

**Ethics ED “Proposed Revised Code of Ethics for Professional Accountants” in respect of “Independence Requirements”**

<b>X ref</b>	<b>Par Ref</b>	<b>Issue</b>	<b>Respondent</b>	<b>Proposed Resolution</b>
		<b>General</b>		
1.	General	<p>The AAT is pleased to comment on the issues raised in the October 2004 Exposure Draft in respect of proposed changes relating to independence requirements contained in Section 290 of the Revised Code.</p> <p>We have over 100,000 members and in particular we have approximately 1,800 members in public practice providing accounting services predominantly to smaller entities.</p> <p>Whilst some of these practicing members are formally recognised as “Reporting Accountants” by the Department of Trade and Industry, at the present time this recognition translates into a statutory recognition to be able to report on the accounts of charitable companies with a gross income of up to £250,000. However, with the increase in the statutory audit threshold for UK companies to a turnover of £5.6m or more, it is possible that our members may be called upon to provide non-statutory assurance services to statutory audit exempt companies in the future.</p>	AAT	General comment

2.	General	<p>Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and, subject to the comments contained in the attachment, the following are supportive of the proposals contained in the Exposure Draft.</p> <ul style="list-style-type: none"> <li>• Auditor-General of New South Wales;</li> <li>• Auditor-General for Victoria;</li> <li>• Auditor-General of Queensland;</li> <li>• Auditor General for Western Australia;</li> <li>• Auditor-General of Tasmania; and</li> <li>• Auditor-General of New Zealand.</li> </ul> <p>The non-inclusion of an ACAG member in the submission does not necessarily mean they disagree with the submission.</p>	ACAG	General comment
3.	General	<p>ACCA welcomes this opportunity to respond to the exposure draft <i>Proposed Revised Code of Ethics for Professional Accountants</i> issued by the International Federation of Accountants' Ethics Committee. IFAC has made it easier for respondents to comment on proposed changes by including the full text of the Code. Although comments are not currently being sought on the totality of the section of the Code dealing with independence, ACCA believes that IFAC should review that section to ensure that it continues to be relevant and to be seen to be relevant in the aftermath of financial scandals (such as Enron and Parmalat) that have happened since its issue.</p>	ACCA	General comment
4.	General	<p>The AICPA's Professional Ethics Executive Committee (PEEC) is pleased to submit this comment letter on the International Federation of Accountants' (IFAC) Exposure Draft: Proposed Revised Code of Ethics for Professional Accountants (the "Exposure Draft").</p> <p>In general, we believe that the revised structure of the Code of Ethics for Professional Accountants (the "Code") and consolidation of the discussion on the framework approach, threats and safeguards under Part A, has reduced the degree of repetition in the Code and significantly improved the document.</p>	AICPA	General comment

5.	General	<p>The Auditing Practices Board (APB) is pleased to provide its comments on the proposed revision of the IFAC '<i>Code of Ethics for Professional Accountants</i>' (the Code), as set out in the Exposure Draft issued by IFAC in October 2004.</p> <p>The APB has recently finalised its own Ethical Standards for auditors in relation to integrity, objectivity and independence. These will apply to all audits undertaken in the UK and Ireland on financial statements for periods commencing on or after 15 December 2004. Other accountancy bodies in the UK and Ireland are in the process of issuing guidance for non-audit assurance services, so as to ensure that all aspects of Section 8 of the IFAC Code are covered.</p>	APB	General comment
6.	General	<p>The Canadian Institute of Chartered Accountants and the Provincial Institutes/Ordre have reviewed the October 2004 IFAC Exposure Draft <i>Proposed Revised Code of Ethics for Professional Accountants</i> and offer the following comments on the three specific questions posed in the Exposure Draft.</p>	CICA-PIIC	General comment
7.	General	<p>In broad terms the French bodies welcome the new draft and the way section 8 has been incorporated into the Code. We also believe that the Ethics Committee has contributed to make the Code clearer and more readable.</p>	CNCC-OEC	General comment
8.	General	<p>On behalf of The Institute of Chartered Accountants in Australia and CPA Australia (the Australian Accounting Bodies), we are pleased to submit our comments on the proposed Revised Code of Ethics for Professional Accountants issued in October 2004.</p> <p>This submission on the revised Code is based on comments we have received from a range of stakeholders. All members were invited to comment. In addition, members of the taskforce drawn together to specifically comment came from a variety of backgrounds including large, medium and small practice, large corporations and the public sector.</p> <p>In conclusion, the Australian Accounting Bodies support the proposed changes contained in the October 2004 Exposure Draft</p> <p>We do, however, urge the Ethics Committee to complete its review of the definition of network firm to ensure that its use, in both the Code and the IAASB's standards, achieves the intended effect.</p>	CPA-Aus	<p>General comment</p> <p>Network firm definition to be addressed by separate project see Agenda Item 4</p>

9.	General	<p>FAR, the institute for the accountancy profession in Sweden, is pleased to submit the following comments on the <i>Exposure Draft Proposed Revised Code of Ethics for Professional Accountants</i>.</p> <p>FAR has been informed by FEE of its preliminary comments on the Proposed Revised Code of Ethics for Professional Accountants Draft. We have also been informed by FEE that its final comments will be submitted to you in the middle of December 2004</p> <p>FAR agrees with the preliminary comments given by FEE, especially the emphasis on the principles-based approach and the need for IFAC to review the Code continuously and to demonstrate that the Code of Ethics is sufficiently rigorous and flexible enough to cater for such type of circumstances and cases that have occurred in the Enron, WorldCom and Parmalat scandals. In addition FAR would like to give the following remarks.</p>	FAR	General comment
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10.	General	<p>FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to have the opportunity to comment on the IFAC Exposure Draft – Proposed Revised Code of Ethics for Professional Accountants (hereinafter referred to as “the Code”). We welcome the Revised Code and the way the former Section 8 has been incorporated into the Revised Code.</p> <p>We welcome the principles-based or framework approach. FEE advocated a principles-based approach in its 1998 independence paper (“Statutory Audit Independence and Objectivity – Common Core of Principles for the Guidance of the European Profession – Initial Recommendations”) and wholeheartedly endorses this approach. It has formed the basis of the European Commission (EC) Recommendation on Statutory Auditor Independence and has been endorsed by the International Organisation for Securities Organisations (IOSCO) in its Principles of Auditor Independence published in October 2002. FEE fully supports a principles-based approach to ethical standard setting, supplemented by appropriate guidance, restrictions and prohibitions. By focusing on the underlying aim rather than detailed prohibitions, the principles-based approach combines flexibility with rigour in a way that is unattainable with a rules-based approach.</p> <p>FEE published a paper in November 2003 on a “Conceptual Approach to Safeguarding Integrity, Objectivity and Independence throughout the Financial Reporting Chain” outlining how the conceptual approach could be used in setting ethical requirements throughout the financial reporting chain. For example, in developing ethical codes and independence requirements for members of the audit committee.</p> <p style="text-align: right;">Contd</p>	FEE	<p>General comment</p>          <p>Posted in Ethics Committee resources</p>
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11.	General	<p>We note that IFAC is seeking comments only on Section 290, and only on those changes to Section 290 to conform the Code to the International Framework for Assurance Engagements issued by IAASB and to conform the Code to the definitions in ISQC1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance Related Service Engagements. We observe that the review of the Code is and should be a continuous process. We understand that the IFAC Ethics Committee intends to review Section 290 in the light of recent developments, once experience with the application of the Code and in particular with Section 290 (former Section 8) is obtained and proper feedback is organised. Section 290, former Section 8, was last revisited pre Enron, Worldcom, Parmalat and other recent scandals. There is a clear need for IFAC to demonstrate that the Code is sufficiently rigorous and flexible enough to cater for those type of circumstances and cases. It should be demonstrated that the principles-based approach is the only sure and viable way forward. You may recall that we have published in October 2004 a paper “EC Recommendation on Statutory Auditor’s Independence in the EU and Comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants – Considerations on the Implementation of the Framework Approach” to demonstrate the application of the principles-based approach.</p>	FEE	General comment
12.	General	<p>FSR notes that IFAC is seeking comments on Section 290, and only on those changes to Section 290 to conform the Code to the International Framework for Assurance Engagements issued by IAASB and to conform the Code to the definitions in ISQC1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance Related Service Engagements.</p> <p>FSR understands and agrees that the review of the Code is and should be a continuous process.</p>	FSR	General comment
13.	General	<p>Thank you for the opportunity to comment on the Proposed Revised Code of Ethics for Professional Accountants.</p> <p>Please note that the following comments are those of staff of the International Auditing and Assurance Standards Board (IAASB). While we believe they are consistent with published IAASB documents, these comments have not been reviewed by members of the IAASB and do not necessarily represent their views.</p>	IAASB	General comment

14.	General	Overall we support the proposed revisions to the IFAC Code of Ethics exposed for comment	ICANZ	General comment
15.	General	We have reviewed the exposure draft on the Proposed Revised Code of Ethics for Professional Accountants and here in wish to present our comments on the various aspects of the draft. We have responded to the specific questions raised in the draft but also commented on other issues.	ICPAK	General comment
16.	General	<p>We appreciate the opportunity to submit our comments on the above exposure draft, and are pleased to respond to the Ethics Committee's specific request for comments.</p> <p>The IDW welcomes the revised Code as an improvement on the exposure draft dated July 2003. We particularly appreciate that the Code has been shortened by the removal of unnecessary repetition.</p> <p>We are pleased that the Ethics Committee has addressed certain suggestions proposed in our letter dated November 27, 2003. However, certain matters raised in our previous letters remain unaddressed, such that we consider it appropriate to refer back to these letters, including those dated February 10, 2004 and September 15, 2004 in formulating our responses. We would also like to take the opportunity to thank the Ethics Committee for its letter dated November 3, 2004. We have included our response to your letter in this letter.</p> <p>We include comments of a general nature before addressing the request for comments made by the Ethics Committee in the first Section of this letter. However, since we note that certain of the proposed amendments are not only editorial in nature we consider it necessary to comment on certain specific amendments. These comments are placed in the second Section of this letter together with our response to the Ethic Committees letter referred to above. Although the Ethics Committee is not seeking comments on other matters, we believe that some matters that we had addressed in our previous comment letters that have not led to amendment of the Code are so serious that they represent fundamental deficiencies in the Code. We provide a summary of these in the third Section of this letter.</p> <p style="text-align: right;">Contd</p>	IDW	General comment

17.	General	<p>In issuing the Code of Ethics for professional accountants, the Ethics Committee performs a public interest activity on behalf of IFAC and the accountancy profession worldwide. A prerequisite for the performance of this public interest activity is the application of an adequate due process in the development of the Committee's pronouncements. In this context, while it may be appropriate to seek comments on only all of the changes made, we do not believe it to be appropriate to seek to limit comments to specific changes only. For example, the Committee proposed changes to the independence requirements both to conform to the IAASB Assurance Framework and to conform to definitions in ISQC1, but has requested comments only in respect of the changes to conform with the IAASB Assurance Framework.</p> <p>We believe that good due process requires the Committee to seek comments on all changes made. Furthermore, some of the matters that the Committee considers editorial may not represent editorial changes to others (i.e., repositioning text may cause substantive issues). The addition of a preface also represents a major amendment that ought to be subject to comment. In conclusion, we believe that good due process demands that the Committee seek comments on all of the changes made to the original draft. It might also have been helpful to provide a marked up version of the draft so that interested parties can track the changes.</p> <p>Contd</p>	IDW	General comment
18.	General	<p>We accept that the changes to conform to the IAASB's International Framework for Assurance Engagements have led to a reduction of the former Section 8 of Part B. We consider the changes appropriate to avoid duplication.</p> <p>However, in our opinion, further amendments are necessary. Since it is imperative that terminology within IFAC bodies be aligned to the extent possible, we would like to draw attention to the comments in our previous letters regarding numerous definitions we consider deficient or imprecise.</p>	IDW	General comment



19.	General	<p>IOSCO's Standing Committee No. 1 ("SC 1") is writing to provide comments regarding the Exposure Draft of proposed changes to the IFAC Code of Ethics for Professional Accountants ("the Code"), and to communicate additional concerns relating to the Code.</p> <p>IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Our comments noted herein reflect those matters on which we have reached a general consensus among Standing Committee No. 1 members. These are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions.</p> <p>In the Explanatory Memorandum for this Exposure Draft (ED), you advise that you are seeking comments only on the three questions raised in your exposure draft, and not on other portions of the current Ethics Code. In this letter, we provide our comments in response to your three questions, but we are concerned that the Exposure Draft limits the request for comments to only the three stated issues. We are therefore beginning our letter with additional general comments on matters which should be addressed by the Ethics Committee. These comments relate to both the content of the Ethics Code and the scope of its application.</p> <p style="text-align: right;">Contd</p>	IOSCO	General comment
20.	General	<p>Events of recent years have underscored the importance of the auditor's role in providing assurance on the financial statements of listed companies in the global capital markets. In particular, these events have reinforced the importance of the auditor maintaining independence in fact, mind, and appearance. Financial reporting and auditing failures around the world have focused regulators and legislators, the accounting profession, and the general public on the need for improvements in auditing and ethical standards for auditors and enhanced audit quality control and oversight arrangements.</p>	IOSCO	General comment
21.	General	<p>We appreciate the opportunity to comment on the Ethics Committee exposure of the proposed revision to its Code of Ethics insofar as concerns the independence section in the context of the changes that will be made to the entire Code.</p> <p>This response is made on behalf of the member firms of KPMG International, a Swiss cooperative.</p>	KPMG	General comment

22.	General	<p>We are pleased to have the opportunity to comment on the recent Exposure Draft issued by the IFAC Ethics Committee.</p> <p>We would firstly like to commend the IFAC Ethics Committee on the improvements to the Proposed Revised Code of Ethics. The reduction of duplicated content and the improved structure of the Proposed Revised Code of Ethics will make it easier to read and comprehend. We believe that once approved, the Proposed Revised Code of Ethics will serve as the international benchmark of ethical standards for all professional accountants worldwide, whether they are in public practice, government or business. We also believe that the Proposed Revised Code of Ethics will serve to unify the international accountancy profession by setting the global standard for attitudes, values and ethics for the profession.</p> <p>On the specific comments raised by the IFAC Ethics Committee, we are pleased to respond as follows:</p>	MAI	General comment
23.	General	<p>With reference to the "Proposed Revised Code of Ethics for Professional Accountants" issued October 2004 (the "Revised Code") we have identified two matters that we wish to bring to your attention for consideration in finalising the "Revised Code".</p>	OAGNZ	General comment
24.	General	<p>We appreciate the opportunity to comment on the proposed revisions to Independence Requirements of the IFAC Code of Ethics to conform to the <i>International Framework for Assurance Engagements</i> (Assurance Framework) and ISQC 1, <i>Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance Related Services Engagements</i> (ISQC 1). This response is made on behalf of the PricewaterhouseCoopers network of member firms.</p>	PwC	General comment
25.	General	<p>I am writing in response to the October 2004 Exposure Draft (ED) of the IFAC Revised Code of Ethics for Professional Accountants. My response focuses on the question of whether the changes to conform to the Revised Code to the IAASB Assurance Framework are appropriate and clear.</p>	CICA-AASB	General comment
26.	General	<p>The Japanese Institute of Certified Public Accountants (JICPA) is pleased to take this opportunity to comment on the exposure draft entitled "Proposed Revised Code of Ethics for Professional Accountants."</p>	JICPA	General comment

27.	General	<p>We further note that it has not been intended to change the substance of section 290 at this stage, but merely to conform it with the two IAASB documents. We understand that the IFAC Ethics Committee now intends to undertake a programme of reviewing the substance of the section and considering whether changes or additional guidance are needed. We endorse this intention as it is important to ensure that, if IFAC's guidance is to be used as the basis of international harmonisation (which we believe that it should), it remain in the forefront of ethical developments. However, in undertaking that review, we would urge the committee to continue to distinguish between additional guidance that might be helpful, and applying bright-line rules as a means of "toughening-up" the principles. A number of regulators internationally play lip-service to the notion of a principles based approach but then apply detailed and inflexible rules that negate all the advantages of the threats and safeguards approach.</p> <p>We have made a small number of detailed comments on the existing section 8 in the "member Body Questionnaire" sent to us in October 2004 and these are not repeated here.</p>	ICAEW	General comment
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		<b>Are the changes to conform to the Assurance Framework appropriate and clear?</b>		
		<b>More guidance needed in the Code on difference between subject matter and subject matter information</b>		
28.		<p>The changes in the <i>Proposed Revised Code of Ethics for Professional Accountants</i> to accommodate the Assurance Framework, are appropriate and clear subject to the following:</p> <ul style="list-style-type: none"> <li>• Clarification of the difference between ‘subject matter information’ and ‘subject matter’;</li> </ul>	ACAG	Propose providing more detail in Code with reference to the Framework
29.		<p>We agree that changes are necessary because the Code took its definition of an assurance engagement from an IAASB document that is in effect superseded by the <i>Assurance Framework</i>. We believe that further steps could be taken to make the Code more usable as a stand-alone document. At present, it is necessary to refer also to the <i>Assurance Framework</i> and to the <i>International Standard on Quality Control 1</i> to properly appreciate the meaning of certain terms. These could be included in the definitions section of the Code in a way that makes it clear that they are defined in other authoritative pronouncements.</p> <p>The <i>Assurance Framework</i> draws a distinction between ‘subject matter’ and ‘subject matter information’. This has had a considerable impact on the Code and we believe that the requirements are now more difficult to understand. We believe that the judgement of users would be better informed if, for example, the reasons for the requirements of paragraph 290.10 were fully explained.</p>	ACCA	<p>See comment 28</p> <p>Proposal to issue an explanatory memo – see discussion in Agenda Paper 2</p>
30.		<p>The terms “subject matter” and “subject matter information”, although described briefly in Paragraph 290.08, are difficult concepts and are not clearly explained in the Exposure Draft. Accordingly, we are concerned practitioners may not fully understand the requirements of Section 290 (the independence standard). We believe further clarification of these terms should be included in the Code of Ethics, preferably by way of example.</p>	CICA-PIIC	See comment 28

31.		<p>We understand the logical adopted by the Committee consisting in requiring the reader of the Code of Ethics to know and understand the concepts of the Assurance Framework. Indeed, the introduction of these concepts would have certainly made the Code very difficult to read and understand. Besides, such an approach would have presented the risk of a bad interpretation of the concepts.</p> <p>However, considering that the two notions of “subject matter” and “subject matter information” have been used for the first time in the Code, we would like to suggest IFAC to provide references to the relevant paragraphs in the Assurance Framework.</p>	CNCC-OEC	See comment 28
32.		<p>In our view, the proposed changes to the Code to conform to the Assurance Framework (“Framework”) issued by the IAASB do not sufficiently incorporate the concepts included in the Framework. We appreciate the challenge of trying to deal with the complexities of the Framework. However, without greater clarity or elaboration of certain terms or concepts in the Code, the professional accountant will have difficulty determining how the Code applies in all instances....</p> <p>Second, we believe that certain concepts should be explained in the Code. More specifically, we would make the following observations:</p> <p>The introductory paragraphs discussing assurance engagements and their characteristics have been eliminated in the proposed revisions. This information we believe was useful to those reading the section on independence by putting in context those engagements to which the section applied. Now, the concepts of “subject matter information” and “subject matter” are introduced, yet no definitions are given. Only the reader who is expert in the Framework will understand the references.</p>	D&T	See comment 28
33.		<p>Paragraphs 290.7 to 290.10 of the "Revised Code" make references to "subject matter" and "subject matter information". We understand this is to emphasise the independence implications of an assurance engagement (as defined in the "International Framework for Assurance Engagements") within the "Revised Code".</p> <p>In our opinion, the distinction between "subject matter" and "subject matter information" lacks clarity in the "Revised Code". We consider that the terms "subject matter" and "subject matter information" require clarification in the "Revised Code" and, in doing so, there should be an explicit cross-reference to paragraphs 7 and 8 of the "International Framework for Assurance Engagements".</p>	OAGNZ	See comment 28

34.	<p>We agree with the changes to the Code. We believe, however, that the Code should contain explanations or definitions to ensure the distinction between the terms “subject matter” and “subject matter information” can be clearly understood.</p> <p>We note that the Explanatory Memorandum states simply that “the Assurance Framework differentiates between subject matter and subject matter information”. We believe it would be helpful if the list of definitions contained in the Code were to include the definitions of these two terms.</p>	ICANZ	See comment 28
35.	<p>We are of the opinion that it is appropriate to conform the Code to the Assurance Framework. However we are of the opinion that the changes are not clear and observe problems with the definitions and terminology used. The Code should ideally be readable as a stand-alone document and be self-explanatory, although it should be assumed that the reader of the Code is aware of the concepts and principles of the Assurance Framework. Therefore, it would be helpful if definitions of the Assurance Framework and ISQC1 be introduced into the Code or at least a proper reference to the relevant paragraph(s) in the Assurance Framework and ISQC1 needs to be included, as well as a short discussion of key terms in form of footnotes or otherwise (if it is not workable to include full definitions of all terms) for example:</p> <ul style="list-style-type: none"><li>• Paragraph 290.10, is difficult to read since the example of two responsible parties is only provided in paragraph 25 (b) of the Assurance Framework.</li></ul> <p>In addition it is not clear to us why a distinction is made in paragraphs 290.8 to 290.10 between direct reporting assignments and others....</p> <p>We also observe in this case that no definitions are provided in the Code of “subject matter” and “subject matter information”, which could, if the distinction is retained, usefully be introduced in the form of footnotes. The distinction may also cause difficulties in translation.</p>	FEE	See comment 28

36.		<p>The Code should be readable as a stand-alone document and be self-explanatory with clear definitions and terminology.</p> <p>Although it should be assumed that the reader of the Code is aware of the concepts and principles of the Assurance Framework, the present explanations of changes are in our opinion not sufficiently clear to the reader.</p> <p>For instance changes related to the distinction between subject matter and subject matter information are unclear and make the Code difficult to read and to understand.</p>	FSR	See comment 28
37.		<p>Yes these proposed changes are appropriate but the terms “subject matter and subject matter information” are not defined. Although these terms have been discussed in the International framework for Assurance Engagements, they have not been defined either.</p>	ICPAK	See comment 28
38.		<p>In respect of clarity, we are concerned that paragraph 290.10 is difficult to understand without reference to paragraphs 8 - 10 of the International Framework for Assurance Engagements. The latter differentiates between <i>subject matter</i> and <i>subject matter information</i> and 25 (b) of the International Framework for Assurance Engagements gives an example of an engagement involving two distinct parties responsible for the <i>subject matter</i> and <i>subject matter information</i> respectively. To aid comprehension it would be useful if references to the Framework were provided in paragraph 290.10. Paragraph 290.102 also covers this aspect and constitutes an addition to the application guidance section, which may likewise profit from a cross-reference to the International Framework for Assurance Engagements.</p>	IDW	See comment 28
39.		<p>We consider it appropriate. However, any descriptions should be provided to show some examples by footnotes or in any other forms which will assist better understanding.</p>	JICPA	See comment 28

40.	<p>We do, however, have concerns regarding the proposed revisions to the Code to reflect the new Assurance Framework. Whilst we believe that the intentions of the revised Code are clear with respect to financial statement audit engagements, we are not convinced that practitioners will necessarily understand how the Code is applied to the full range of assurance engagements other than financial statements audits. These shortcomings may well be exacerbated when the Code is translated into different languages.</p> <p>We are concerned that the proposed revision to Section 290 of the Code eliminates the introductory paragraphs in existing Part 8 of the Code that defined assurance engagements and their attributes. We found the introductory paragraphs in the existing Code provided very useful context for understanding the scope of the engagements to which the independence requirements apply. Although it might be viewed as repetitive to repeat guidance that is in the Assurance Framework in the Ethics Code as both are within the corpus of IFAC pronouncements, we believe it is unhelpful to readers of the Code not to include definitions that are important to a proper understanding of the independence requirements. In our view, a short discussion of the definition of an assurance engagement and key terms, at a minimum, is vital.</p> <p>For example, the Code will now require a professional accountant in public practice to be independent of the party responsible for the <i>subject matter information</i> and to consider any threats that may be created as a result of interests in and relationships with the party responsible for the <i>subject matter</i> (if different). We agree with these requirements.</p> <p>However, given the importance of the terms “subject matter information” and “subject matter” (which may not otherwise be intuitively understood), failure to include definitions of them in the Code itself could result in inconsistent interpretation and application of the independence principles by professional accountants.</p> <p>We appreciate that it would be difficult to incorporate a complete description of assurance engagements and their attributes without having to repeat much of the detail in the Assurance Framework. For that reason, we suggest that the introductory paragraphs include only a short discussion of key terms that are important to understanding the provisions of the Code. Readers could then be advised that it is necessary to refer to the Assurance Framework to obtain a more complete understanding of assurance engagements and the key terms.</p>	PwC	See comment 28
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41.		<p>We are of the view that the changes incorporated into the Proposed Revised Code of Ethics to conform to the International Framework for Assurance Engagements, are appropriate and are to some extent, clear.</p> <p>However, we note that the Proposed Revised Code does not contain definitions or explanations about the difference between subject matter and subject matter information, nor about the responsible party for subject matter and subject matter information respectively. These terms and differentiations are not in the existing IFAC Code of Ethics and would therefore be relatively new concepts. To understand these terms and concepts, members of member bodies would need to cross reference to the International Framework for Assurance Engagements, for an explanation or definition of these terms.</p> <p>We would therefore suggest that these terms be defined in the Definitions section or explained within the relevant paragraphs in Section 290 of the Proposed Revised Code. Of course, the definitions and explanations of these terms would need to be consistent with the International Framework for Assurance Engagements.</p>	MIA	See comment 28
		<b>Application to direct reporting engagements</b>		
42.		<p>The Assurance Framework describes a direct reporting engagement as one in which the practitioner “either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.” If the practitioner directly performs the evaluation or measurement of the subject matter, the practitioner will then be the party responsible for the subject matter information. Paragraph 290.10 of the Exposure Draft states “members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter information)”. This paragraph therefore appears to preclude any direct reporting engagement where the practitioner performs the evaluation or measurement of the subject matter. We question whether this prohibition is what was intended.</p>	CICA-PIIC	See Agenda Paper 2 and proposed additional wording in Agenda Paper 2-A

43.		Although the Framework covers “direct reporting” engagements as a type of assurance engagement, specific guidance on such engagements is not included in the proposed revisions to the Code. In our view, guidance is necessary in order for the professional accountant to be able to evaluate his or her independence in the context of these types of engagements.	D&T	See comment 42
44.		Moreover proposed changes related to the distinction between subject matter and subject matter information are unclear and make the Code difficult to read and to understand why and how the professional accountant in public practice should be independent of the party responsible for the subject matter information whereas threats have to be considered in relation to the subject matter (if different from the subject matter information). This is especially difficult to follow for assurance engagements other than financial statements audits also envisaged under the Assurance Framework.	FEE	See comment 42
45.		<p>The version of the Draft discussed with the IAASB at its September 2004 meeting, explicitly recognized the existence of direct reporting engagements. The current Draft does not. The Draft does, however, note that in some assurance engagements that are not financial statement audit engagements, there are two responsible parties. In such engagements, the Draft requires members of the assurance team and the firm to be independent of the party responsible for the subject matter information (which it describes as the assurance client).</p> <p>While the Assurance Framework does not define the professional accountant in public practice as a “responsible party” with respect to a direct reporting engagement, it is nonetheless clear from the Framework that in such an engagement the professional accountant in public practice is responsible for the subject matter information. Readers of the Draft may, therefore, reasonably consider direct reporting engagements to be engagements in which there are 2 responsible parties.</p> <p>As the professional accountant in public practice is responsible for the subject matter information in all direct reporting engagements, the requirement of the draft that the members of the assurance team and the firm be independent of the party responsible for the subject matter information cannot be complied with in a direct reporting engagement.</p> <p>We suggest that the Draft explicitly recognize direct reporting engagements, and require at a minimum, that the assurance team and the firm be independent of the party responsible for the subject matter, rather than the subject matter information, for such engagements.</p>	IAASB	See comment 42

46.	<p>We note that the Committee is proposing to make fairly minimal changes to the Code to conform to the <i>International Framework for Assurance Engagements</i> (Assurance Framework) issued by the International Auditing and Assurance Board (IAASB).</p> <p>Whilst we believe that the intentions of the Code are reasonably clear with respect to financial statement audit engagements, we are not certain that practitioners will necessarily understand how the Code is to be applied to the range of non-financial statement audit assurance engagements which might be envisaged by the Assurance Framework. For example, there may be independence considerations relating to direct reporting engagements where the professional accountant reports directly on the subject matter. We would hope that professional accountants would be able to apply the principles of the Code, in particular the requirement that they must be independent of the party responsible for the subject matter information, in determining how to proceed in such situations. However, in our view it would be preferable if the Code were able to provide practical guidance which directly addresses all the key concepts in the Assurance Framework.</p>	KPMG	See comment 42
47.	<p>We are concerned that the Ethics Committee is not proposing to provide specific guidance on independence issues that may arise in relation to “direct reporting” engagements. Direct reporting engagements now seem to be an important feature of the Assurance Framework and we believe that there may be confusion regarding independence considerations when the professional accountant reports directly on the subject matter. To ensure consistency in the application of the principles of the Code to these types of engagements, we believe that the Code should include practical guidance. For example, we believe that guidance is needed on how the requirement that the professional accountant be independent of the party responsible for the subject matter information can be met or addressed in the context of a direct reporting engagement. Examples may be helpful.</p>	PwC	See comment 42

48.	<p>In my view, for reasons set out below, the proposed changes dealing with “Other Assurance Engagements” as set out in ED paragraphs 290.9 and 290.10, do not appropriately reflect the Assurance Framework.</p> <p>ED paragraph 290.9 states “the members of the assurance team and the firm are required to be independent of the assurance client.” The ED defines “Assurance Client” as “The party responsible for the subject matter information.” ED paragraph 290.10 addresses the situation when there are two responsible parties: the assurance client (responsible for the subject matter information) and another party responsible for the subject matter.</p> <p>These paragraphs are problematic for the following reasons:</p> <p>As set out in paragraph 11 of the Assurance Framework, a practitioner can undertake a direct reporting engagement where he or she performs the evaluation or measurement of the subject matter and does not obtain a representation from a responsible party that has performed the evaluation or measurement. In such cases, there is no third party who is responsible for the subject matter information. It is the practitioner who has produced the subject matter information and, therefore, is responsible for this subject matter information, which will be set out in his or her report. As currently constructed, ED paragraph 290.09 would therefore appear to require the practitioner performing a direct reporting engagement to be independent of himself or herself.</p> <p>The ED does not seem to deal with the various situations that a practitioner may encounter with respect to responsible parties. The Assurance Framework contemplates situations where a responsible party may be responsible for subject matter information only, subject matter only or (perhaps most commonly) for both subject matter and subject matter information. ED paragraph 290.10 however, does not deal with the situation where a party may be responsible for subject matter only. Also, paragraph 290.09, in referring to “assurance client” deals only with independence from the party responsible for subject matter information. I believe these paragraphs should be reassessed in light of the different scenarios contemplated by the Assurance Framework to ensure that practitioners have clear guidance regarding independence from responsible parties.</p> <p>As noted in paragraph 25 of the Assurance Framework, the responsible party may or may not be the party who engages the practitioner (the engaging party). The ED is incomplete since it does not deal with the issue of independence when, for example, the assurance client is not the engaging party.</p>	CICA-AASB	See comment 42
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		<b>Communication with the IAASB</b>		
49.		This challenge could be addressed in two ways. First, we suggest that the Ethics Committee communicate to the IAASB the difficulties it had in incorporating the Framework into the Code, with the view that perhaps the IAASB could reconsider the document. We support the necessity for a Framework covering assurance engagements. However, in order for practitioners to comply with the standards that apply to assurance engagements, they need to be able to understand when engagements are classified as such. The definition of assurance engagement, as well as other concepts in the Framework, is in our view extremely difficult to grasp. The result, we fear, is that despite their best efforts, many practitioners will be unable to apply the Framework.	D&T	See discussion in Agenda Paper 2
50.		It is our understanding that the drafting of the Exposure Draft reflects the difficulties the IFAC Ethics Committee encountered in interpreting the Assurance Framework. It would be helpful if the IFAC Ethics Committee could prepare a summary report of the difficulties they had in introducing the Framework in the Code. It would be appropriate for both IAASB and the IFAC Ethics Committee to consider these difficulties and their implications for the Framework.	FEE	See discussion in Agenda Paper 2

51.	<p>As securities regulators, our interest is focused on the audits of listed companies and other public interest entities. With the reorganization of the Code and the related Framework changes, it was often difficult for us to identify exactly what has been changed and how it could affect public company audits.</p> <p>The changes made in the Code specifically to conform to the Assurance Framework appear to be mostly minor changes in terminology. Therefore, if the test were only whether those changes conform to the revised Assurance Framework, one would have to say that they are appropriate. However, as to whether the changes are clear, we have an overall concern that some of the language in the new Assurance Framework seems less clear and easy to understand than the language which appeared previously in ISAE 100 and ISA 120.</p> <p>We understand that the Assurance Framework has been produced by the International Auditing and Assurance Standards Board and not the Ethics Committee. However, the interplay between definitions in the Framework and International Standards on Auditing and the Ethics Code, and vice versa, is an important consideration in current standards development and application. Our concern over the clarity of the basic content in the new Assurance Framework leaves us unable to conclude that changes to the Ethics Code based on this Framework will be clear. We have already expressed a concern to the IAASB regarding the effect of some of the language in the new Framework on the Auditor Report auditing standard, ISA 700, under development. We urge the IAASB and the Ethics Committee to work together on ensuring that there is clarity and the ability for full understanding of both the new Assurance Framework and any resulting changes in the Ethics Code</p>	IOSCO	See discussion in Agenda Paper 2
52.	<p>We are aware that these matters may indicate an underlying problem with the Assurance Framework itself which should be addressed by the IAASB rather than within the Code. We would, therefore, encourage the Committee to convey to the IAASB any concerns and difficulties it may have experienced in seeking to conform the Code to the Assurance Framework and to seek clarification of the meaning of terms such as “direct reporting” and “assertion-based engagements” such that the independence implications can be more specifically addressed in the Code itself. We believe that the inclusion of further practical guidance directly addressing the apparent complexities of different types of assurance engagements would increase the likelihood of the Code being consistently applied by professional accountants.</p>	KPMG	See discussion in Agenda Paper 2

53.		<p>The Ethics Committee may need clarification on the intent of the Assurance Framework before it can develop such guidance. We strongly encourage the Ethics Committee to seek that clarification from IAASB, which we expect will result in revisions being necessary to the Assurance Framework to ensure it is clear, understandable and capable of consistent interpretation.</p> <p>It would appear that, to a large extent, the underlying reasons for the challenges the Ethics Committee faced in adapting the Code to reflect the new Assurance Framework rests in difficulties in interpreting the complexities and meaning of the Assurance Framework itself. We strongly encourage the Ethics Committee to convey to the International Auditing and Assurance Standards Board (IAASB) the difficulties it experienced in applying the definition of an assurance engagement and any other provisions of the Assurance Framework. Deficiencies in the Assurance Framework itself cannot be resolved through the Code. The ability of the profession to comply with both International Standards for Assurance Engagements and independence requirements depends on having clear, understandable definitions and guidance that can be consistently applied in practice. It cannot be in the best interests of profession if the Assurance Framework and, in particular, the definition of an assurance engagement are so complex that it is difficult for professional accountants to interpret and apply them.</p>	PwC	See discussion in Agenda Paper 2
		<b>Respondents who are supportive of changes</b>		
54.		We believe that the changes made to the Code to conform to the IAASB Assurance Framework are appropriate and clear and agree that users of the Code should refer to the Assurance Framework itself for details on its application to specific types of assurance engagements and related definitions. We also agree with the differentiation between subject matter and subject matter information and the applicability to the independence section of the Code.	AICPA	Supportive comment
55.		The Australian Accounting Bodies believe that the changes to conform the Assurance Framework are appropriate and clear.	CPA-Aus	Supportive comment

56.		Our review of the changes in the <i>Proposed Code of Ethics for Professional Accountants</i> to conform with the Assurance Framework are appropriate revisions to the document. These revisions are clear and reflect the ethical requirements of professional accountants.	AGA	Supportive comment
57.		As regards the conforming amendments made to section 290 in the draft which is the subject of this consultation, we are aware of the complexities in the IAASB Assurance Framework and we endorse the approach taken to simplify the discussion in favour of ensuring the underlying principles are applied. We have no detailed comments on the draft's changes,	ICAEW	Supportive comment
58.		<p>The proposal distinguishes between the subject matter from the subject matter information. In addition, it states in some assurance engagements that the party responsible for the subject matter may not be the party responsible for the subject matter information.</p> <p>The amendments require the professional accountant in the public practice to be independent of the party responsible part for the subject matter information. In some assurance engagements where there are not audited financial statements with two responsible parties, threats created by interests or relationship with the entity may rise with the party responsible for the subject matter information.</p> <p>Bearing in mind that the revision being amended treats the listed and non-listed companies' situation separately, we agree with the requirements determined for the listed companies but we also think that it would be necessary to clarify that those requirements should not be so strict for the non-listed companies.</p>	FACPCE	Supportive comment



		<b>Audit requirements to be extended to review engagements and Reference to national standards is needed</b>		
59.		<p>The IAASB has decided not to use of the term “client” as it has connotations of the auditor being answerable to the entity (management or those charged with governance) rather than, in the case of a company for example, the shareholders. It is suggested the Ethics Committee also consider not using the term “client”. If the term client is to be retained, the following changes are suggested to the first sentence of the definition of financial statement audit client: “An entity in respect of <del>which</del> <u>whose financial statements</u> a firm conducts an <del>financial statement</del> audit <u>or review</u> engagement.” The reasons for this suggestion are:</p> <p>(a) “an entity in respect of which a firm conducts a financial statement audit” is ambiguous – the entity could be the engaging party rather than the party responsible for the financial statements; and</p> <p>(b) to recognize financial statement review engagements.</p> <p>The following changes are suggested to the first sentence of the definition of financial statement audit engagement: “A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion, <u>or provides an expression of negative assurance, about</u> whether financial statements are prepared in all material respects in accordance with an identified financial reporting framework;<del>s</del><u>Such as an engagements are</u> conducted in accordance with International Standards on Auditing <u>or relevant national auditing standards</u>.” The reasons for this suggestion are:</p> <p>(a) the current construction makes it appear optional as to whether the professional accountant in public practice follows auditing standards or not; and</p> <p>(b) to recognize financial statement review engagements.</p>	IAASB	<p>Audit requirements not to be extended to review engagements – see discussion in Agenda Paper 2</p> <p>Reference to national standard setters to be included</p>

		<b>Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner.</b>		
		<b>Rotation of EQCR - Supportive of proposal</b>		
60.		It is appropriate that the individual responsible for the engagement quality control review be subject to the same rotation requirements as the engagement partner to allow for objectivity in the review process and avoid familiarity with the client and/or the work of the engagement partner.	AGA	Supportive comment See discussion in Agenda Paper 2
61.		<p>We agree that the individual responsible for the quality control review be subject to the same rotation requirements as the engagement partner to mitigate the familiarity threats and ensure the integrity of the audit process.</p> <p>We note however, that there are some differences between paragraphs 290.153 to 290.156 of the <i>Proposed Revised Code of Ethics for Professional Accountants</i> relating to the requirement for the engagement quality controller to rotate off the audit for a period of two years before assuming the role of the engagement partner, and the requirements prescribed in paragraphs 60 to 73 of <i>ISQC 1 (International Standard on Quality Control)</i>. We recommend that IFAC reviews these differences to ensure consistency.</p>	ACAG	See comment 60
62.		<p>There exists a wide variation in roles played by individuals responsible for the engagement quality control review in the audit of a listed entity. In general, however, such individuals adopt an independent stance to their work and do not interact directly with client management. Objectively, the need for safeguarding familiarity threats is less than for the engagement partner.</p> <p>We nevertheless agree with the introduction of this requirement in respect of listed entities as it demonstrates a high level of commitment to maintaining independence. The introduction of a requirement for rotation to be carried out in the same manner as for the engagement partner may prove logistically difficult for smaller auditing firms or where the client is in a specialised industry. We agree, therefore, with the inclusion of the specific guidance at paragraph 290.155 in relation to this issue.</p>	ACCA	See comment 60

63.		With respect to audits of listed entities, we believe it is appropriate to treat the engagement quality control review partner and the engagement partner the same for purposes of the rotation requirement. In addition, we acknowledge that rotation may not always be an appropriate safeguard and therefore agree that there should be some flexibility for both the engagement partner and engagement quality control review partner.	AICPA	See comment 60
64.		<p>The provision related to the rotation, which are the same for the engagement partner as for the individual responsible for the engagement quality control review, don't call for any particular comment. We believe the period of seven years is reasonable.</p> <p>At the moment the French law imposed the rotation only on the engagement partner, who can not audit a listed company for more than six consecutive years, but we would like to specify here that France is working on the issue of the rotation of the person responsible for the engagement quality control review currently as mentioned in the IFAC Code of Ethics.</p>	CNCC-OEC	See comment 60
65.		<p>We agree with this proposal as it would ensure a clear separation of quality control from the operational audit engagement. This measure should contribute to maintaining the integrity of the audit.</p> <p>We note that at ISQC1 (issued in March 2004) does not currently require rotation of the individual who performs the engagement quality control review in audits of listed entities. Presumably ISCQ1 will be changed at some time to conform with this proposed change to the Code.</p>	ICANZ	See comment 60
66.		<p>Yes, he/she should be subject to the same rotation requirements as an engagement partner if the objective of reducing the threat to independence is to be achieved.</p> <p>Audit firms world over will however have to reckon with the challenges of establishing working arrangements with professional Accountants outside their firms or networks.</p>	ICPAS	See comment 60
67.		We are supportive of the proposal that engagement quality control reviewers should be subject to the same rotation requirements as the engagement partner. We are also supportive of the changes to definitions to conform them to ISQC 1.	PwC	See comment 60

68.		We agree.	JICPA	See comment 60
69.		We fully support the requirement that the person responsible for the engagement quality control review, in the case of listed entities, be subject to the same rotation requirements as the engagement partner.	D&T	See comment 60
		<b>Rotation of EQCR is not necessary</b>		
70.		If the individual responsible for quality control of a listed audit client has no direct contact with the client or is involved in other services for the client, any potentially perceived threats to independence must be minimal and would not justify the need for rotation. It is expected that such an individual would primarily have a technical role in the audit firm responsible for monitoring pre-determined quality control procedures for a number of audit assignments.	AAT - ITC	See discussion in Agenda Paper 2
71.		<p>There is support for the same rotation requirements to apply to both the engagement partner and individuals responsible for engagement quality control. This requirement provides an effective safeguard of objectivity and independence for listed entity audits. However, given the effective date of 31 December 2005, transitional provisions may be required to implement these requirements. In particular, as the requirement to rotate the individual responsible for the engagement quality control review is a new provision, it is not clear that the transition period, in accord with IFAC Interpretation 2003-01, is available.</p> <p>Consideration should also be given to consistency with ISQC1 in terms of definitions used. The definition for engagement partner is consistent with the definition in ISQC1, however there is no corresponding use of the definition ‘engagement quality control reviewer’. In the Australian context the engagement quality control reviewer will in some cases also satisfy the definition of an audit review partner, and will therefore be subject to the rotation requirements of our Independence standard.</p> <p>However, in other cases the engagement quality control reviewer will be performing merely a technical role and will not be in contact with the audit clients. Consequently the familiarity threat does not arise and the safeguard of rotation is not required.</p>	CPA-Aus	See comment 70

		<b>Rotation of ECQR should only be required if other safeguards are not effective</b>		
72.		FAR finds FEE's preliminary comment on mandatory rotation of engagement quality review partner very relevant for us in Sweden. In such small countries as Sweden with a limited number of professionals, rotations rules for engagement quality review partner may create practical problems, as described in the FEE preliminary comment. In certain situations, the purpose with the proposed rule could be undermined. FAR therefore agrees with the FEE comment that additional rules should be presented as an ultimate safeguard when other safeguards do not sufficiently reduce or mitigate the familiarity threat.	FAR	See comment 70
73.		<p>We are of the opinion that the Code should avoid introducing additional rules. We therefore propose that as part of the framework approach, the rotation of the individual responsible for the engagement quality control review should be presented as an ultimate safeguard when other safeguards do not sufficiently reduce or mitigate the familiarity threat.</p> <p>Engagement quality control reviewers generally do not maintain close contact with management of the entities which financial statements are being audited, and in fact, may have very little contact with management if at all. Consequently, they are generally not subject to the familiarity threat to which engagement partners may be exposed. Furthermore, since the engagement partner is subject to rotation, the threat that the engagement quality control reviewer will lose his objectivity with respect to the engagement is likely to be very low. Moreover, introducing such a rotation requirement would be disproportionately burdensome, especially for the smaller firms that audit listed companies or public interest entities. Also for larger firms, there may be difficulties with adverse potential effects on audit quality for specialised industries. There is a wide spectrum of situations that cannot be appropriately captured by one requirement.</p>	FEE	See comment 70

74.	<p>In our opinion, based on the principle approach, the rotation requirements should be limited to situations where all other safeguards do not sufficiently reduce or mitigate the familiarity threat.</p> <p>Engagement quality control reviewers generally do not maintain close contact with management of the entities which financial statements are being audited, and may have very little contact with management if at all. Consequently, they are generally not subject to the familiarity threat to which engagement partners may be exposed. A requirement in this situation could lead to the conclusion that a requirement should also be introduced in other situations. However, we find that the situations should be dealt with according to the principle based approach (analysis of threats and safeguards).</p>	FSR	See comment 70
75.	<p>We are not in favor of the proposed amendments to 290.153 et seq. We view rotating both the engagement partner and the individual responsible for the engagement quality control review as an overly zealous and unnecessary regulatory step that is based on a misconception of the role of an engagement quality control reviewer, as opposed to an engagement partner.</p> <p>Engagement partners, almost by definition, maintain close contact to management of the entities whose financial statements are being audited. Hence, there may be a familiarity threat resulting from prolonged contact with management of an entity for which rotation may be the only safeguard by which that threat may be reduced. Engagement quality control reviewers, on the other hand, generally do not maintain close contact with management, and in fact, may have very little contact with management at all. Consequently, they are generally not subject to the familiarity threat to which engagement partners may be exposed. Furthermore, since the engagement partner is subject to rotation, the threat that the engagement quality control reviewer will lose his or her objectivity with respect to the engagement partner is likely to be very low.</p>	IDW	See comment 70

76.	<p>Even if a familiarity threat for an engagement quality control reviewer were to arise, this does not imply that such a threat cannot be reduced by appropriate safeguards other than rotation. In our opinion paragraph 290.156 should be amended with respect to the individual responsible for engagement quality control review such that alternative safeguards could be implemented in general rather than only “when a firm has only a few people with the necessary knowledge and experience...”. An example of a safeguard to reduce the familiarity threat for engagement quality control reviewers might be firm policies and procedures with respect to contact between the reviewer and client management. A further example of a safeguard, such as consultation with professional organizations on matters of particular audit significance, might be useful guidance to auditors in smaller firms. Rotation represents the final safeguard if other safeguards no longer prove to be effective.</p> <p>Such over-regulation will ultimately be counterproductive to enhancing the effectiveness of the profession. We understand that this issue was discussed at some length by the IAASB in drafting ISQC 1 and referred to the Ethics Committee for further deliberation. The proposal should not be included in the IFAC Code, as it is not principles based – that is, it has not been properly integrated into the Code’s framework of threats and safeguards. In addition, as currently drafted, the requirement might cause considerable practical problems for smaller firms. Furthermore, such a rotation requirement is not only impracticable for SMP’s – in many jurisdictions, there are only a limited number of auditors in the large accounting firms specialized in certain industry sectors. Consequently, this requirement may also be impracticable for the large accounting firms in many jurisdictions.</p>	IDW	See comment 70
77.	<p>We note that this requirement is not expressly set out in the International Standard on Quality Control (ISQC) 1. This requirement is in the public interest and would be an additional safeguard to reduce or eliminate any threats to independence, arising from long association with the audit/assurance client which is a listed entity. We would however, like to caution that this safeguard, if implemented, may impose constraints in some jurisdictions where there are insufficient professional accountants in public practice with the relevant expertise and industry knowledge, particularly for more specialized industries, to act as the engagement quality control reviewing partner on a rotational basis. We would therefore urge the IFAC Ethics Committee to fully consider the implications arising from the implementation of this requirement.</p>	MIA	See comment 70

		<b>Transition period needed for rotation of EQCR</b>		
78.		When adopted, we suggest that a transition rule be adopted that would allow such person two additional years before rotation is required.	D&T	See Agenda Paper 2
79.		The challenge is even greater since when the code becomes effective, the time an engagement partner has handled a particular engagement client will be considered. IAASB may need to consider the implications of this proposal.	ICPAS	See comment 79
		<b>Is the effective date appropriate?</b>		
80.		<p>Section 290 indicates that the effective date is 31st December 2004. Although the original independence requirements on which the Section is based set the effective date as 31st December 2004, it would seem to be appropriate that the revised requirements which have been designed to complement the other Sections of the Exposure Draft should have an effective date which coincides with that for the entire Code (although earlier adoption can be encouraged) so that specific mention of an effective date within Section 290 should be removed.</p> <p>Furthermore, as the deadline for comments on the Exposure Draft is 30th November 2004 the statement in paragraph 290.26, “Earlier application is encouraged” in relation to an effective date of 31st December 2004 appears to be superfluous.</p>	AAT - ITC	See Agenda Paper 2
81.		<p>We agree with the effective date of December 31, 2005, with encouragement of earlier application.</p> <p>(Please note that the date on the Proposed Revised Code (page 39) needs to be amended to December 31, 2005).</p>	ACAG	See comment 80
82.		We have no objection to the proposed effective date for the <i>Proposed Revised Code of Ethics for Professional Accountants</i> of 31 December 2005, with encouragement of earlier application, appears to be appropriate.		See comment 80



83.		An effective date for the Code of 31 December 2005 is appropriate with earlier adoption encouraged. In addition appropriate transitional arrangements for audit engagements in process at that date and in relation to new provisions may be required.	CPA-Aus	See comment 80
84.		In view of the nature of these changes, we accept that a commencement date of 31 December 2005 is appropriate.	ACCA	See comment 80
85.		We are of the opinion that the proposed date December 31st 2005 is adequate.	FACPCE	See comment 80
86.		The effective date of 31 December 2005 is in our view appropriate.	FEE	See comment 80
87.		The effective date of 31 December 2005 is in our view appropriate.	FSR	See comment 80
88.		<p>It is unclear what the effective date of the Code is intended to be. Paragraph 290.26 states an effective date of ‘assurance reports dated on or after December 31, 2004’. This is in line with the effective date of the current Section 8. However, the explanatory memorandum to the exposure draft states that the effective date will be December 31, 2005.</p> <p>The APB recommends that the current version of the Code (including Section 8, which has the authority of an international standard) remains in place during 2005 and the revised Code comes into force with effect from December 31, 2005.</p>	APB	See comment 80
89.		<p>We note that the effective date on page 39 of the revised Code is 31 December 2004. We are unsure whether the IFAC Ethics Committee intended the effective would be 31 December 2005, as the earlier date of 31 December 2004 would appear to be impracticable.</p> <p>If the effective date is indeed 31 December 2005 we would be supportive of that, with encouragement of earlier adoption.</p>	ICANZ	See comment 80

90.		We believe the effective date of December 31, 2005 is appropriate. Although comments were only requested on Section 290 of the Code, we wish to advise you that we believe the changes made to Section 280 (Conflict of Interest) do not adequately address the concerns we expressed in our response to the July 2003 Exposure Draft. We encourage the Ethics Committee to consider developing a comprehensive and robust standard on Conflicts of Interest.	CICA-PIIC	See comment 80
91.		We have no objection to the proposed effective date of December 31, 2005 for the Code.	CNCC-OEC	See comment 80
92.		<i>Yes</i> This will however require firms to move fast in addressing the necessary capacity issues We trust that the above comment will prove useful in the review of the code.	ICPAK	See comment 80
93.		Yes –provided that the Code is issued without undue delay we see no reason to alter our previous view.	IDW	See comment 80
94.		As we have previously urged the Ethics Committee to carry out additional revisions to the Ethics Code in a comprehensive project, our view is that it does not seem desirable to make a number of small changes piecemeal and therefore have multiple effective dates for revisions of different portions of the Code. We have no objection to setting the date shown (December 31, 2005) for the changes in rotation requirements described, but we remain concerned that much more revision of the Code needs to take place on a timely basis.	IOSCO	See comment 80
95.		It is unclear in the ED whether the proposed deadline requires that the revisions are effective “where the assurance report is dated on or after 31 December 2005” or “for the year ended on or after 31 December 2005”. The meaning should be clarified. The Committee should in particular give consideration to transitional arrangements in the case of an engagement quality control reviewer required to rotate for the first time under the Code, for example consistent with those available to the lead engagement partner pursuant to Interpretation 2003-02.	KPMGI	See comment 80

96.		<p>We believe that the proposed Effective Date for the Proposed Revised Code, namely, 31 December 2005, is appropriate.</p> <p>We however wish to highlight that this timeframe may be inadequate if there is any delay in the issuance of the Proposed Revised Code, which is at present expected to be approved and issued in February 2005. Member bodies would require time to draft the national version of the Revised Code of Ethics and issue the same for exposure and comments to their respective members and stakeholders, and thereafter, if no major amendments are required, issue the same. If there is any delay in the issuance of the Proposed Revised Code, the Effective Date should accordingly be extended.</p>	MIA	See comment 80
97.		<p>We are supportive of an effective date of December 31, 2005, except as noted above with respect to the rotation requirements. We recognize that some member bodies may have difficulty implementing changes in that timeframe, but we would strongly urge member bodies to use their best efforts to implement by such time.</p>	D&T	See comment 80
98.		<p>We agree. However, we believe that sufficient length of time is necessary for preparation and dissemination. In addition, the time required for member bodies to change their Code of Ethics in order to conform IFAC's should be taken into consideration. Therefore, we propose that additional two-year grace period should be provided though the effective date is to be set at 31 December 2005.</p> <p>Similarly, it is appropriate to consider the effective date for the 290.26 clause in the same way.</p>	JICPA	See comment 80
99.		<p>The IFAC Ethics Committee proposes an effective date for the Code of December 31, 2005. Due to the extensive due process procedures required by many member bodies in order to promulgate new and revised ethics standards, we are concerned that this date may not provide sufficient time and therefore will result in noncompliance by member bodies. Accordingly, we recommend that the Committee consider extending the effective date to June 30, 2006.</p>	AICPA	See comment 80
		<b>Other Comments</b>		

100.	IT 2003-01 & 02	<p><u>Transition Rule for Audit Partner Rotation:</u> In our view, greater clarity is needed to determine how the transition rule requiring audit partner rotation is to be applied. Interpretation 2003-02 provides that the audit partner is allowed two additional years “from the date of implementation (or early adoption) before rotating off the engagement.” The Code was required to be applied to reports issued after December 31, 2004. Thus, for example, for a calendar-year company, the Code would apply for 2004. It is not clear, however, whether the partner would have two additional years (i.e., 2005 and 2006) and whether the answer differs if the partner has served 7-plus years or is in his or her 6<sup>th</sup> or 7<sup>th</sup> year. Moreover, it seems illogical to get a different answer for a company with, for example, an October year-end, depending on whether the report is issued the last week in December or first week in January. Finally, further confusion is added by Interpretation 2003-01, which refers to December 31, 2004 as the implementation date (not January 1, 2004).</p>	D&T	Discussed in Agenda Paper 2
101.	Gifts and Hospitality	<p><u>Gifts and Hospitality:</u> The provisions in the Code dealing with gifts and hospitality seem inconsistent. Section 260, which applies to all clients of professional accountants in public practice, and Section 350, which applies to professional accountants in business, would prohibit the receipt of gifts from any client or vendor, respectively. However, Section 290 on independence would permit gifts and hospitality assuming the recipient is not a member of the assurance engagement team and the threats to independence are acceptable. We believe Sections 260 and 350 should be revised, consistent with the Code, by adopting a threats and safeguards approach to gifts and hospitality, similar to what is contained in Section 290. Not only will this achieve consistency, it will allow for circumstances that do not pose a threat to compliance with the fundamental principles.</p>	D&T	Discussed in Agenda Paper 2

102.	Gifts and Hospitality	<p><b>Gifts and Hospitality</b></p> <p>While we understand that the Committee is not soliciting comments on sections previously exposed, when reading the Code in its entirety we noted a possible inconsistency that we believe the Committee should consider. Specifically, the treatment of gifts and hospitality under Section 260 (applicable to <i>all</i> clients of professional accountants in public practice) and Section 350 (applicable to customers and vendors of professional accountants in business) appears to be inconsistent with respect to the treatment of gifts and hospitality under section 290.212 (applicable to assurance clients). The guidance applicable to assurance clients under Section 290 (i.e., independence) permits individuals who are not on the assurance team to accept gifts and hospitality from an assurance client provided they believe that based on the specific facts and circumstance, the threats to independence can be reduced to an acceptable level. On the other hand, Section 260 appears to prohibit an accountant in public practice from accepting a gift from any client (i.e., including non-assurance clients) that are other than clearly insignificant regardless of their position in the firm or involvement on the engagement. Similarly, Section 350 applies the same threshold for accountants in business. We see no reason why the guidance in Sections 260 and 350 should be more restrictive than that provided for assurance clients under the independence section.</p> <p>We believe this is a fatal flaw from a conceptual level and respectfully request that the Committee reconsider the positions taken under Sections 260 and 350. Specifically, we recommend that the Committee permit an accountant to consider whether there are safeguards that could be implemented to mitigate the threats when a gift or hospitality may be more than “insignificant”. In cases where there are no safeguards to eliminate or mitigate the threats to an acceptable level, then we would agree that the accountant should not accept such an offer. Accordingly, we recommend that paragraphs 260.3 and 350.4 be revised as follows (proposed revisions in <i>italics</i>):</p> <p>260.3 If evaluated threats are other than clearly insignificant, <i>safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards</i>, a professional accountant in public practice should not accept such an offer.</p> <p>350.4 If evaluated threats are other than clearly insignificant, <i>safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards</i>, a professional accountant in business should not accept the inducement.</p>	AICPA	See comment 102
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103.	Level of Authority	<p>As noted above, we generally welcome the amendments that have been made, but would like to draw your attention to the following matters that directly result from amendments:</p> <p>We have previously queried an apparent ambiguity in the exposure draft dated July 2003 in respect of the level of authority. A Preface has subsequently been added to this revised exposure draft, and now deals with this issue.</p> <p>The new requirement, which places the onus on individual professional accountants to apply the Code (see the last sentence of the Preface) is not consistent with the requirements in the IFAC Constitution in conjunction with IFAC Statement of Membership Obligations 4, which requires the <u>member bodies</u> to notify their members of the provisions of the IFAC Code (and other pronouncements developed by the Ethics Committee) and allows no <i>member body</i> to apply less stringent standards than those stated in Section 8. Furthermore, the new wording goes beyond the requirements in the previously drafted version of the Code of Ethics.</p> <p>The exposure draft of the Code dated July 2003 clearly stated that IFAC member bodies in each country are responsible for implementing and enforcing detailed ethical requirements. This is not reflected in the revised edition's Preface and the onus to apply potentially more stringent requirements of the IFAC Code of Ethics has now been placed on the <u>individual</u>. On this basis, the Preface needs to be made consistent with SMO 4 and the IFAC Constitution.</p> <p>Furthermore, we are concerned that the last paragraph of the Preface places an unnecessarily onerous burden on the individual professional accountant in requiring: "Professional accountants should be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation". The individual professional accountant would thus be required to:</p> <ol style="list-style-type: none"> <li>1. make him or herself aware of the differences between the requirements of the Code and the requirements and guidance applicable in his or her jurisdiction,</li> <li>2. assess which of the requirements is the more stringent,</li> <li>3. should this be the Code, determine whether compliance is prohibited by law in his or her jurisdiction comply with the more stringent Code requirement when this is not the case.</li> </ol> <p>In our opinion the proposed process is impracticable for an individual professional accountant. This sort of process ought to be applied by the member bodies by means of SMO 4.</p>	IDW	Previously discussed – no change proposed supportive of approach
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104.	Practitioner override	<p>Section 110 of Part A has been augmented by the addition of the following sentence: “A professional accountant will not be considered to be in breach of paragraph 110.2 if the professional accountant provides a modified report in respect of a matter contained in paragraph 110.2.” We believe that this change has not clarified the professional responsibilities of accountants.</p> <p>We refer to our letter dated September 15, 2004, which details our concerns relating to interpretation of the issue of auditor override together with suggested wording. From your response in your letter dated November 3, 2004, we are under the impression that the Committee may have misinterpreted the nature of our concern. In particular, we believe that the assertion in your letter that this issue is an IAASB matter is misplaced because it also applies to accountants in business that prepare information.</p> <p>Furthermore, your response stated that a requirement in ISA 700 for an override leading to a modified report would not be regarded as a breach of the ethical requirements in the Code. This was not the issue. The auditor override was incorporated into the current draft of ISA 700 by the ISA 700 Task Force of the IAASB on the basis that the Code <i>requires</i> such an override <i>beyond</i> any requirements in the applicable financial reporting framework. We question whether this is an appropriate interpretation of the Code because this would lead to the rather strange situation that auditors have greater responsibility for the content of the audited financial statements than management does unless management were also professional accountants subject to the Code.</p> <p>What we are seeking is clarification whether the Code does in fact <i>require</i> professional accountants (including auditors) to override the financial reporting framework if its application leads to misleading financial information. As we pointed out in our letter to you dated September 15, 2004, some legal environments do not allow the auditor to override legal requirements.</p> <p>However, if the Code were interpreted as including such a requirement, we were seeking some legal protection for professional accountants (including auditors) by allowing them to presume, unless there is evidence to the contrary, that information prepared in accordance with legal requirements is not misleading and that hence any representations to this effect, if true, also are presumed not to be misleading.</p> <p>We would be pleased to be of further assistance in this matter and look forward to hearing from you.</p>	IDW	Previously discussed – no change proposed
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105.	Integration of former Section 8	<p>Changes to conform to the IAASB's International Framework for Assurance Engagements and to integrate the former Section 8 into Part B of the Code</p> <p>In our opinion, Section 290 "Independence- Assurance Engagements" (formerly section 8) has not been fully integrated into the framework in Part A. Throughout the Code of Ethics, and in particular in Part A, reference has been made to "<i>threats</i> to compliance with the <i>fundamental principles</i>". The Code goes on to discuss <i>safeguards</i> to <i>these</i> threats. In fact, Part A does not include the word "independence" at all. In our view, applying the framework laid down in Part A, would lead to the conclusion that a lack of independence constitutes a <i>threat</i> to the fundamental principle of <i>objectivity</i>, and conversely, being demonstrably independent would therefore represent the application of a <i>safeguard</i> to this threat to objectivity. We addressed this issue in more detail on page three of our letter dated November 27, 2003 in response to your request for comments at that time and would like to refer to these comments.</p> <p>To illustrate our contention that section 290 has not been fully integrated into the framework in Part A, the new fifth bullet point (which is an addition) to paragraph 200.12 of Part B makes the first reference to "threats to independence" without explaining the nature of the link between independence and the fundamental principles. Because "independence" is neither a fundamental principle, as defined by Part A of the Code, nor does the Code explain a link to these fundamental principles, the reader will be confused. For this bullet point to be understood in context, Part A should first explain how independence is linked to the fundamental principle of objectivity. In order to accurately reflect the wording of paragraph 6 of the International Framework for Assurance Engagements which states that Part B of the Code: "...includes a conceptual approach to independence..." it is necessary to categorize independence as a sub-set of objectivity. In part, an explanation has been inserted into paragraphs 280.2 and 280.3, but is not, in our opinion, optimally positioned within the Code. In addition, as stated in our letter dated November 27, 2003, we continue to maintain that independence may not be solely relevant to assurance engagements and that therefore Section 120 of Part A constitutes an appropriate place to discuss the connection.</p> <p>Following the relocation of the framework for identifying, evaluating and responding to threats to independence from Section 8 of Part B to Part A, the wording of paragraph 290.5 needs to be amended. The proposed draft incorrectly states: "This section provides a conceptual [<i>sic</i>: see our comments on the use of the term "conceptual framework" below] framework...", which is no longer the case.</p>	IDW	Previously discussed – no change proposed
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106.	Acceptable vs. unacceptable	<p><b>Acceptable vs unacceptable</b></p> <p>We question the need to revise the word “unacceptable” of the former 1.13 of part B, to read “acceptable” in 200.11. This now reads “what a reasonable and informed third party.... would reasonably conclude to be <i>acceptable</i>”. This is more stringent, and does not correspond to the [unchanged] similar wording in 100.15, 290.3 and 290.15.</p>	IDW	Previously discussed – no change proposed
107.	Using the work of an expert	<p><b>Using the work of an expert</b></p> <p>While the wording of the paragraph 210.9 has been changed from that of the previous paragraphs 2.13 and 2.14, reference should be made to the need for the professional accountant to possess sufficient skills to interpret the results of the work of an expert. The emphasis remains solely on the desirability of ensuring the experts credentials</p>	IDW	Previously discussed – no change proposed
108.	Basis for conclusions	<p>We have recently written separately to the Chair of the Ethics Committee drawing attention to our response to an IAASB exposure draft on due process and working procedures. In that response, we suggest that all new pronouncements to be accompanied by a ‘basis of conclusions’ document. We believe that such an approach could be used by the Ethics Committee to improve clarity without the need to include too much additional material in the Code itself.</p>	ACCA	See discussion in Agenda Paper 2

109.	Fundamental Principles	<p><b>Fundamental principles</b></p> <p>We previously identified two basic principles that have not been addressed in the revision of the exposure draft. In our opinion these represent major deficiencies, which should be addressed. We quote from our letter dated November 27, 2003 as follows (quotes from this letter are in quotation marks and italic script):</p> <p>The proposed revised Code regards its identified principles or objectives as a dichotomy, rather than as a continuum. It should be stressed that <u>sufficient</u> application of each principle is required as, for example, the level of integrity a professional accountant should adopt or competence required will vary from case to case.”</p> <p><i>Paragraph 100.5 repeats the former 1.10 of Part A and ends with “such that compliance with the fundamental principles is not compromised”. As such this is a gross oversimplification because one cannot comply with the principles as they now stand. One can only ensure that the principle be expressed in a manner that recognizes that a professional accountant must apply each of these principles adequately in the circumstances. Furthermore, annotating compliance (or application) as a sufficient degree / an adequate level, or similar would be more practicable. We suggest the introductory sentence to 100.4 should be amended to read along the following lines: “A professional accountant must apply each of the following principles to the degree appropriate in the circumstances”. The way the principles and the compliance therewith are currently written in the Code, a professional accountant must have 100 % integrity, objectivity, professional competence and due care, confidentiality and professional behavior. This is patently unreasonable because neither a professional accountant, nor anyone else is in a position to achieve this requirement.</i></p> <p>“Similarly the concept of “conflict of principles” has not been addressed. An example, of this may be an instance where a conflict of interest between integrity and confidentiality exist, in which it is impossible to comply 100% with both principles concurrently. We consider it necessary for IFAC to address the phenomenon of “conflict of principles” as an integral part of its consideration of Fundamental Principles. In addition, the Code should make readers aware that in some situations specific safeguards applied to alleviate threats to some principles may create threats to other principles. For example, the safeguard of rotating senior personnel in an engagement as listed under Part B 1.16 aims to have a positive impact on objectivity, but may have a negative impact on professional competence.</p> <p style="text-align: right;">Contd</p>	IDW	Previously discussed – no change proposed
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110.	Fundamental Principles	<p><u>These represent basic deficits in the Code that should be remedied.”</u>  The comments on page 11/14 of our letter dated November 17, 2003 regarding the individual Fundamental Principles have not been addressed.  Furthermore, the framework does not make it clear that it is <i>never</i> possible for an individual to attain <i>complete</i> objectivity (note our comments on 100 % compliance with the principles above). As a further extreme example to better illustrate the point, the only individual who is completely objective is someone who knows “nothing”; such an individual would certainly not be competent.</p>	IDW	Previously discussed – no change proposed
111.	Conceptual Framework	<p><b>Conceptual framework</b>  Coupled with the deficiencies noted above we are not convinced that part A provides a <i>conceptual</i> framework as stated in the introduction (100.2). Current defects include:</p> <ul style="list-style-type: none"> <li>• No reference to the need for each professional accountant to be <i>seen</i> to be complying with the fundamental principles. The only concession to this in the Code as currently drafted is in the section concerning <i>independence in appearance</i> in 290.2. This should apply throughout the Code and not exclusively to independence.</li> <li>• The theoretical and logical basis is still missing (i.e., how do these principles arise and why are they important to professional accountants) and continues only to be assumed. The framework is not conceptual in nature.</li> <li>• Application of safeguards (100.5-100.9) does not refer to safeguards as having to be <i>effective</i>, rather only to <i>appropriate</i> safeguards. The IDW has previously suggested that reference be made to <i>effective and appropriate safeguards</i>. This has not been addressed.</li> </ul> <p>We realize that resolution of a number of the matters we have revisited above would entail changes to the framework introduced in Part A of the Code, however we view these as important issues for the credibility of the Code and ultimately for the accountancy profession worldwide.</p>	IDW	Previously discussed – no change proposed

112.	ISQC1	<p>The "Revised Code" is proposed to be amended so that the rotation requirements, in respect of an audit of a listed company, that apply for the person responsible for engagement quality control review are the same as those that apply to the engagement partner. This requirement is to be specified in paragraphs 290.153 to 290.156 of the "Revised Code".</p> <p>From our reading of ISQC 1, the rotation requirements that apply to the quality control reviewer are not the same as those that apply to the engagement partner - and with good reason. It is possible that changes made to ISQC 1 between the exposure draft and the final version have been overlooked in preparing the "Revised Code".</p> <p>When ISQC 1 was first exposed there were a number of requirements relating to the engagement quality control reviewer (including a requirement for the engagement quality control reviewer of a listed entity to rotate off the audit for a period of 24 months before they could assume the role as the engagement partner). We objected to this requirement (presumably with a number of others) in our submission on ISQC 1. As a result, ISQC 1 was changed and there is now no requirement (from our reading of ISQC 1) for the rotation requirements that apply to the engagement partner to also apply to the engagement quality control reviewer. As a consequence we think the requirements set out in paragraphs 290.153 to 290.156 of the "Revised Code" need to be reviewed to ensure they are consistent with paragraphs 60 to 73 of ISQC 1.</p>	OAGNZ	Proposed changes to the Code have been communicated to IAASB to enable them to consider whether any changes to ISQC1 are required
113.	Review is continuous process	The French bodies would though welcome a statement in the Code which would clearly recognize that the review of the Code is a continuous process.	CNCC-OEC	See Agenda Paper 2

114.	Application to Auditors General	<p>The changes in the <i>Proposed Revised Code of Ethics for Professional Accountants</i> to accommodate the Assurance Framework, are appropriate and clear subject to the following:</p> <ul style="list-style-type: none"> <li>• Inclusion of Auditors-General and their delegated staff authorised to sign assurance reports in the definition of ‘professional accountant in public practice’; and</li> </ul> <p>Assessment of the implications of firms or network firms having controlling</p> <p>Apart from the above, we agree with the Conceptual Framework approach outlined to identify, evaluate and address threats of independence in assurance and non assurance services.</p>	ACAG	To be addressed by Members in Govt TF
115.	Presentation	<p>Style of presentation. The IFAC Code does not clearly distinguish requirements from associated guidance. The APB has sought to address this by identifying the basic principles and essential procedures through the use of bold type – the existing IAASB convention. IAASB is currently undertaking a ‘clarity’ project to ensure the requirements of ISAs are clearly communicated and we believe this should be extended to the IFAC Code.</p>	APB	Ethics Committee staff will monitor the IAASB deliberations of the Clarity project
116.	Network firm definition	<p>Another example of our concerns is the Code’s definition of “network firm”. As we have previously stated, we do not believe it is appropriate to qualify the definition of a “network firm” by referring to “a reasonable and informed third party <u>having knowledge of all relevant information</u>” (emphasis added). By definition, when one is talking about the <i>appearance</i> of independence, most reasonable and informed third parties will <u>not</u> have knowledge of all relevant information dealing with the nature of the relationships that exist among national firms that operate as part of an international network.</p> <p>We believe that the present definition is in obvious need of revision to ensure that its use, in both the Ethics Code and the IAASB’s standards, achieves the intended effect. In our view, when the use of a globally-recognized firm name creates the appearance to the general public of a firm network, that should be sufficient to establish a network relationship regardless of whether knowledge of all relevant information (for example, the details of legal contract agreements among firms) might change that perception. The more restrictive definition that now exists in the Code could result in the scope of application of the Code’s independence requirements being unduly limited or unclear in audits involving multiple firms.</p>	IOSCO	To be considered as part of the Network firm project

117.	200.12	The new thirteenth bullet point of paragraph 200.12 “Advising partners and professional staff of those assurance clients and related entities from which they must be independent” is at odds with ISQC 1 since it is far more specific. We appreciate that this also derives from the former Section 8; however, there are a number of ways in which a firm can achieve the objectives set forth in ISQC 1. The Code of Ethics should be more general and provide the example that firm-wide safeguards be in line with general requirements of paragraph 18 of ISQC 1: “Establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and where applicable others subject to independence requirements, maintain independence”.	IDW	No change proposed
		<b>Other Editorial</b>		
118.	220.3(c)	We believe the following italicized words were inadvertently left out from the paragraph: “Notifying the client that the professional accountant in public practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service); <i>and obtaining their consent</i> to so act.	AICPA	Adopted
119.	200.7 & 290.152	Part B, paragraph 200.7 (formerly Part B 1.10) deals with familiarity threats for accountants in public practice. The last bullet point has been added and reads: “Long association of a senior member of the assurance team with the client”. Similarly, the last bullet point of 200.13 has been added to read “Rotating senior assurance team personnel”. The terminology is not in line with that used in 290.152: “Long association of senior personnel with assurance clients”. We query the reasons behind the application of varying terminology as this may lead to confusion.	IDW	Adopted – change to ¶200.7
120.	290.142	Paragraph 290.142 (d) last bullet point, we assume that <u>engagement</u> quality control review is meant. The text refers only to “quality control review”.	FEE	No change proposed – engagement quality control review is more narrow than engagement quality control review
121.	350.3	The second sentence should begin with the word, “If”: “ <del>If</del> a reasonable...”	AICPA	Adopted

122.	350.8	The word “such” should be deleted: “Where the pressure to offer an <del>such</del> unethical inducement...”	AICPA	Adopted
		<b>Comments to be considered by independence revisit TF</b>		
123.	Separate standard for audits	The APB is of the view that the work that has been undertaken within the EU and more recently by the APB has advanced the strength and clarity of ethical standards for auditors. We believe that having separate independence requirements for accountants carrying out statutory audits of financial statements to guidance and standards on independence for other assurance services, results in a much clearer and more robust set of standards. We urge IFAC to focus on standards of independence for auditors in its project to revisit the independence requirements in Section 290 of the revised Code. This will increase the clarity of prohibitions and assist in IFAC’s objective to serve the public interest, through restoring credibility in financial reporting internationally.	APB	Considered in Agenda Paper 3 under heading “Structure of Section”

124.	Separate standard for audits	<p>We understand that the IFAC Ethics Code has been developed to apply to all accountants, not just accountants who are conducting audits of listed companies and/or are in jurisdictions with regulated markets. We also understand that there may be issues involved relating to the desire for member bodies to achieve compliance with the Code as part of their IFAC Member Obligations and an overall effort to improve practice over time. These considerations appear to be resulting in a very general Code with few specific requirements and prohibitions.</p> <p>If IFAC has a goal that its Ethics Code will ultimately become recognized by regulators around the world as an independence standard, it may need to reconsider whether the current approach in the Code is consistent with this goal. Setters of international standards which seek to become “internationally accepted” will need to establish clear principles accompanied by rigorous, specific requirements that will support the conduct of high quality audits on a global basis. This means setting a high bar for auditing standards and independence and ethics requirements. If the independence requirements that need to exist for public listed company audits differ significantly from requirements for other professional accounting practice, perhaps separation of the necessary guidance should be considered. If trying to write a Code that can apply to everyone has the effect of obscuring or undermining what is expected in listed company audits, the result will not be acceptable.</p> <p>The IFAC Ethics Committee has recently embraced a more open and transparent process and a number of other reforms that are designed to enhance standards setting in the public interest. The Committee has a valuable opportunity to advance the independence, professionalism, and quality of international ethics and independence standards. Responding to this opportunity will necessitate a clear definition of goals and a great deal of difficult work.</p>	IOSCO	<p>Review of independence requirements covered in Agenda Item 2</p> <p>Convergence strategy of Ethics Committee considered as part of Agenda Item 6</p>
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125.	Review of Section 8 required	<p>In our April 30, 2002 letter to IFAC, we urged the Ethics Committee to conduct an ongoing review of the Code in light of events and conditions then occurring, to ensure that the Code would remain consistent with current expectations. Since the Code was issued in 2001, there have been many developments in auditor oversight and independence matters in countries around the world. In particular, Canada, France, Japan, the United Kingdom, the United States and other countries have created new bodies for oversight of auditors and/or issued new auditing and independence standards or recommendations. The European Union is undertaking a comprehensive program to improve audit quality assurance and strengthen auditor independence. IOSCO has issued Statements of General Principles for Auditor Oversight and Auditor Independence for consideration in all member jurisdictions seeking to evaluate and improve their requirements for auditors of public companies.</p> <p>On January 29, 2004, we wrote to the Ethics Committee expressing our concern that “The current content of Section 8 of the Code does not, in our view, adequately reflect current public expectations for auditor independence. The Code needs to undergo further revision as a matter of urgency.”</p>	IOSCO	See comment 124
126.	Review of Section 8 required	<p>IOSCO Standing Committee No. 1 welcomes the recent IFAC reforms in the processes for setting standards and urges the Ethics Committee to undertake a comprehensive review and revision of the Ethics Code as it applies to listed company audits, as a matter of high priority. The Ethics Committee should work closely with the IAASB to address Framework issues, network firm and other key definitions, and all aspects of auditor independence requirements in the public interest. We also encourage the Ethics Committee to consult with national standards setting bodies, regulators, users of audits, and other organizations that are undertaking projects on independence matters or have expressed broad concerns about present independence requirements. Such action would enhance the opportunities to improve both international standards on auditing and the Ethics Code, and could also help to encourage global convergence in standards.</p>	IOSCO	See comment 124

127.	Safeguards and documentation	<p>Events and continued developments have continued to impact expectations and requirements for independence of public listed auditors. The content of the letters noted above expresses concerns as they existed at that time and these concerns have not lessened since. The current Ethics Code is not fully in compliance with the IOSCO General Principles. For example, it does not contain sufficient clear and specific prohibitions, nor does it specify requirements to document safeguards that have been applied to mitigate threats to independence, that would at least cover the areas of self-interest, self-review, advocacy, familiarity, and intimidation. Where safeguards are discussed, the guidance seems very general and/or incomplete.</p> <p>Though we are not objecting to use of a threats and safeguard framework approach as one basis for securing auditor appearance in fact, mind, and appearance, we believe the actual application of safeguards to particular situations, as laid out in section 290, is not always clear or appropriate. Two examples are as follows:</p> <ul style="list-style-type: none"> <li>(a) Though stated in the framework that there may be situations when no safeguards are available to reduce the threat to an acceptable level, and ‘the only possible actions are to eliminate the activities or interest creating the threat, or to refuse to accept or continue the assurance engagement’ (290.16), this is not sufficiently carried through in the subsequent text and application to particular situations. It is not always clear, in some of the particular situations presented, that there may be certain situations where the threat is so great that the only possible action is as in 290.16.</li> <li>(b) Some of the actions put forward as safeguards to deal with particular threats are not, in themselves, safeguards but are merely additional publication or communication requirements (e.g. in section 290.162 it is suggested that discussing independence issues with those charged with governance is a safeguard).</li> </ul>	IOSCO	See comment 124
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128.	Safeguards	The nature of applicable safeguards. The APB has taken the view that the safeguards created by the profession, legislation or regulation and firm-wide safeguards in the work environment (which are now included in Sections 100 and 200 of the Code respectively), will not be adequate to reduce specific threats to auditor independence to an acceptable level. In APB Ethical Standards, firm-wide policies and procedures are not suggested as safeguards, but are required in all audit firms as part of their control environment to ensure integrity, objectivity and independence. Additionally, communication with those charged with governance about threats to independence is not treated as a safeguard in its own right, but as a necessary step to take in order to ensure that all users of the accounts are kept fully informed.	APB	See comment 124
129.	Input needed	<p>We are aware that the Ethics Committee is engaged in a survey of independence requirements as part of a new project approved at the Ethics Committee meeting in September 2004. However, the survey planned appears to be only directed at asking member bodies in IFAC whether they find the current Ethics Code requirements understandable and adequate. Is the Ethics Committee planning to ask others who have an interest in auditor independence requirements, such as users of audits, and regulators, whether they believe current requirements are understandable and adequate? We believe that all concerned stakeholder groups should have the opportunity to provide an updated view of independence issues which warrant attention by the Ethics Committee....</p> <p>Our concern with the current Ethics Code Exposure Draft increases when we read that the Exposure Draft is proposed to become “a standard”, rather than “a model on which to base national ethical guidance”. In order for the Ethics Code to become a high quality standard for use in audits of public listed companies, many further revisions would need to be made to meet the needs and expectations of investors in the capital markets.</p>	IOSCO	See comment 124

130.	Application to small firms	<p>Section 290 sets out clearly the principles of independence required of firms involved in assurance engagements. However, it is deficient in providing a satisfactory level of guidance as to how those principles can be implemented by the smallest firms. The Code with its example situations give the impression that independence can only be achieved by segregation of personnel involved in assurance and non assurance engagements and that a connection with any assurance client over an extended period of time is not permitted. Taken to an extreme, a strict interpretation of these requirements could create a situation in the UK where non-listed assurance clients (who vastly outnumber listed clients) will not be able to obtain services from other than the largest accountancy firms. It is important for all firms to exercise independence, particularly smaller firms, and such firms, even sole practitioners, are well able to exercise the required independence, but it is necessary to recognise that third parties perception of independence will be influenced by the size of the firm. Clearly, assurance engagements involving a high level of public interest, such as listed companies, must require “perceived” independence to be illustrated. However, where there is a low level of public interest, the need for “perceived” independence is much less than the exercise of real independence by the firm involved, who must expect that any failure to exercise independence which results in adverse consequences is likely to lead to either negligence claims or criminal prosecution.</p> <p>It would be helpful if the Code included sections specifically providing guidance to smaller firms and assurance assignments of little public interest, with guidance as to the contents of working papers which would illustrate the exercise of independence applicable.</p>	AAT	See Agenda Paper 2
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131.	Engagement team	<p>We understand that the definition of <i>assurance team</i> has been revised and a new definition of <i>engagement team</i> added to the Code to be consistent with the IAASB definitions. Specifically, the revised definition of assurance team includes all members of the <i>engagement team</i> for the assurance engagement and the new definition of engagement team includes all personnel performing an engagement, <i>including any experts contracted by the firm in connection with that engagement</i>. Accordingly, any expert contracted by the firm to perform, for example, a valuation of an asset, must be independent as set forth under Section 290 of the Code. We question whether holding an outside expert to the same independence requirements as other individuals on the engagement team (e.g., partner, manager, staff) is appropriate. Specifically, ISA 620, <i>Using the Work of an Expert</i>, requires that the auditor assess the <i>objectivity</i> of the expert and take into consideration whether the expert is related to the entity, for example, “<i>by...having an investment in the entity.</i>” We believe this level of assessment is appropriate and recommend that the requirements set forth in the Code not extend beyond what is required under the auditing standard. We would support, however, a requirement that the firm give <i>consideration</i> to whether relationships between outside experts and the assurance client create threats to independence.</p>	AICPA	See Agenda Paper 2
132.	Financial interests	<ul style="list-style-type: none"> <li>• interests in financial statement audit clients, undertaking financial statement audits by divesting the financial interests (section 290.114).</li> </ul> <p>It is our view that the independence risks are not adequately mitigated in such engagements as there is the potential for firms to not exercise objective judgement in relation to the conduct of audits in an entity in which they had immediate controlling interests. We are therefore of the view that a ‘cooling off’ period is required after the divesting of controlling interests and taking up an assurance audit engagement.</p> <p>As a measure of mitigating the above risk we recommend that firms or network firms that have controlling interests be excluded from undertaking financial statement audits and other assurance engagements in the respective controlled entities for a period of at least two years.</p>	ACAG	See Agenda Paper 2

133.	Firm vs individual responsibilities	Responsibilities in respect of auditor independence. In some cases the IFAC Code is not clear whether the responsibility for specific requirements rests with a firm, an individual, or both. The APB has taken the view that clarity as to responsibilities is a key element in ensuring that its standards are applied in practice. Consequently the bold letter requirements of APB Ethical Standards specify whether they apply to the audit firm, the audit engagement partner, members of the engagement team or the wider group of those in a position to influence the conduct and outcome of the audit.	APB	See Agenda Paper 2
134.	Ethics partner	The APB has also established a requirement for firms to appoint an ethics partner to oversee the development and communication of ethics policies within a firm and to provide a point for consultation by individual audit partners	APB	See Agenda Paper 2
135.	Management threat	The provision of non-audit services by the audit firm. The APB has introduced a new threat – ‘the management threat’ and has developed new standards and guidance with respect to: <ul style="list-style-type: none"> <li>• Tax services,</li> <li>• Remuneration services, and</li> <li>• Corporate finance services.</li> </ul>	APB	See Agenda Paper 2
136.	Additional requirements	<b>Other requirements.</b> The APB has tightened requirements with regard to: <ul style="list-style-type: none"> <li>• Employment by the audit client,</li> <li>• Rotation requirements for listed companies (as recommended in our comments on the proposed revision below),</li> <li>• Economic dependence,</li> <li>• Remuneration and evaluation policies, and</li> </ul>	APB	See Agenda Paper 2

137.	Recusal as a safeguard	We continue to be concerned that the independence requirements for non-financial statement audit assurance engagements are onerous and potentially unworkable. We have a particular concern arising from the independence requirements for restricted use engagements set out in paragraph 8.15 of the Code and believe that it should be acceptable in these circumstances for the independence requirements to be agreed with the identified users prior to the commencement of the services, for example in the practitioner's engagement letter. More generally, we believe that the Code should recognise as a safeguard the possibility that members of the assurance team who are not themselves members of the engagement team (as such terms are defined in the ED) may take steps to recuse themselves from exercising any influence over the outcome of the assurance engagement in order to manage any independence threat which might otherwise arise by reference to the Code. We believe that this could be an important safeguard for a firm seeking to apply the guidance in the Code, for example, in the context of a non-recurring non-financial statement audit assurance engagement that it might otherwise be unable to accept.	KPMGI	To be discussed by Independence TF  (Committee members please note this is still an outstanding item for the Independence TF)
138.	Definitions	APB Ethical Standards largely use the EC Recommendation definitions of key words. There are important differences between the EC and IFAC definitions of terms such as 'office', 'network' and 'affiliate'.	APB	See Agenda Paper 2
139.	Firm	We note that the definition of "firm" is different in the Code compared to ISQC1. The Code covers ownership issues and so there is an element of overlap with the definition of "network firm". Taking the definitions of "firm" and "network firm" as a whole ISQC1 would, in substance, appears to cover the same arrangements as the Code.  Also ISQC1 uses the term "engagement quality control reviewer" which is defined. The Code on the other hand uses "the individual responsible for the engagement quality control review" (at 290.153). Whilst this is in itself does not cause any particular problems, it would help the user if the same terminology is used between the documents.	FEE	No change proposed  Under ISQC1 "engagement quality control reviewer" could be a team or people. The Code deals only with the person responsible for the engagement quality control review – therefore a difference is needed

140.	Firm	The definition of “Firm” is not consistent with that of ISQC 1 because the definition in the Code does not cover other “entities” of professional accountants that are not sole practitioners, partnerships or corporations. We had specifically addressed this point with the IAASB in relation to the drafting of ISQC 1, since in Germany there are associations of auditors in whose name audit reports are issued that are not sole practitioners, partnerships or corporations of professional accountants.	IDW	No change proposed
141.	Bookkeeping	On the other hand, we do not share the view of paragraph 290.171 of the Code of Ethics which allows the audit firm to provide, in some occasions, services of a routine or mechanic nature to listed entities.	FACPCE	No change proposed



142.	Rotation	<p>The extension of the rotation requirements, in the case of an audit of a listed entity, to the person responsible for the engagement quality control review is welcomed by the APB. The engagement quality control review provides an objective evaluation of the significant judgments made by the engagement team. Requiring the individual carrying out this role to rotate will ensure that there is a periodic fresh look at all important issues concerned with the audit engagement, so maintaining the objectivity of this important role. However, the APB believes that a more extensive approach to the provisions relating to auditor rotation is required and is disappointed that the recommendations set out in our comment letter of December 2003 have not been incorporated at this time. There are three additional changes relating to the provisions concerning the rotation of partners involved in the audit of listed entities that would, in our opinion, significantly enhance these requirements.</p> <p>First, in order to act as an effective safeguard of objectivity and independence, the rotation requirement should apply not only to the lead engagement partner and the person responsible for the engagement quality control review, but also to other key audit partners.</p> <p>Second, where there is prolonged involvement in the audit by other members of the engagement team (for example, senior staff other than partners), the threats to the auditors' objectivity and independence arising from such prolonged involvement should be assessed and appropriate safeguards should be put in place. Such safeguards might include the removal of the member of staff from, or the rotation of roles within, the engagement team. This is a requirement of the EC Recommendation on '<i>Statutory Auditors' Independence in the EU</i>'.</p> <p>Third, the maximum period for which an individual should be permitted to serve as lead engagement partner or as engagement quality control reviewer should be shorter than seven years. We also consider that the further period of time required to elapse before these roles can be resumed should be longer than two years. We suggest that both of these periods should be five years.</p>	APB	See Agenda Paper 2
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143.	Rotation	<p>Yes, we welcome the revision that specifies that the person responsible for engagement quality control review should be subject to the same auditor rotation requirements as the lead engagement partner. However, we are concerned that the Code's coverage of rotation needs does not go far enough. As we have commented in previous letters, the IFAC Ethics Code is now only addressing rotation of two individuals on an audit engagement team, at a time when numerous jurisdictions around the world have already instituted or proposed requirements that call for rotation of additional members of the audit engagement team. The text dealing with rotation of these two individuals on an audit engagement for a listed company follows text that deals in general with the familiarity threat. The juxtaposition of the text with general application and the text dealing with listed entity audit engagements gives the strong message that consideration of the need for rotation starts and ends with these two persons.</p> <p>The IOSCO Principles for Auditor Independence state that "standards of auditor independence should address specifically the need to ensure appropriate rotation of the audit engagement team such that senior members of a team do not remain in key decision-making positions for an extended period." We believe some reference should be made in the Code regarding needs for rotation beyond the engagement partner and the individual responsible for engagement quality control review.</p>	IOSCO	See Agenda Paper 2
144.	Rotation	<p>We believe the engagement quality control reviewer in the audit of a listed entity should be subject to the same rotation requirements as the lead engagement partner. The Canadian independence standard contains such a requirement, which requires rotation of both the lead engagement partner and the engagement quality control reviewer after serving five years in total and such partners are then subject to a five-year cooling off period.</p>	CICA-PIIC	See Agenda Paper 2
145.	Rotation	<p>We are also of the view that this requirement should be extended to include significant public and private sector entities depending on size, complexity, commercial risk, parliamentary or media risk, and number and range of stakeholders affected.</p>	ACAG	See Agenda Paper 2