



## Response to the IESBA Consultation Paper: Proposed Strategy and Work Plan, 2014-2018

28 February 2014

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## INTRODUCTION

The ICAS Charter requires its committees 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 Consultation Paper: Proposed Strategy and Work Plan, 2014-2018. The ICAS Ethics Committee has considered the Consultation Paper and I am pleased to forward their comments.

Any enquiries should be addressed to James Barbour, Director, Technical Policy.

### Key Points

We are fully supportive of IESBA's belief that a single set of high-quality ethics standards can enhance the quality and consistency of services provided by Professional Accountants throughout the world, thereby contributing to public confidence in the accounting profession.

#### Strategic Themes

We are supportive of the strategic themes for 2014–2018 identified by the Board i.e.:

- (i) Maintaining a high-quality Code of Ethics for application by PAs globally;
- (ii) Promoting and facilitating the adoption and effective implementation of the Code;
- (iii) Evolving the Code for continued relevance in a changing global environment; and
- (iv) Increasing engagement and cooperation with key stakeholders.

In relation to (i), we would however emphasise that the key area of interest for certain stakeholders, particularly regulators, is "auditor independence". We are of the view that the best way forward for IESBA in this respect would be to remove the auditor independence requirements (section 290) from the Code and to establish separate ethical standards for auditors. Such a move, we believe, would help further establish the credibility of IESBA and provide a better platform for engaging with stakeholders. It would also help facilitate a better restructuring of the remainder of the Code.

In relation to (ii), we believe there is a need to better illustrate the principles of the Code in action by providing real-life examples, via case studies, to illustrate some of the key concepts of the Code in practice.

In relation to (iii) there is a need to ensure that the focus of the Board is on key issues to avoid the need to revise the Code on a frequent basis. This is why we fully support the content at paragraph 51 of the consultation paper:

*"A prerequisite to any consideration of a project in this area will be appropriate research to fully understand the issues. Accordingly, the Board will proceed cautiously before determining whether changes to the Code would be necessary."*

In this respect we also welcome the Board's acknowledgment of the importance of evidence-based standard setting. In particular, we welcome the fact that the Board foresees the nurturing and strengthening of its relationship with the academic community in the medium to longer-term but we would encourage the Board to make this a shorter-term priority. ICAS would also be happy to consider collaborating with IESBA on research in the field of ethics for professional accountants.

In relation to (iv), in the context of auditor independence we note that there is no mention of seeking to engage with groups of investors, as opposed to regulatory and standard setting bodies. We believe that the creation of separate ethics standards for auditors would help focus IESBA in this area and allow greater engagement with investors. Ultimately, for the audit of public interest entities, shareholders (investors) are the primary beneficiary of the auditor's report. We therefore believe that it is essential that they are engaged in this area. The evidence in the EU Audit Policy debate is that

investors do have strong views on certain matters related to “auditor independence” and we would encourage IESBA to undertake greater engagement with this key stakeholder group.

### **Specific Responses**

Our responses to the questions contained in the consultation document are as follows.

**(a) Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why.**

#### Work streams on issues of Auditor Independence: Long Association and Non-Assurance Services

We note that:

*“Over the past decade or so, the Board has focused largely on developing robust ethics standards for Professional Accountants in public practice, particularly independence standards for audits of financial statements and that this will continue to be a strategic focus for the Board, particularly in support of audit quality.”*

We also note that two of the new work streams for the period 2014-2018 relate to issues addressed in section 290 of the Code. Such is the importance placed on “auditor independence” by regulators, we believe there is an urgent need to remove the auditor independence material (section 290) from the Code and establish it within separate ethical standards for auditors. We believe this would be the best means of moving towards greater international harmonisation in this area. We are not opposed to work being undertaken on the specific auditor independence areas identified by IESBA, however, we believe that strategically there is a need to accept that this area requires its own separate standards to be introduced. We also believe that the creation of standards would also help with respect to enforcement.

We also note the difficulties that regulators and others have in relation to the acceptance of the “threats and safeguards” approach. We believe this is similar in nature to the audit expectations gap. IESBA, and indeed, the profession as a whole, must better communicate the advantages of this approach. Again, this is likely to require practical illustrations of this framework being used in a manner which best serves the public interest rather than being seen as a theoretical conceptual framework that is difficult for non-practitioners to understand.

We also note that the consultation document consistently refers to “standards” – we would use that as evidence that this is what is required in relation to auditor independence.

Personal responsibility is also a key issue – there is a strong argument for ensuring that this message is appropriately conveyed by IESBA. In relation to audit firms this makes a strong case for the identification of individuals within audit firms who are tasked with the responsibility of matters of an ethical nature i.e. ethics partners.

#### Review of Part C

We are supportive of a review of Part C of the Code but we would urge that changes to the Code should only be proposed if there is clear evidential need for such changes. We are concerned about the approach taken with regard to collective investment vehicles which we believe could lead towards a more rules-based approach.

#### Structure of the Code

We are supportive of IESBA’s reconsideration of the structure of the Code with a view to enhancing the Code’s usability and agree that this should be a high priority project. We believe that this process could be accelerated if a decision was made to remove the auditor independence requirements from the Code.

**(b) Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.**

We believe that the strategic themes identified for the period 2014–2018 are appropriate. However, we have included below specific comments for the Board’s consideration in relation to each of these themes.

(i) Maintaining a high-quality Code of Ethics for application by PAs globally

In relation to (i), we would however emphasise that the key area of interest for certain stakeholders, particularly regulators, is “auditor independence”. We are of the view that the best way forward for IESBA in this respect would be to remove the auditor independence requirements (section 290) from the Code and to establish separate ethical standards for auditors. Such a move, we believe, would help further establish the credibility of IESBA and provide a better platform for engaging with stakeholders. It would also help facilitate a better restructuring of the remainder of the Code.

(ii) Promoting and facilitating the adoption and effective implementation of the Code

In relation to (ii) we believe there is a need to better illustrate the principles of the Code in action by providing real-life examples, via case studies, to illustrate some of the key concepts of the Code in practice. We also note in Paragraph 13 that the Board recognises that the “adoption of the 2009 Code is uneven around the world.” A Code of Ethics is a difficult subject with which to engage people. We would suggest that going down the present “dry” route is not the best way to educate people about the Code. It would be better to focus on particular sections of the Code, and illustrate those sections with real-life scenarios, which professional accountants and others could relate to more readily.

(iii) Evolving the Code for continued relevance in a changing global environment

In relation to (iii) there is a need to ensure that the focus of the Board is on key issues to avoid the need to revise the Code on a frequent basis. This is why we fully support the content of paragraph 51 in this respect:

*“A prerequisite to any consideration of a project in this area will be appropriate research to fully understand the issues. Accordingly, the Board will proceed cautiously before determining whether changes to the Code would be necessary.”*

We welcome the Board’s acknowledgment of the importance of evidence-based standard setting and that the Board foresees the nurturing and strengthening of its relationship with the academic community in the medium to longer-term. However, we believe this should be a shorter-term goal to ensure that evidence is available to support any changes which are proposed to the Code. This would also help to ensure that the potential costs and benefits of any proposed changes to the Code are properly assessed. ICAS would also be happy to consider collaborating with IESBA on research in the field of ethics for professional accountants.

We are very supportive of a principles based Code and are concerned that merely reacting to topical issues such as “collective investment vehicles” will merely result in a longer more rules-based code which professional accountants will be less inclined to refer to. The fundamental principles should be capable of being applied in all circumstances. How these principles should be applied in particular instances might be better served out with the Code in a series of case studies.

(iv) Increasing engagement and cooperation with key stakeholders

In relation to (iv) we note the Board’s aim to have greater engagement and cooperation with key stakeholders as being a long-term strategic goal. Whilst fully supportive of the substance of this objective we believe that this should be very much a short-term strategic goal. If IESBA does not manage to properly engage with stakeholders then it has little hope of seeing greater acceptance of its standards.

Additionally, in the context of auditor independence, we note that there is no mention of seeking to engage with groups of investors as opposed to regulatory and standard setting bodies. We believe

that the creation of separate ethics standards for auditors would help provide a focal point for IESBA and allow greater engagement with investors. Ultimately, for the audit of public interest entities, shareholders (investors) are the primary beneficiary of the auditor's report. We therefore believe that it is essential that they are engaged in this area. The evidence in the EU Audit Policy debate is that investors do have strong views of certain matters related to "auditor independence" and we would encourage IESBA to undertake greater engagement with this key stakeholder group.

***(c) Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.***

(i) Maintaining a high-quality Code of Ethics for application by PAs globally

We would emphasise that rather than look at specific parts of section 290 of the Code, that ethical standards for auditors be created in the first instance to help promote adoption of these requirements. The work streams could still go ahead but with a view to being part of these new ethical standards, rather than revising section 290 of the Code.

In relation to the review of Part C of the Code, whilst we welcome this, we would caution that care has to be taken to ensure that the length of the Code is not unduly increased by the addition of significant amounts of unnecessary new guidance.

(ii) Promoting and facilitating the adoption and effective implementation of the Code

We are generally happy with the proposed work streams under this strategic theme. We would however emphasise the need for IESBA to engage with investors and not just regulatory stakeholders. The development of staff publications in support of adoption and effective implementation of the Code and to raise awareness and understanding of the Code among investors and other stakeholders is not sufficient in this respect.

We also refer to our comments above on the creation of ethical standards for auditors which we believe would help in improving the level of adoption and effective implementation of the auditor independence requirements of the Code.

There is also a need to focus more on personal responsibility – the auditor independence requirements should require the identification of persons within the firm who are tasked with the responsibility for ensuring the firm's adherence to the standards set.

In relation to staff publications, we would encourage the development of case study material to help illustrate how the Code should be applied in practice i.e. bring "ethics" to life.

(iii) Evolving the Code for continued relevance in a changing global environment

We are not supportive of the new work stream entitled "Collective Investment Vehicles". We believe that such an approach risks resulting in an ever lengthy code and a move towards a rules-based Code of Ethics which we would not support. Proper application of the fundamental principles should allow professional accountants to decide on the appropriate course of action in such circumstances.

(iv) Increasing engagement and cooperation with key stakeholders

As we note above, we believe this is crucial to seeking to get greater global acceptance of IESBA and its outputs and should therefore be a shorter-term objective of the Board.

***(d) Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated).***

***The Board invites comments on any other matters you believe would be important for it to consider in developing its SWP for 2014-2018.***

In terms of the structure of the Code we would refer you to our comments on the need to create separate ethics standards for auditors. This would then allow IESBA to better separately consider the content of the rest of the Code without being distracted by auditor independence issues.