

IESBA Technical Director
Mr. Ken Siong

By e-mail: kensiong@ethicsboard.org

13 January, 2015

Re: FSR – danske revisorer’s comments on the IESBA Consultation Paper, Improving the Structure of the Code of Ethics for Professional Accountants

Dear Mr. Siong,

The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Consultation Paper, Improving the Structure of the Code of Ethics for Professional Accountants.

In general, we have three major concerns:

- There is a risk that the Code would grow out of proportion by implementing the drafted structure.
- A “re-branding” of the Code with the objective of enforceability is not always the right approach, and especially in respect of the ethical requirements addressed in the fundamental principles. Such requirements are primarily addressing the professional’s behaviour and not mere “legalistic” compliance. For instance, one of the fundamental principles is “objectivity”, which is primarily a state of mind and thus not enforceable: it should therefore be left in a Code.

On the other hand, the concept of independence, and in particular the one of “independence in appearance” - set out in the current Code as a proxy for objectivity – could be enforceable to a certain extent, but does not guarantee objectivity as such. Having this in mind, it would be possible and perhaps advisable to have independence Standards; but a standard approach will never work for the fundamental principles.

- It would be advisable to make separate sections for such independence standards for audits of non-PIES and audits of PIES, using a building block approach. The section on audits of non-PIES could be short as the first layer in the section on audits of PIES.

We refer to our comments on the specific questions.

Kind Regards,

Lars Kiertzner
Chief Consultant, State Authorized Public Accountant
Secretary of the Ethics Committee, FSR - danske revisorer

FSR – danske revisorer
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. 9541
Konto nr. 2500102295

Specific comments

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?

In our opinion, the existing structure of the Code often makes it difficult to interpret where there are actually requirements.

The suggested structure would make the Code more understandable although many of the requirements would still need interpretation. This is a natural consequence of the chosen approach, the Conceptual Framework, which we strongly support. Many of the "requirements" of the section on fundamental principles merely state that an auditor shall consider some of the fundamental principles by threats and shall implement safeguards when necessary.

We would, therefore, prefer a more bold approach – to remove the sections on Independence from the Code and insert them into separate ethical standards for auditors. We also believe that such an approach may make it easier for such sections to be required by law or regulation in certain jurisdictions.

In our opinion, the proposed structure will imply a risk that the Code could grow out of proportion because of the many, and often repetitive, subsections on "Terms Used in this Section" and "Purposes of this section" with cross references to the conceptual framework, fundamental principles and generic threats. The IESBA has to address this risk. Furthermore, there should be serious considerations relating to the volume of the "Application and Other Material".

Finally, we find the conventions of coloring and underlining in the Paragraphs 000.001 and 000.002 disturbing for the reading of the Code and advice against it.

2. Do you believe that the approach outlined in this Consultation Paper, as reflected in the Illustrative Examples would be 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?

In progressing adoption and implementation, it may be more effective to put the emphasis on the separate independence sections, as opposed to the Code as a whole. That is, many European countries have already integrated ethical provisions, other than independence, in their national legal instruments.

Therefore, attempting to get all provisions, both ethical and independence ones, from the international Code adopted seems a remote objective, whereas independence is an area where progress can be made.

Considering the development in the EU, though, where the status of the Code has been steadily declining, we cannot be certain about this. It will be necessary to work hard on reestablishing the status of the Code so that it may again be applied as a serious contribution in itself, and when interpreting local rules, e.g. in the EU Regulation. This "clarity" project may help reinstating the Code in its prior position but there is no guarantee.

3. Do you have any comments on the 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?

We do not understand the reason for reversing Part B and Part C. Why does IESBA find it a good idea to place the specific section on Professional Accountants in Business first? Besides that, we have no comments.

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?

It is important to distinguish between principles of behaviour and enforceable standards.

Therefore, there may be a benefit in publishing separate independence standards for audit/review engagements and other assurance engagements, and thereby clearly removing such matters from the Code. Additionally this may make it easier for such standards to be incorporated in the law or referenced from the law in some jurisdictions.

The review of the Structure of the Code should not merely be a rebranding exercise. A code of ethics is not the same as a set of standards. The purpose is to change behaviour. If IESBA turns the ethical principles into a set of standards, there is a real risk that it will become a tick-the-box exercise.

In addition, a "re-branding" of the Code with the objective of enforceability is not the right approach, and especially in respect of the ethical requirements addressed in the fundamental principles. Such requirements are primarily addressing the professional's behaviour and not mere "legalistic" compliance.

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

No comments.

6. Do you consider it is necessary to clarify responsibility in the Code? If so, do you consider that the illustrative approach to responsibility is an appropriate means to enhance the usability and enforceability of the Code? If not, what other approach would you recommend?

Ideally, this should not be necessary since it should be repetitive in relation to responsibility regulation in ISQC 1 and the relevant engagement standards (ISA, ISRE, ISRS). Thus, for an informed reader it would have no effect on the usability and enforceability.

On the other hand, such a repetition would not harm, and it may perhaps be useful for a "stand alone reader" with no, or scarce, knowledge of quality control and engagement standards.

We would strongly caution IESBA not to depart in the Code from ISQC 1 requirements. The link that exists between the Code and ISQC 1 should not be cut and the wording used consistent with one another.

7. Do you find the examples of responsible individuals illustrated in paragraph 33 useful?

Cf. question 6.

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?

No doubt, this would be helpful in practice; but it will raise many practical questions that will need to be properly addressed, e.g. in relation to translations of the Code.

9. Do you have any comments on the indicative timeline described in Section VIII of this Paper?

We find the indicative timeline too ambitious by an effective date one year after the finalization in early 2017. It will be necessary to allow more time for translations and due processes in this context. Considering the very broad potential scope of changes, a longer period for adoption would be necessary. One year after the publication of the Code in English (as a minimum) would be a more acceptable timeline.

10. Do you have any other comments on the matters set out in the Consultation Paper?

No comments.