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Consultation Response

PROPOSED REVISION TO CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS PARAGRAPH 8.151.

An Exposure Draft issued by the International Federation of Accountants

Comments from ACCA
February 2004

ACCA is the largest and fastest-growing international accountancy body.
Over 300,000 students and members in 160 countries are served by more
than 70 staffed offices and other centres.

ACCA's mission is to work in the public interest to provide quality professional opportunities to people of ability and application, to promote the highest ethical and governance standards and to be a leader in the development of the accountancy profession.

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Comments

ACCA welcomes this opportunity to respond to the exposure draft issued by the International Federation of Accountants (IFAC) *Proposed Revision to Code of Ethics for Professional Accountants Paragraph 8.151*.

ACCA believes that:

- ethical standards should be principles-based as this approach is best suited to a rapidly changing business environment; legalistic, rules-based standards encourage creative, loophole-based avoidance

  and

- for the principles-based approach to be robust, it should not be undermined by the proliferation of detailed underlying rules.

We believe it is appropriate that an individual who has completed a pre-defined period in the role of lead engagement partner for an audit of a listed entity should not participate in the assurance engagement in any capacity until at least two years have elapsed.

Indeed, in its Code of Ethics, ACCA advocates that lead engagement partners of listed and other public interest entities should be rotated after a period of no more than 5 years and should not be participate in the audit in any capacity until a further 5 years has elapsed. Additionally, and again in relation to audits of listed and other public interest entities, other key engagement partners should be rotated after a period of no more than 7 years and not allowed to return until a further two years have elapsed.

Although we agree that a change to paragraph 8.151 is appropriate, we are disappointed that the Ethics Committee has seen fit to consult on a single issue especially as the recent exposure draft *Proposed Revised Code of Ethics for Professional Accountants* specified that no comments on Section 8 would be considered. In our opinion, to consult on such an issue sends out the wrong message regarding the robustness of the principles-based approach.

The need to change paragraph 8.151 arises not from the underlying principle, but from the added rules (a) and (b) which "literally interpreted" could be circumvented. We believe an important issue arises as a consequence of including these rules. The requirement to rotate the lead engagement partner may result in a firm having to resign its appointment. This would be the case where there are no other partners capable of acting as lead engagement partner. This may occur when auditors must be individually recognised by banking or insurance supervisory authorities, or more commonly, when the client's industry is specialised or the firm is a small or medium-sized practice. Even if the rules in (a) and (b) cannot be observed, it is possible that other safeguards may be implemented to counter the familiarity threat created by using the same lead engagement partner over a prolonged period of time. Accordingly, we believe that for the principles-based approach to be robust, it should not be undermined by the proliferation of detailed underlying rules.

It is clear that there are other areas of Section 8 which merit reconsideration. By way of example, we believe that the Ethics Committee should reconsider the definition of lead engagement partner. We commented in our response to the exposure draft *Proposed Revised Code of Ethics for Professional Accountants* on the need to have consistent definitions. The definition of lead engagement partner in the Code of Ethics is at odds with the International Standards on Auditing (ISAs) in that ISAs do not use the term and prefer 'engagement partner'. For the sake of clarity, it is important to have common definitions. We would urge the Ethics Committee to give such matter its early attention.

PROPOSED REVISION TO CODE OF ETHICS

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