



Improving the structure of the Code of Ethics for Professional Accountants

Submitted by AAT

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AAT welcomes the opportunity to comment on the proposed changes to the Code of Ethics for Professional Accountants. AAT has adopted the IESBA Code in full. AAT members have provided feedback on accessibility of language and design of the Code of Professional Ethics, which is based on the IESBA Code. AAT's Regulation and Compliance Board reflected on this feedback, and commenced a programme of development of the presentation of the Code in order to maximise understanding within the membership of the fundamental principles.

AAT has developed a website dedicated to providing support to members on understanding their ethical obligations- www.aatethics.org.uk. This development was underpinned by a desire to put in place resources to assist members to understand the requirements of the Code, recognising the challenges with accessibility of language which had been raised by both students and members. Details regarding feedback received and the developments made by AAT in order to address this feedback are incorporated into this response.

1. In response to question 1: *Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples, would be likely to achieve IESBA's objective of making the Code more understandable? If not, why not and what other approaches might be taken?*

1.1 Based on feedback received from a diverse range of stakeholders, including tutors, students, members, and regulatory committees, AAT sees the key challenges with regards to usability of the Code presently amongst members as:

1.1.1 The conflict between the principles based approach of the conceptual framework, in comparison to the specific guidance given in the examples. There is a risk that accountants to narrow their focus to the specific examples, and draw the conclusion that if an ethical dilemma is not similar to the example given, then their interpretation of the principle may be wrong, or worse, that the principle is not relevant to their circumstances¹.

1.1.2 The language used which can present a barrier to their understanding of the Code, and has resulted in a negative perception of ethics as being difficult and inaccessible, whereas, in reality, the conceptual framework model is facilitative and can be applied by the diverse range of members of the accountancy profession, from bookkeepers through to auditors, recognising that safeguards will exist at all levels.

1.1.3 The sheer length of the Code, which has had a deterrent effect to engaging individuals.

1.2 On this basis, AAT considers that raising the visibility of the requirements of the Code, clarifying responsibility for compliance, and revising the language of the Code will all support the IESBA in achieving its objective of making the Code more understandable.

2. In response to question 2: *Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be more likely to make the Code more capable of being adopted into laws and regulations, effectively implemented and consistently applied? If not, why not and what other approaches might be taken?*

2.1 In order to consider this, the IESBA might like to reflect on critical success factors which would indicate effective implementation and consistent application, as this

¹ An example of this is the reference to professional behaviour, where specific examples are given at section 150.2 around marketing and promotion of a firm, which is so narrow and specific compared to the broader principle, which is all encompassing.

would vary depending on the jurisdiction and the stakeholder group. The absence of such success indicators makes it challenging to give a view on whether this outcome would be achieved.

- 2.2 In AAT's view, the Code in its existing format is capable of being adopted into regulations, and AAT has done so through its own regulatory framework, whereby compliance with the Code of Professional Ethics underpins membership requirements and breaches can result in disciplinary action. However, AAT acknowledges that this would be dependent on the approach of any particular jurisdiction and/or body.
- 2.3 AAT considers that the proposed approach provides a focussed framework to facilitate understanding of the requirements of the Code, without the guidance distracting from the fundamental principles.

3. In response to question 3: *Do you have any suggestions as to the numbering and ordering of the content of the Code (including reversing the order of extant Part B and Part C), as set out in paragraph 20 of the Consultation Paper?*

- 3.1 AAT agrees that the numbering convention used is sensible, and the rationale behind reversing the order of extant parts B and C would be a useful amendment for those using the Code.
- 3.2 Subject to representations in paragraph 5 below, AAT suggests as an alternative that the requirements for members in business be divided from members in practice in their entirety, so depending on their work context; accountants could be directed to a specific publication, the contents of which would be entirely applicable to their particular circumstances. AAT accepts that there would be duplication between the two publications, but the standards would be wholly relevant to the audience. This also presents an opportunity to tailor the application and other explanatory material to focus more on the working environment of members in business compared to members in practice, whose environment is different.

4. In response to question 4: *Do you believe that issuing the provisions in the Code as separate standards or rebranding the Code, for example as International Standards on Ethics, would achieve benefits such as improving the visibility or enforceability of the Code?*

- 4.1 AAT would welcome a rebrand of the Code as International Standards on Ethics. This terminology would be consistent with reference to "professional standards". It is AAT's view that accountants give significant weight to compliance with standards, and this suggestion, if adopted, would improve both visibility and enforceability of the Code on that basis.
- 4.2 AAT agrees that this approach would be consistent with the approach taken by the other standard setting boards of IFAC. AAT's experience of working with the International Education Standards is that their targeted nature makes it easier to identify and navigate the requirements than might be the case in a document such as the Code, where accessibility has been raised as an issue.

5. In response to question 5: *Do you believe that the suggestions as to use of language, as reflected in the Illustrative Examples are helpful? If not, why not?*

- 5.1 AAT welcomes the proposed language as indicated in the illustrative examples as a significant improvement to accessibility. AAT considers that the Code could go further in simplifying the language used, whilst achieving the same outcome. AAT is firmly of the view that the IESBA should be focussed on the outcome, which is ethical

compliance. Simplifying the language will encourage ethical compliance as individuals increasingly understand what is expected of them.

6. In response to question 6: *Do you think it is necessary to clarify responsibility in the Code? If so, do you consider the illustrative approach to responsibility is an appropriate means to enhance usability and enforceability of the Code? If not, what other approach would you recommend?*
- 6.1 AAT is firmly of the view that ethical compliance should be the responsibility of all professional accountants within an organisation. There is a risk that if responsibility for compliance is put into the hands of the firm, this will present a defence to those acting unethically, who can hide behind the firm's responsibility.
- 6.2 The extant Code of Ethics for Professional Accountants refers to safeguards in the work environment, which AAT believes creates an implicit requirement that firms take a more holistic approach to their responsibilities. Ultimately, an individual (or individuals) will have to be accountable for failings in compliance at a firm, so AAT suggests that the Code is focussed on an individual's ethical compliance.
- 6.3 AAT prefers the approach adopted presently, with a cross reference to the International Standards on Quality Control (ISQC) 1, which already puts in place this obligation on firms, where it is necessary to do so. There is a risk that, if additional measures are introduced through the Code, then these could be nuanced, creating ambiguity or conflict between the requirements. If the IESBA does not consider the requirements detailed in ISQC 1 are sufficiently robust to ensure firms are accountable, then an alternative may be to make representations to the International Auditing and Assurance Standards Board (IAASB) to amend that particular standard.
- 6.4 AAT strongly supports IESBA's commitment to reducing use of the passive voice in order to improve clarity on responsibility, and believes that this will enhance enforceability.
7. In response to question 7: *Do you find the examples of responsible individuals illustrated in paragraph 33 useful?*
- 7.1 AAT does not find the examples of responsible individuals particularly useful, because, reflecting back to representations made in paragraph 7.1, all professional accountants must be responsible for acting ethically.
- 7.2 AAT appreciates that the IESBA is seeking to provide examples which would meet the needs of a diverse range of firms, but the unintended consequence of the catch-all "any other individual within the firm identified as a responsible individual in relation to a particular matter" in essence, means that everyone in the firm should be responsible for ethical compliance, negating, in AAT's view, the need for such a definition.
8. In response to question 8: *Do you have any comments on the suggestions for an electronic version of the Code, including which aspects might be particularly helpful in practice?*
- 8.1 AAT welcomes the introduction of an electronic version of the Code, having developed an interactive Code based on the IESBA Code for its members <http://www.aatethics.org.uk/code/> .
- 8.2 This was requested by members in order to facilitate targeted searching for relevant provisions, and has been well received.

8.3 AAT sees no distinction between an online version, and a pdf version, both of which should contain exactly the same provisions. To this extent, AAT publishes both as the official version.

8.4 An electronic version of the Code would bring to life the proposed restructure as proposed, providing a platform for the guidance to interactively support the requirements. This would be welcomed by professional accountants and provide demarcation lines as to where requirements stop and guidance starts.

9. In response to question 9: *Do you have any comments on the indicative timeline described in Section VIII of this Paper?*

9.1 AAT would invite the IESBA to be mindful of the costs of implementing changes to the Code in quick succession for all stakeholders reliant on ensuring ethical compliance. AAT notes that the IESBA is cognisant to the dependencies with other projects detailed within the work plan, and welcomes the opportunity to input further to the timetable for implementation.

10. In response to question 10: *Do you have any other comments on the matters set out in the Consultation Paper?*

10.1 AAT is more than happy to provide support to the IESBA in further developing the structure of the Code.