

July 13, 2018

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

Re: *Consultation Paper: Proposed Strategy and Work Plan, 2019 – 2023*

Dear Members of the International Ethics Standards Board for Accountants:

We appreciate the opportunity to provide comments on the Proposed Strategy and Work Plan, as described in the April 2018 Consultation Paper issued by the International Ethics Standards Board for Accountants ("IESBA" or "Board").

### **General Comments**

We are a strong supporter of the consistent adoption and implementation of a global set of robust independence standards by regulatory authorities, member bodies of the International Federation of Accountants (IFAC), and other users, because we believe this will best serve the public interest. We are also of the view that the independence and ethical standards contained in the Code of Ethics for Professional Accountants ("Code") represent robust and credible standards.

Consequently, we support the Board's vision for the Code to underpin trust in the profession and to enable the profession to act in the public interest. We also support the three strategic themes identified for the period 2019-2023.

The proliferation of a wide variety of different national and regional standards that diverge from one set of high quality global standards is not in the public interest. We believe, overall, that a more substantial share of the Board's activities should be directed at seeking wider understanding, adoption and effective implementation of the Board's standards, including through proactive engagement with all key stakeholders.

### **Specific Comments**

1. *Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?*

We support the application of the proposed criteria by the IESBA in order to determine its standard-setting or other actions and priorities. In Paragraph 29 of the Consultation Paper, IESBA recognizes the importance of evidence based standard-setting, and we suggest this should also be included in the proposed criteria for determining standard-setting actions – i.e. that such actions should be based "on appropriate research and evidence of issues to be addressed."

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2. Do you support the actions that have been identified with respect to each strategic theme? If not, please explain why.

**Strategic theme 1: Advancing the Code's Relevance and Impact**

We support the Board's objective of maintaining a global Code that is fit for purpose in the evolving environment and raising the bar on ethics. We believe that is best achieved by the Code remaining principles based while adding guidance and examples to aid in consistent implementation, as the principles in a well-designed and drafted Code should be able to be applied to many facts and scenarios. Accordingly, in order for the Code to remain relevant and impactful, we suggest the Board focus less on standard-setting, and more on finding other avenues for issuing timely, relevant and useful implementation guidance.

We provide some specific comments below.

*Trends and development in technology / Emerging or newer models of service delivery / Emerging issues*

For decades, technology has been changing the way commerce is conducted, which in turn changes the way in which professional accountants deliver services, and also the way professional accountants perform their day to day jobs. Likewise, the nature of service delivery models can be broad and very different around the world, and managed services and other types of outsourced services have been commonplace for many years.

We support the IESBA dedicating time to identifying and responding to emerging issues as an important input in maintaining the Code's relevance. However, we consider that any efforts of the IESBA to delve too broadly into technological or service delivery trends within a standard-setting process will not lead to timely or responsive output. For example, a standard on technology issued in 2022, according to the work plan, will most likely be out of date by that time.

Rather, we suggest that the Board consider focusing on identifying two or three emerging issues each year (such as some those already identified in the bullet points in paragraphs 42 and 46) and provide timely, relevant and practical guidance to professional accountants on the application of the fundamental principles of the Code to those particular facts and circumstances. This may ultimately lead to refreshing some of the provisions in the Code to include more modern examples of services, however we believe that the robust conceptual framework and principles of the Code are sufficient to apply to ever changing developments in technology and service delivery models. We also believe that in areas where the protection of the public interest becomes an important broad societal issue, governments usually move quickly to legislate in those areas (such as confidentiality principles being elevated into legislative privacy requirements in most jurisdictions around in the world).

We would also strongly support the Board forming advisory groups or panels, or using external experts and professional accountants with expertise (particularly in the area of technology) on taskforces, to make sure the Board fully understands the emerging issues they are considering and to ensure any guidance developed is robust and credible.

With respect to the some of the specific examples provided in paragraphs 42 and 46 we have the following comments:

- The IESBA might consider developing guidance for practitioners to assist in their understanding when providing professional services in relation to new or emerging technologies (such as cyber monitoring) that could be considered to be taking responsibility for maintaining or monitoring internal controls
- We do not consider that the fundamental principles would need to be reconsidered when reliance is placed on technology, as neither the technology itself, nor how or where it is used, should change a professional accountant's fundamental ethical obligations.
- The management responsibilities section of the Code provides sufficient guidance for concluding that audit clients should not be outsourcing the operations, maintenance nor monitoring of their controls (i.e., their management responsibilities) to the auditor.
- Outside of assurance engagements and non-assurance services provided to assurance clients, third parties and professional accountants should be able to provide outsourced services, and

professional accountants should be able to accept contracts for managed services provided the fundamental principles are complied with - including the fundamental principles of objectivity, and professional competence and due care - which imposes an obligation to provide only those services that the professional accountant is competent to perform.

With regard to the last bullet point in Paragraph 46, we consider the principles and concepts such as "office" and "engagement team" which are applied in an independence context are already practical enough to allow the accountant to apply these principles to different workforce models, however the Board could consider further guidance to assist practitioners in applying these concepts. For example, whether the provisions of the Code should apply to independent contractors or consultants if they undertake activities that are essentially the same as that performed by a member of the audit team.

#### *Further raising the bar on ethics*

We agree that the Code should set a high bar on ethical principles and values in order to underpin trust in the profession and to enable professional accountants to act in the public interest. However, the desire for the Code to be aspirational needs to be carefully balanced with the need for a fit for purpose Code which contains achievable standards that can be implemented in a globally consistent manner.

Below are our specific comments on the areas outlined in the Consultation Paper:

#### Tax planning and related services

Ethical issues related to tax planning by companies, and the provision of tax services by accountants, are impacted by complex and varying economic, legal and political environments around the world. Authorities around the world are also implementing varied legislative approaches to regulating tax avoidance, and it may lead to decreased global adoption of the Code if the IESBA were to add another layer of standards which may be consistent with laws in one jurisdiction and not another.

We consider the Board should take a very measured and cautious approach and perhaps defer action to learn from efforts already being undertaken around the world. This could include considering, for example, the ICAEW's Professional Conduct in Relation to Taxation and the OECD action plans (and related initiatives) to be implemented, and then allowing a review of the implementation and impact on professional accountants.

The guidance and principles in the Code (most particularly after the many changes made to Part C and the introduction of the NOCLAR provisions), as well as the duty to act in the public interest, provide ample coverage of this issue and easily guide an accountant on appropriate professional behavior. We therefore agree that the IESBA should focus at a principles level if it is to consider providing more guidance on how to apply the fundamental principles of ethical behavior in this area.

#### Definitions of Public Interest Entity and Listed Entity

We consider that the current definition of a public interest entity (PIE) remains appropriate. There is already a proliferation of different definitions of PIEs around the world, even within the European Union, which is appropriate because they reflect very specific and unique local regulations, corporate, and prudential frameworks.

For these reasons we support the current approach in the Code to include listed entities as PIEs, and defer to legislation or regulation where the jurisdiction decides an entity should be treated like a listed entity. We do not consider it is feasible for the IESBA to develop one definition that would be applicable or appropriate in every jurisdiction in the world, and this in turn would certainly risk undermining global adoption efforts. We suggest the Board consider instead what it might do to improve understanding and consistent application of the definition.

We also support the current definition of a listed entity which is broader than the definition in the European Union (which does not encompass secondary exchanges such as the AIM). We consider it is in the public interest for any entities whose shares, stock or debt are quoted or listed on any exchange to be considered a listed entity under the Code. The Board should however consider guidance explaining the differences as an understanding of the application of the definition is essential to consistent adoption.

### Materiality

We support any efforts of the IESBA to provide clarity to professional accountants on the application of the Code as this supports the strategic theme of increasing effective and consistent implementation of the Code. Auditors are trained to assess materiality and, while it is not a concept that we consider has needed further explanation, we can see that there may be merit to developing guidance on assessing materiality in areas other than the provision of non-assurance services. Rather than making further changes to the Code, it may be useful to provide a guidance framework, in conjunction with the IASB and IAASB, for the assessment of materiality in the Code, including both quantitative and qualitative considerations.

### Other matters

- *Communication with TCWG*

Communication with Those Charged with Governance (TCWG) is very important, but the Board should be careful not to overstep its remit and create corporate governance requirements as this is the responsibility of local laws and regulations. We consider that the current communication provisions and principles in both the Code and ISAs are appropriate and sufficient for setting out when and how an auditor is expected to communicate with TCWG. As noted, TCWG also have responsibilities for the oversight and independence of the auditor, but it is outside the remit of the Code to regulate corporate governance and governments need to lead the way in that respect. Most large companies have their own policies and procedures for communications with auditors from a good governance perspective and also because of local legislation or standards that may apply to TCWG. We consider there may be other ways to raise the profile of the roles and responsibilities of both auditors and TCWG, such as outreach and guidance on how auditors and audit committees can communicate and work together more effectively without increasing requirements in this area.

We are supportive of the Code either repeating the applicable elements of, or making reference to, ISA 260, which would increase the prominence of those independence related provisions. We would also be supportive of including additional application material in the Code, perhaps in paragraph 400.40, that suggests discussions that may be considered with TCWG to establish an understanding of the types of non-assurance services that may be provided to the company.

- *Documentation*

We consider that documentation is a quality control rather than an ethical issue, and therefore we do not support increasing documentation requirements in the Code. Additionally, documentation requirements can often be specified by laws and other standards. While documentation can certainly demonstrate the process that was undertaken to apply professional judgment and conclude on a matter, it is very important to be clear that a lack of documentation does not change those ethical outcomes or conclusions, nor create an ethical breach (which it would if it were to be elevated to a requirement as suggested). If it is determined that documentation requirements need reevaluation, then we consider that overarching documentation principles would be better addressed by current projects on ISQC1 and ISQC2.

### **Strategic theme 2: Deepening and Expanding the Code's Influence**

To promote the adoption of the Code we urge the Board to continue developing adoption and implementation materials. We also believe it is important for the IESBA to reach out more to regional and national authorities and IFAC member bodies as they are updating their independence standards. Providing a channel of communication may help all stakeholders better understand the Code's requirements, thereby facilitating wider adoption and greater convergence. As part of the adoption and implementation guidance mentioned above, these materials should include support for PAIBs, SMPs and other practitioners who serve clients that are not public interest entities.

We support the IESBA dedicating time to understanding the progress on global adoption and developing specific action plans based on root cause analysis of the circumstances preventing adoption. It would also provide the Board with input on possible areas where it should concentrate its standard-setting efforts. It would seem important to analyze the efforts of member bodies to implement the Code, including the restructured Code, before deciding on further projects or changes.

We also urge the IESBA to start undertaking post-implementation reviews which should, in our view, be prioritized. There is not only the restructured Code to be considered in due time, but the Board should also prioritize undertaking post-implementation reviews of previous significant changes to the Code (such as the breaches provisions, NOCLAR, long association and non-assurance services provisions). We would recommend that the Board use this information to determine whether additional guidance in particular areas is needed.

### **Strategic theme 3: Expanding the IESBA's Perspectives and Inputs**

We support the Board's proposed engagement and coordination activities with the groups noted in the proposed workplan.

*3. Recognizing that this proposed SWP is ambitious, do you believe the IESBA should accelerate or defer any particular work stream(s)? If so, please explain why.*

As we have previously commented, we believe that a substantial share of the Board's activities should be directed at seeking wider adoption and consistent implementation of the Code and increasing outreach with key stakeholders, particularly in respect of the long association provisions. This includes considering how it may improve understanding and gain acceptance of the restructured Code by focusing on outreach, implementation guidance and other educational materials.

The Board should look beyond its current focus on standard setting to provide both a period of stability for the Code and also ensure standard setting efforts are guided by the outcomes of post-implementation reviews and evidence that the current provisions are not effective. We also consider the IESBA should place more focus on delivering on existing pre-commitments.

It is important for the Board to be responsive and it should carefully consider how to balance output with timeliness. For example, we strongly support the Board's activities that are underway to develop the e-Code as this will be a very useful implementation tool for all users of the restructured Code and has the potential to have a significant impact on adoption efforts. It will also be particularly helpful if it contains links to other material such as each Basis for Conclusion and other publications to help further the understanding and effective implementation of the Code. We encourage the Board to try to accelerate the completion of this project from the two years that is currently projected in the proposed workplan.

In order for the Code to be widely accessible and visible, the IESBA should consider making it available on the website unfettered, in an unlocked pdf version and without the need to establish an account with IFAC. While we recognize such an account is free, it may still inhibit users from taking the added steps necessary to access the Code.

*4. Do you have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?*

We would urge the Board to direct a significant amount of its activities at seeking an understanding of the impacts of the long association provisions and planning for what its response will be if jurisdictions have not responded in a way the Board expects by the sunset of the jurisdictional provisions in 2023. The Board should also be considering how it will demonstrate improvements in audit quality resulting from the new provisions, or conversely identify if audit quality has been adversely affected, before determining what its response will be.

Overall, we continue to urge the Board to adhere to its objectives and make evidence-based decisions about new workstreams or topics of focus where there is a real problem to solve or a need to make real and impactful improvements. As noted above, we support the Board focusing on developing more implementation guidance and education materials and considering any future standard setting changes only once the Board has undertaken appropriate post-implementation reviews.

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We would be pleased to discuss our comments with members of the IESBA or its staff. If you wish to do so, please feel free to contact Wally Gregory, Senior Managing Director of Global Independence, via email (wgregory@deloitte.com) or at +1 203 761 3190.

Sincerely,

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu Limited".

Deloitte Touche Tohmatsu Limited