



**IESBA Exposure Draft:
Proposed Revisions to Clarify the Applicability of Provisions
in Part C of the Extant Code to
Professional Accountants in Public Practice**

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INTRODUCTION

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

ICAS welcomes the opportunity to comment on the IESBA Exposure Draft: '*Proposed Revisions to Clarify the Applicability of Provisions in Part C of the Extant Code to Professional Accountants in Public Practice*'. The ICAS Ethics Board has considered the Exposure Draft and I am pleased to forward their comments.

Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

Key Points

We are supportive of the thrust of the IESBA proposals outlined in the above exposure draft. Our detailed comments on the specific questions posed in the exposure draft are included below.

Responses to the Specific Questions

1. Do respondents agree with:

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

If not, why not?

(a) The proposed applicability paragraphs

We welcome and support that IESBA is seeking to make it clearer how Part C 'Professional Accountants in Business' of the extant Code, relates to professional accountants in public practice. We agree that certain provisions contained in Part C might be relevant to professional accountants in public practice in certain situations. It is therefore very important, that such accountants are appropriately signposted to material in Part C of the Code. We note the options contained in paragraph 13 of the exposure draft. Whilst we believe that there is merit in both options (a) and (c) provided that appropriate signposting is included within the Code, we believe that IESBA's proposal that option '(c) Clarify that the requirements and application material in the Code should be applied in a holistic manner' is the most appropriate. Our rationale for supporting this approach is as per the content of paragraphs 15(a) and (c) of the Exposure Draft:

'(a) Is designed to ensure PAPPs' consideration of whether the provisions in Part C are applicable in the particular circumstances'; and

'(c) Would not create an unwieldy Code with duplicate requirements and application material relating to the same topic, thus detracting from one of the objectives of the Structure of the Code project.'

We are also supportive of IESBA's stance not to specifically identify the types of ethical issues in respect of which a professional accountant in public practice might consider referring to in Part C of the extant Code.

Definition of Professional Accountant in Public Practice

Per the definition included in the draft restructured Code (January 2017), this includes both the individual but also, the firm as shown below:

<i>Professional accountant in public practice</i>	<i>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.</i>
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It is our view that it should be clarified that it is only intended that the potential need to apply Part 2 of the Restructured Code is to actual persons who are professional accountants in public practice, as opposed to also including their respective firms.

Inclusion of Example

On balance, we agree that there appears merit in including an example of a situation where a public accountant in public practice might face an ethical dilemma that is not client-related.

Location of Text

We are supportive of including "*Applicability Paragraphs*" in both Part 1 and Part 3 of the restructured Code. There might even be merit in highlighting at Part 2 that its content may be applicable on occasion to professional accountants in public practice. Such matters would also need to be highlighted via the contents of the Code – possibly via a footnote reference but preferably more prominently.

We are supportive of including a statement in the Guide to the Code to the effect that: "*Professional accountants in public practice might also find Part C relevant to their particular circumstances*". We are also supportive of including a reference to the applicability paragraphs in the Guide to the Code. The diagram on page 5 of the Guide headed "*Overview of the Code*" should also highlight the potential need for professional accountants in practice to apply Section 200 of the restructured Code.

We are supportive of the proposed location of the text in paragraph R120.4. Our only concern is whether, if the Code was electronic, it would be possible to view the content of paragraph R120.3A1 without also viewing that of paragraph R120.4. If so, then the content of R120.3A1 would preferably need to refer the user to paragraph R120.4 as illustrated below by the proposed additional underlined text.

"Requirements and Application Material

R120.3 The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

- (a) Part 2 – Professional Accountants in Business;*
- (b) Part 3 – Professional Accountants in Public Practice; and*

(c) *International Independence Standards, as follows: (i) Part 4A – Independence for Audits and Reviews; and*

(ii) Part 4B – Independence for Other Assurance Engagements.

As per paragraph R120.4, the contents of Part 2 might be applicable to professional accountants in public practice.

R120.4 When facing an ethical issue, a professional accountant shall consider the context within which the issue has occurred. Where a professional accountant in public practice is performing professional activities pursuant to the accountant's employment or ownership relationship with the firm, there might be requirements and application material in Part 2 that are also applicable to those circumstances. If so, the professional accountant in public practice shall comply with the relevant provisions."

Professional accountants acting in a sub-contracted role

We noted the following in our response to the IESBA Exposure Draft: Responding to Non-Compliance with Laws and Regulations (dated 3 September 2015):

"Matters not Addressed

We are not convinced that the proposed changes cover situations where the professional accountant may be acting in a sub-contracted role, that is, where the employing organisation makes use of sub-contracted labour. Additionally, in terms of section 360, are non-executive directors (NEDs) within the scope of this guidance? NEDs, in the UK, are not normally classified as "employees". Is the intention to define "employing organisation" within the revised Code? Paragraph 36 of the Explanatory Memorandum states: "The revised proposals are intended to cover only situations where the PA has a direct (contractual) relationship with a client (such as through an audit or other assurance engagement or the provision of non-assurance services), or for PAIBs, where there is an employment relationship." We are not convinced that NEDs are captured, nor are professional accountants engaged on a sub-contract basis."

In terms of this current exposure draft, section R120.4 (and R 300.5) states the following: "*Where a professional accountant in public practice is performing professional activities pursuant to the accountant's employment or ownership relationship with the firm, there might be requirements and application material in Part 2 that are also applicable to those circumstances.*" Similar to the comment noted above in our response to the NOCLAR ED, we note that "employment or ownership" does not cover sub-contractors.

We note IESBA mentions "professional accountants who act ascontractors of organizations" in its Explanatory Memorandum (para 7) to the ED, however this category of professional accountant is not then reflected in the proposed wording for the Code.

Scope of Definition of Professional Accountant in Business

This is currently defined as follows: "A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner manager or volunteer."

On occasion, we have been asked whether this definition is all encompassing i.e. covers any individual who, although a professional accountant, is not working in that capacity. Whilst we believe that the definition is intended to be all encompassing, we believe that this could be made clearer e.g. would a professional accountant (someone who is a member of an IFAC Member body) working as a news presenter be captured? In-effect, does this definition apply to anyone who is a professional accountant (as per the definition, regardless of their actual role) but who is not a professional accountant in public practice?