

4 February 2015

To:

Dr Thomadakis
Chair of the International Ethics Standards Board for Accountants

Re.: Comment letter from European audit regulators relating to the IESBA's Consultation Paper "*Improving the Structure of the Code of Ethics for Professional Accountants*"

Dear Dr Thomadakis,

1. A number of independent European audit regulators and/or oversight bodies ("audit regulators") appreciate the opportunity to comment on the IESBA's ("Board") Consultation Paper "*Improving the Structure of the Code of Ethics for Professional Accountants*" issued in November 2014. The content of this letter has been discussed and agreed upon by the audit regulators of the following countries:
 - Austrian Auditors Supervisory Authority – Austria
 - Commission for Public Oversight of Statutory Auditors – Bulgaria
 - Audit Public Oversight Council – Czech Republic
 - Danish Business Authority – Denmark
 - Auditors Activities Oversight Council – Estonia
 - Haut Conseil du Commissariat aux Comptes – France
 - Abschlussprüferaufsichtskommission – Germany
 - Auditors' Public Oversight Authority – Hungary
 - Irish Auditing and Accounting Supervisory Authority – Ireland
 - Authority of Audit and Accounting – Lithuania
 - Commission du Surveillance du Secteur Financier – Luxembourg
 - Netherlands Authority for the Financial Markets – The Netherlands
 - Finanstilsynet – Norway
 - Conselho Nacional de Supervisão de Auditoria – Portugal
 - Romanian Public Interest Oversight Body of Accounting Profession – Romania
 - Auditing Oversight Authority UDVA – Slovakia
 - Slovenian Agency for Public Oversight of Auditing – Slovenia
 - Instituto de Contabilidad y Auditoria de Cuentas – Spain
 - Federal Audit Oversight Authority FAOA – Switzerland
 - Supervisory Board of Public Accountants, Revisorsnämnden – Sweden
2. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above-mentioned audit regulators. Nevertheless, they are not intended to include all comments that might be provided by these individual regulators and their respective jurisdictions.

Introductory Comments

3. As audit regulators, our mandate encompasses the oversight of the independence of statutory auditors, based on the requirements applicable in our respective jurisdictions.
4. The IESBA Code of Ethics is used in several jurisdictions, but not in all of them. Even for those that do not use it, we clearly see an interest in enhancing its content, as it is used as a basis for some benchmarks at international level. Moreover, a number of audit firms and networks have voluntarily committed to complying with the IESBA Code.

5. We believe that the acceptance of the Code, internationally, should primarily be driven by the quality of its content and its ability to contribute to the public interest.

Comments

Scope of the project

6. We believe that the project to improve the structure of the Code is likely to be an opportunity to enhance its value and usability, insofar as it allows for an increase in the clarity of provisions. We support the prioritization of this topic.¹
7. Nevertheless, while we welcome enhancements to the structure of the Code, we do not believe that changes to the structure alone will lead to a sufficient improvement in the enforceability of the Code. We encourage the Board to pursue a holistic approach to align the timing of its review of the "safeguards" used in the Code with the revision of the Code's structure.² In particular, we believe that the review should include a focus on limiting exemptions to the general provisions set by the Code.³

Distinguishing requirements from guidance

8. We believe that separating the requirements from guidance in the Code would improve users' understanding of the Code and, as a result, the consistency of its application. Indeed, a section dedicated to requirements would allow users to identify more clearly the provisions which are compulsory, from those which have a different status and constitute additional guidance.
9. We note that this distinction would have the advantage of enhancing the consistency of the IESBA Code's layout.

Reorganization of the Code

10. We understand the potential advantages of repackaging the Code by placing each topic in a separate section, namely an improvement in the flexibility of the Code from a standard-setting and endorsement perspective by allowing for the individual modification of certain sections, rather than changing the whole Code. However, we draw the Board's attention to the consequences this repackaging might have from a user perspective. The Code as it is presently arranged includes all ethics issues in a single, linear layout. The proposed layout by sections may result in certain users not taking account of all the relevant provisions in the Code as they may not read further than the section they are referring to for any particular issue they are facing. Accordingly, we encourage the Board, should this repackaging be decided, to make sure that the link between the different sections and the fundamental ethical principles⁴ remains clear and visible.
11. Furthermore, we believe that a reorganization could be an opportunity to clarify in the Code which provisions apply to which situations, to which auditors, or to which type of audit engagements performed.

¹ See also the comment letter of European audit regulators dated 28 February 2014 §13

² §41 of the Consultation Paper

³ See also the comment letter of European audit regulators dated 28 February 2014 §14

⁴ §18 of the Consultation Paper

Use of language

12. We support the consideration the Board is giving to simplifying the language used in the Code. Simplifying sentences and the grammatical structure, and limiting the use of the passive voice would, according to us, improve users' understanding of the Code.
13. We encourage the IESBA to seek convergence with the IAASB in their use of language and terminology in their respective pronouncements.⁵

Identification of a firm's or individual professional accountant's responsibility

14. Prescribing the specific responsibility of individuals within the audit firm related to the application of the Code may facilitate compliance with its provisions and their enforcement. Several regulators have identified weaknesses in the current Code in this regard. In particular, we believe that reducing the number of requirements where the responsibility is unclear because of the use of the passive voice⁶ is likely to contribute to an improvement of the Code in this domain.
15. In clarifying the respective responsibilities, the Board should nevertheless recognize and address the variety of sizes, structures and organizations of the audit firms and practices.
16. We also believe that any changes to the Code should remain consistent with the IAASB pronouncements, such as ISQC 1 and the ISAs.

European context

17. The European Union audit regulators furthermore encourage the Board to continue to dedicate the time and resources necessary to those projects that define the level of requirements of the Code, in parallel to considering restructuring the Code. In particular, the European Union audit regulators invite the Board to ensure that any restructured text meets, at a minimum, the same requirements as those existing at European level.

We thank you for the opportunity to comment on the Consultation Paper. If you have any questions or would like to further discuss the matters noted in this letter, please contact Laurence Duflo at the Haut Conseil du Commissariat aux Comptes (+33 1 44 51 09 36).

Yours sincerely,

Audit regulators of:

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|------------------|-------------|-------------------|---------------|
| • Austria | • France | • Luxembourg | • Slovakia |
| • Bulgaria | • Germany | • The Netherlands | • Slovenia |
| • Czech Republic | • Hungary | • Norway | • Spain |
| • Denmark | • Ireland | • Portugal | • Sweden |
| • Estonia | • Lithuania | • Romania | • Switzerland |

⁵ §23 of the Consultation Paper, last bullet

⁶ §29 of the Consultation Paper, first bullet