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Our Ref: PSC/PSD/TS/CP01/2015

Monday, 2 February 2015

Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 5th Avenue, New York  
USA

Email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Ken,

***RE: Consultation Paper CP - Improving the Structure of the Code of Ethics for Professional Accountants***

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Consultation Paper - Improving the Structure of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA).

ICPAK support the Board's overall objective of improving the clarity of the Handbook of the Code of Ethics for Professional Accountants (Handbook). We concur that the Handbook would be improved by separating requirements from guidance, and by structuring standards into three components and the proposal to improve the readability of the Code by using simpler and shorter sentences; to simplify complex grammatical structures; and to increase the use of the active voice, thus improve the enforceability of the code.

We are however concerned that the projects main focus on clarifying the Code appears to be modelled to that adopted by the IAASB when it clarified the ISAs, and believe the approach may not be fit for purpose in the case of ethics. ISAs establish standards that are focussed on ensuring auditors obtain sufficient appropriate audit evidence and exercise professional scepticism. Accordingly, many of the requirements are process based. Ethics, on the contrary, is not about process but rather about good behaviours, driven by high personal values/morals and a mind-set focussed on serving the public interest. We believe that restructuring the Code using an ISA model, which emphasises hard requirements, may further encourage a rules based mind-set with an undue focus on the requirements rather than on the fundamental principles.

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We therefore urge IESBA to prioritise clarifying and emphasising the fundamental ethical principles and thereafter consider how the Code can be improved to seek to ensure that professional accountants have the right ethical 'mind-set' and that any structural changes to the Code should retain the conceptual framework approach.

If the Board decide to proceed with the proposals, our comments and detailed responses to the questions for respondents as set out in the consultation paper are detailed hereafter.

Should you require any additional information, please contact the undersigned on [icpak@icpak.com](mailto:icpak@icpak.com) or [nixon.omindi@icpak.com](mailto:nixon.omindi@icpak.com).

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Nixon Omindi', is positioned below the text 'Yours Sincerely,'.

Nixon Omindi  
**For Professional Standards Committee**

## Questions for Respondents

### Distinguishing Requirements from Guidance

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?

*We agree that it is necessary to distinguish 'requirements' more clearly from the guidance as the current form of presentation is not very user friendly. However, we believe that the key focus should be on emphasising the principles. It needs to be clear that the requirements are intended to help support compliance with the principles, but complying with the requirements should not be taken to mean necessarily that the principles have been complied with by default. Professional accountants need to evaluate circumstances with a principles based mind-set not a simple requirements/rules based mentality.*

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?

*The problem with rule based approach is the risk that ethical issues being evaluated on the basis of "is this specifically prohibited" rather than "is this appropriate". This in turn may undermine the principles based 'threats and safeguards' approach and may result in the professional accountant pursuing activities or relationships that reasonable and informed third parties would perceive as likely to compromise ethical principles. We therefore recommend that IESBA considers how the Code can be improved to seek to ensure that professional accountants have the right ethical 'mind-set' and we urge IESBA to prioritise clarifying and emphasising the fundamental ethical principles. It is particularly important that, in each of the sections that address threats to compliance with the principles, it is clear what the relevant principles are and that the overarching objective of the professional accountant should be to comply with those principles.*

*In the consultation paper, IESBA identifies that it is "mindful of the importance of the conceptual framework approach which addresses threats to compliance with the fundamental principles rather than simply complying with rules" and that "any changes to the structure of the Code should retain the conceptual framework approach".*

### Reorganization of the Code

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 welcome the indicative rearrangement of parts, especially the proposal to have independence requirements in parts IV and V.*

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?

*We do not believe that rebranding is necessary for the Code. We however do not have an issue with issuing the provisions of the Code as separate standards so as to align them with the approach used by other standards setters, we question the value that this separation will have on improving the transparency of changes made to sections of the Code and application thereto. Most issues in the code are linked and the proposal for standalone standards may pose significant challenges to the Board. See comment our comment to question 3 above.*

#### **Use of Language**

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

*We support the objective to enhance the readability and clarity of the Code and to consider how the use of language could be improved. However, we do not agree that it is appropriate for the term “audit” to be deemed to include “review engagement” for the purpose of particular sections where considerations are essentially the same (e.g. in relation to independence). This could be resolved other than by creating a duplicative new section only for review engagements; for example, by establishing upfront that the material in the common section is relevant to both audit and review engagements unless stated otherwise and then just using the term “engagement” rather than “audit”.*

#### **Identification of a Firm’s or Individual Professional Accountant’s Responsibility**

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?

*We agree that to achieve consistent application of the supporting requirements/provisions within the Code it is essential to be clear to whom they each apply. We agree that the code should be sufficiently flexible to accommodate different circumstances that firms need to take into account when prescribing the specific responsibility of individuals within the firm for actions related to independence, while taking cognisance of the provisions of ISQC1.*

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

*ICPAK holds the view that professional accountants –whether in business of public practice - understands all relevant standards (e.g., ethical standards, quality control standards, or accounting and auditing standards) and that cross referencing between the standards is*

*appropriate. We therefore find little value by introducing paragraph 33 as opposed to the current practice where the code is cross referenced to ISQC 1.*

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?

*We support efforts to enhance the electronic functionality of the Code.*

#### **Electronic Code**

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

*We support the indicative timeline described in the paper as we believe it will provide adequate time for professional accountants and their firms to align their internal policies and regulators to communicate the information for enforcement.*

#### **Other Comments**

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

*We have no other comment at the moment.*