.

Question 3: Is the revised guidance related to the provision of non-audit services appropriate?

While we welcome additional guidance related to the provision of non-audit services, as mentioned earlier (see our comments under the heading Provision of non-assurance services), we are concerned that the additional restrictions do not appear to consider the significance of the threats. For example, the prohibition on material tax calculations for ESPIs seems to be moving away from the threats and safeguards approach, without a proper assessment of the significance of the threat. In the case of material tax calculations, the significance of the threat is greater where an auditor reviews his/her own subjective opinions than where the work has been of mechanical or routine in nature.

Again as mentioned earlier, we do not believe that the introducing 'blanket' prohibitions, even in circumstances where acceptable safeguards may be available, is justified either on grounds of enhancing independence or evidence of a need to restrict further the ability of businesses to have access to and obtain their professional service needs cost effectively.

Question 4: The primary objective of the strengthening of the independence provisions of the Code is to enhance both the perceived and actual objectivity of those performing assurance engagements, thereby enhancing audit quality. Implementation of the new provisions will likely entail some additional costs to stakeholders which are particularly difficult to measure in the context of a global standard. The IESBA is, however, of the view that the benefits of the proposals are proportionate to the costs and therefore the proposals strike the appropriate balance between the differing perspectives of stakeholders. Do you agree?

No (see our comments under 'General Comments' and 'Language and clarity'). As mentioned earlier, we fully agree with the IESBA's primary objective set out in the Explanatory Memorandum but we do not believe this has been achieved. The independence provisions of the Code should seek to strike an appropriate balance between strengthening public perception of the integrity and objectivity of an audit, while still enabling auditors to carry out their work efficiently and not inhibiting commercial activity i.e. they need to be proportionate. As currently drafted, section 290 simply burdens audit firms, in particular small audit firms, and their

clients. We, therefore, do not believe that they serve the public interest and do not protect the public.

Comments on Other Matters

SPECIAL CONSIDERATIONS ON APPLICATION IN AUDIT OF SMALL ENTITIES

We do not believe audit of small entities have been adequately dealt with. For the independence provisions to be useful, they need to be user-friendly and easy to apply in practice. The IESBA needs to think 'small first'; an approach which ACCA wholeheartedly supports.

We believe the proposed standard will have a particularly damaging impact on small businesses (both audit firms and clients). Any system of regulation of the auditing profession must be proportionate. The need for auditors to be independent needs to be balanced with the needs of the client.

Many businesses rely on their accountants as a 'one-stop' source of advice. As a result, the proposed standard will unnecessarily prevent clients from using a known and trusted adviser who knows their business needs. The consequence of these restrictions will be that the cost of audit and other professional services will be unnecessarily higher for small entities.

A particular safeguard may provide substantial benefit at a relatively modest cost when applied to listed entities but the converse will be true when the same safeguard is applied to owner-managed entities. It make no sense, therefore, to impose standards which are designed for listed and other public interest entities on smaller companies.

We believe a fuller analysis of the threats and the adequacy of the safeguards is required, taking into account the public interest. The IESBA has not provided any market-based factual evidence or a regulatory impact assessment to support its proposals. We believe the IESBA should carry out research into the effects of the proposed changes before embarking on them.

DEVELOPING NATIONS

The comments noted in relation to small entities above also apply to developing nations especially as in many countries there is no audit exemption so all entities, irrespective of size, are required to be audited. In our view section 290 disregards the basic principle that regulation should be proportionate and will damage smaller businesses that make up the bulk of many economies.

In our view, the proposed standards simply burden audit firms and in particular small audit firms. This in turn impacts on their clients. The proposed standards will mean that clients will not receive pro-active advice, face additional costs, be unable to seek advice from a known and trusted advisor who understands their business and needs, and limit choice.

FILE REF: TECH-CDR-642 - ACCA RESPONSE TO REVISIONS TO SECTIONS 290 & 291 OF THE IFAC CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

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