



## International Federation of Accountants

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By e-mail: [GC\\_AuditCode\\_2011@fsa.gov.uk](mailto:GC_AuditCode_2011@fsa.gov.uk)

### **Re: Guidance Consultation: Code of Practice for the relationship between the external auditor and the supervisor (the ‘Code of Practice’)**

The International Federation of Accountants (IFAC) values the opportunity to comment on the proposed guidance consultation. Through its membership, currently 164 professional accountancy bodies in 125 countries, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government and education, in various roles including those of preparers and auditors of financial statements. Five professional accountancy bodies in the UK are members of IFAC, while another two bodies are associates of IFAC.

As part of its mission, IFAC serves the public interest by contributing to the development of strong professional accountancy organizations and accounting firms, and to high-quality practices by professional accountants. In particular, IFAC aims to contribute to, and promote, audit quality.

From this perspective IFAC welcomes the initiative of the FSA in publishing a Code of Practice for the relationship between the external auditor and the supervisor.

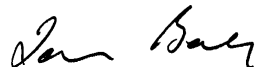
We note that the FSA recognizes the important role that the external auditor plays in the regulatory framework. Further, the Code of Practice describes arrangements that seek to contribute to audit quality and which build on, and supplement, the external audit framework and arrangements that are established through the adoption of internationally accepted, high-quality auditing standards. IFAC considers it effective for supervisory bodies such as the FSA to supplement the strong base provided by practices and outcomes directed by these high-quality standards, through additional and appropriate measures specifically designed for prudential supervisory purposes.

Furthermore, IFAC is pleased to note that aspects of independence and confidentiality have been considered in the Code of Practice. These two important matters are discussed in some detail in the International Ethics Standards Board for Accountants (IESBA’s) *Code of Ethics for Professional Accountants*, which has been adopted by IFAC member bodies in the UK.

It is important to ensure that any arrangements introduced for prudential regulatory purposes do not adversely impact the independence of the auditor, and the auditor's role in forming an opinion on whether financial statements are free from material misstatement and prepared in accordance with a prescribed financial reporting framework. Also, as one of the five fundamental ethical principles integral to the provision of high-quality services, confidentiality must be respected and maintained. In balancing the need to serve the public interest and the need to maintain and respect the confidentiality of a client, professional accountants (including external auditors of important registered bodies such as those supervised by the FSA) must carefully exercise professional judgment when sharing information with supervisory bodies in fulfilling a legislative requirement. However, the *Code of Ethics for Professional Accountants* also recognizes that there are situations where professional accountants may be obligated, by law, to disclose confidential information to appropriate public authorities. The IESBA has a current project to consider when disclosure of client information to outside parties may be required because such disclosure would be in the public interest.

Please do not hesitate to contact me should you wish to discuss any of the matters raised in this letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Ian Ball". The signature is written in a cursive, flowing style.

Ian Ball  
Chief Executive Officer