4 February 2015

Mr Ken Siong
Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Ken,

IESBA Consultation Paper Improving the Structure of the Code of Ethics for Professional Accountants

Thank you for the opportunity to comment on the IESBA consultation paper seeking input on approaches that could be taken to improve the clarity of the IESBA Code of Ethics for Professional Accountants (the Code) by revising its structure. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment.

Overall, the NZAuASB is very supportive of the IESBA project to improve the structure of the Code. Improving the accessibility and usability of the Code will facilitate adoption and effective implementation of a global Code.

The NZAuASB has the following specific comments with regard to the Consultation paper:

The NZAuASB considers that it is important to be clear about the objective of improving the structure of the Code and who the Code is written for. The primary purpose of the Code is an important consideration when deciding on the most appropriate structure. The NZAuASB considers that the global Code’s primary audience should be for professional accountants, as a reference guide to assist professional accountants to work through ethical conflicts as they emerge. The NZAuASB is strongly in favour of creating a robust framework, built on the fundamental principles already established in the existing Code. The NZAuASB does not consider that the Code’s primary purpose should be to establish a rule book for regulators’ use to enforce or test compliance against. This should be avoided either as a deliberate outcome or an accidental one (as a by-product). The NZAuASB acknowledges that the IESBA is mindful of the importance of the conceptual framework approach and strongly encourages the IESBA to retain this approach.

The NZAuASB considers that the length of the existing Code is a barrier to accessing the relevant information that a professional accountant may be looking for. The NZAuASB is of the view that the longer the Code, the less accessible it becomes, which has a negative impact on audit quality. The longer the Code the more likely a point of detail could be hidden in the detail and inadvertently missed. The NZAuASB encourages the IESBA to explore options to shorten the Code by simplifying the drafting conventions used in the Code, and removing unnecessary repetition (an electronic Code may assist with this).

The NZAuASB’s strong preference is for a shorter Code that is structured around the fundamental principles. As outlined in the response to the specific questions in the attachment, the NZAuASB recommends that the IESBA:

- explores options to shorten the Code;
- structures the Code more clearly around the fundamental principles, and to follow the fundamental principles with more detailed requirements and application material that expand on specific examples that are commonly encountered in practice;
- separates more clearly the requirements from the guidance to assist both professional accountants to apply the Code and other stakeholders to assess performance against the rules and guidance;
• strives to use plain English to improve the readability of the document; and
• continues to pursue the development of an electronic Code as part of the restructuring exercise.

In formulating this response, the NZAuASB sought input from New Zealand constituents by way of an invitation to comment placed on the NZAuASB website with an accompanying notification sent to subscribers. The NZAuASB has also drawn from previous research conducted in New Zealand when previously developing a standalone New Zealand Code of Ethics (which has now been withdrawn in favour of the IESBA Code).

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,

Tony Dale
CEO – External Reporting Board
Email: tony.dale@xrb.govt.nz
Submission of the New Zealand Auditing and Assurance Standards Board

IESBA Consultation Paper Improving the Structure of the Code of Ethics for Professional Accountants

Schedule of Responses to the IESBA’s Specific Questions

General Provisions

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?

Response:

The NZAuASB considers that the IESBA is moving in the right direction but that the approach outlined in the consultation paper does not go far enough. The NZAuASB continues to have concerns about the accessibility and understandability of the Code structured in this manner, as explained below.

Requirements that address threats should be linked more clearly to the fundamental principles

The NZAuASB is supportive of the approach to structure each section to cover the purpose, then the requirements and then the application and explanatory material. The NZAuASB considers that the proposed Code structure could be further improved by continuing to use that approach, but to structure the requirements and application material more directly around the fundamental principles. For example, the illustrated examples do not clearly link all the specific requirements and examples of threats and guidance to a relevant fundamental principle. Rather, the requirements and guidance are split amongst Part 1, Part II, Part III and Part IV. This makes the Code more cumbersome and less coherent, with a risk that a user may not consider all relevant material in the Code.

In order to promote a robust principled approach, as opposed to a rules, tick box approach, the NZAuASB recommends structuring the Code around the fundamental principles. The NZAuASB considers that a “Code on a page”, a one page overview of the fundamental principles should be at the front of the Code. This would provide a reference point and could form the contents page of the Code, if structured around the fundamental principles. Each fundamental principle could then have its own “chapter” or “section” and the requirements and application material could be grouped and included under the most relevant fundamental principle, rather than by the group of professional accountant to which it applies. (In a paper Code, requirements that only applied to one group of professional accountant could be listed under a heading, but in an electronic Code, requirements that were not applicable could be hidden). Instead of numbering the sections, the sections should be called by the fundamental principle, which again reiterates the importance of the principles. (For example, instead of the independence sections being referred to as section 290, they would simply be referred to as the Independence section).

The NZAuASB notes that the IESBA has applied this principle to some extent in the illustrative example in section 120 on Objectivity, but instead of including all the requirements relating to threats to Objectivity, some of the requirements and guidance material are included elsewhere in the Code. For example, the illustrative example on Objectivity includes two requirements relating to specific threats to Objectivity. The requirement in 120.004 requires the professional accountant to determine if there are threats to compliance resulting from having interests in, or relationships with a client or its directors, officers or employees. There are a number of business relationships that are specifically not permitted but these are included elsewhere (in section 420) that deals with Business Relationships. It would be more useful to include these requirements (and the application examples) in the section relating to Objectivity, as they are directly linked to threats to Objectivity and supplement each other.

The independence requirements should also be more clearly linked to threats related to Objectivity. For example, paragraph 120.008 under Application guidance refers to specific guidance on independence requirements in parts IV and V. The NZAuASB considers that there should be a specific requirement in the section relating to Objectivity that professional accountants undertaking assurance engagements should be independent of the entity and the subject matter on which they are reporting, instead of only referring to the independence requirements in the application material.
To further improve the overall usability of the Code the NZAuASB recommends that the IESBA considers the following:

- options to reduce the length of the Code. The longer the Code the less accessible it becomes and the more likely that a small item hidden in the detail to be missed. This will all have a negative impact on quality. One way to reduce the length is to remove unnecessary repetition - use of an electronic Code would largely avoid the need for repetition;
- structuring the Code around the five fundamental principles that form the basis of the behaviour expected from all professional accountants;
- supporting each fundamental principle with the specific requirements that prescribe aspects of professional and ethical behaviour expected, and that are mandatory for all professional accountants, with some requirements to be applied differently depending on whether a professional accountant is in public practice or employment, which can be differentiated by use of a heading in a paper code, but which could be hidden or shown as relevant to the reader of an electronic code; and
- supporting the requirements relating to each fundamental principle with guidance on the application of the requirements, and guidance on threats to compliance created by certain circumstances and possible safeguards.

_Distinguishing requirements from guidance should be further improved_

The NZAuASB further considers that it would be helpful to better distinguish requirements from guidance in the Code. The NZAuASB has the following suggestions when making this distinction:

- The NZAuASB recommends that explicit prohibitions should not be buried in the application material. For example, draft 420.007 provides examples of close business relationships. These relationships would be prohibited by 420.005 if the financial interest is material or the business relationship is significant. The NZAuASB recommends that any specific permissions or prohibitions should be made explicit in the requirements section.
- Make the “shall” statements as clear as possible, avoiding any double negatives, for example, instead of saying “Neither a firm nor its network …..shall have a close business relationship” it would be preferable to say “The firm, its network….shall not have a close business relationship….

_Differentiation between ‘audit and review’ and ‘other assurance engagements’_

- Another option previously explored by the task force was to relook at the need to separate section 290 (applying to audits and reviews) and section 291 (applying to other assurance engagements). Combining these sections would significantly reduce duplication and the length of the Code. The IESBA previously approved the split to provide more direct and understandable guidance for those who perform only audits or reviews.
- The NZAuASB considers that there are benefits to keeping the independence requirements applying to all assurance engagements (not separating the Code between section 290 and section 291 as currently done). This would reduce the length of the Code significantly and eliminate a large amount of duplication. The restructured Code could start with assurance as a base, i.e. paragraphs that apply to all assurance engagements then add as a separate layer additional requirements for audits and reviews which also requires a separate layer of additional requirements for audits and reviews of PIEs. In the paper Code this could be done by use of headings. In an electronic Code, only relevant requirements could be shown.
- One difficulty identified by the IESBA task force with combining section 290 and section 291 is that there are a few areas where the assurance requirement only applies to other assurance engagements, and not
to audits and reviews. The NZAuASB considers that there are other formatting options to explore for a paper Code, and that this is not an issue for an electronic Code. For those few paragraphs that only apply to “other assurance engagements”, the NZAuASB recommends using a heading making it clear that it applies to other assurance engagements (and have a one off sentence to expand that other assurance engagements excludes audits and reviews in those paragraphs).

- For those provisions that apply only to audits and reviews, the NZAuASB recommends that those requirements should explicitly refer to both an audit and a review.

Aligning definitions with the International Standards on Auditing (ISAs)

The NZAuASB notes that the task force is also considering ways to align the definitions of terms in the Code with the ISA definitions. The NZAuASB is strongly supportive of this initiative.

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?

Response:

The NZAuASB considers that the primary purpose of the Code is to provide a reference guide to professional accountants to work through ethical conflicts as they arise, rather than a rule book for regulators’ to use to enforce compliance. However, the NZAuASB is very supportive of the project to restructure the Code, as the NZAuASB considers that the current structure acts as a barrier to adoption and effective implementation. When restructuring the code, the NZAuASB considers that it is important for the IESBA to retain the conceptual framework approach to the Code. The NZAuASB considers that a robust framework, rather than a rules based approach to Ethics, is the most effective approach to guide professional accountants when facing ethical dilemmas. The NZAuASB supports the approach of a general requirement to comply with the conceptual framework, and in addition identifying requirements that address the specific threats relating to the fundamental principles. Clearly separating the rules from the guidance would assist both professional accountants to apply the Code and other stakeholders wanting to assess performance against the rules and guidance.

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?

Response:

The NZAuASB’s strong preference is for the Code to be structured around the fundamental principles rather than the users. However, should the IESBA proceed with the structure as outlined in the Consultation Paper the NZAuASB agrees that it may be helpful to reverse the order of extant Part B and Part C, if the IESBA continues to retain the Code as a single document rather than breaking it up into smaller standards. The NZAuASB is supportive of separating the independence requirements into its own section/s, with clear cross referencing to the fundamental principle of Objectivity. The NZAuASB further considers that indexing the Code will be helpful and allow for quicker access.

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?

Response:

The NZAuASB considers that separating the Code into different standards runs the risk of disconnecting ethical principles, and the risk of the professional accountant not being familiar with all the fundamental principles – it is
considered more accessible if they are kept in one Code. The NZAuASB is supportive of rebranding the Code as International Standards on Ethics.

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

Response:

*Plain English*

The NZAuASB is strongly supportive of exploring additional methods to simplify the drafting conventions used in the Code. The NZAuASB strongly supports improving the clarity of the language used as ways to improve the understandability of the Code, avoiding lengthy and complex sentences, clearly conveying the principle, requirement or guidance, and using an active voice. If a sentence has to be read numerous times and researched in order to understand what it means, this will continue to be a barrier to establishing a user friendly Code.

The NZAuASB encourages the IESBA to find even further ways to improve the readability and drafting convention of the document. The NZAuASB further recommends that the IESBA should explore using additional bullet points for paragraphs that are lengthy (for example paragraph 000.013 in the illustrative examples).

*Underlined terms*

In the illustrated example outlined in the Consultation Paper, the IESBA has underlined defined terms and included a guide to how terms are used in each section in order to use less words in each paragraph.

For example:

120.000 In this section, the term “professional accountant” refers to:

(a) Professional accountants in business; and

(b) Professional accountants in public practice and the firms within which they practice.

The NZAuASB considers this approach to be helpful as it avoids repetition

*Use of “audit” to include a “review”*

In the New Zealand equivalent to section 290 of the Code, the term “audit” was amended so that each use of audit was expanded to also refer to a review that is an explicit reference to a “review” each time. The NZAuASB does not consider that it is sufficiently clear that the term “audit” incorporates both types of engagements. The ISAs have specifically used different terms so as not to blur the distinction between these two levels of assurance and the NZAuASB considers that it is better to consistently draw this distinction, and that this needs to be explicit to be clear that a requirement applies to both an audit and a review. Using the term “audit” to encompass both engagements is not user friendly and runs the risk of being misapplied in practice. The NZAuASB recommends that the Code should make it explicit if a provision applies to a review engagement.

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?**

Response:

The NZAuASB considers that the Code needs to clarify who is responsible for complying with the Code, and is supportive of all of the ways being explored to clarify the responsibility within firms for compliance with the Code, and the illustrative approach outlined in the Consultation Paper. The NZAuASB considers that each individual
professional accountant is responsible for complying with the relevant principle and that the firm has a role to play in assisting individuals who are part of the firm to comply. The NZAuASB has no further suggestions.

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

Response:

Yes, the NZAuASB finds these examples useful.

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?

Response:

The NZAuASB considers that the length of the existing Code is a barrier to accessing the relevant information that a professional accountant may be looking for. There is unnecessary repetition, which an electronic code may be able to remove. An electronic Code will also improve the cross referencing between relevant information. The NZAuASB encourages the IESBA to continue to pursue the development of an electronic Code as part of the restructuring exercise.

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

Response:

The NZAuASB is strongly supportive of this project to restructure the Code as a priority, and is pleased to see that the IESBA has focussed resources on this priority project, and is hoping to finalise the restructured Code by early 2017. The NZAuASB strongly recommends that the IESBA explores ways to complete the project as soon as possible. A shorter completion timeframe for the restructure of the Code is essential for the IESBA to remain credible and to more effectively serve the public interest. The NZAuASB is also supportive of aligning the timeline of the project to restructure the Code with the project on safeguards.

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

Response:

The NZAuASB has no further comments.