



Foreningen af Statsautoriserede Revisorer

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Ms. Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

E-mail: edcomments@ifac.org

30 November 2004

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Dear Ms. Munro

IFAC Exposure Draft – Proposed Revised Code of Ethics for Professional Accountants

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.

FSR understands and agrees that the review of the Code is and should be a continuous process.

Comments on questions

a) Are the changes to conform to the Assurance Framework appropriate and clear?

The Code should be readable as a stand-alone document and be self-explanatory with clear definitions and terminology.

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.

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.

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?

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.

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).

c) Is the effective date appropriate?

The effective date of 31 December 2005 is in our view appropriate.

Yours sincerely

Torben Haaning
Chairman of FSR's Ethics Committee

Ole Steen Jørgensen
Head of Department



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

By Email and By Post

Our Ref.: C/EC

19 January 2005

IFAC Ethics Committee
545 Fifth Avenue, 14th Floor,
New York, New York 10017,
USA

Attention: Ms. Jan Munro

Dear Sirs,

IFAC Exposure Draft
Proposed Revised Code of Ethics for Professional Accountants

The Hong Kong Institute of Certified Public Accountants welcomes the opportunity to provide the IFAC Ethics Committee with our comments on the captioned IFAC Exposure Draft.

--- We set out in the attachment our comments for the consideration of the IFAC Ethics Committee.

We trust that the IFAC Ethics Committee will find our comments helpful. If you require any clarifications on our comments, please contact the undersigned at schan@hkicpa.org.hk.

Yours faithfully,

STEPHEN CHAN
TECHNICAL DIRECTOR (ETHICS & ASSURANCE)

SSLC/EC/al



HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**COMMENTS ON THE IFAC EXPOSURE DRAFT OF
PROPOSED REVISED CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS**

1. Definition of "engagement partner" (Definitions section)

In the definition of "engagement partner" under the Definitions section, the meaning of the term "other person in the firm who is responsible for the engagement and its performance" is unclear and needs to be clarified.

2. Definition of "firm" (Definitions section)

In the definition of "firm" under the Definitions section, the term "such parties" under clause (b) should state "parties listed in (a)" while that under clause (c) should state "parties listed in (a) and (b)".

3. Distinction between the terms "the party responsible for the subject matter information" and "the party responsible for the subject matter" (Paragraph 290.10)

More guidance would be required in paragraph 290.10 regarding the distinction between the terms "the party responsible for the subject matter information" and "the party responsible for the subject matter", which have to be read in the context of the five-party relationship under the new IAASB Assurance Framework.

4. Rotation of the engagement partner and the quality control reviewer (Paragraph 290.153)

Paragraph 290.153 is unclear as to whether the maximum of seven years for the rotation of the engagement partner and the quality control reviewer and the minimum of two year cooling-off period are standards or guidance. This should be clarified and stated more specifically.

19 January 2005



International Federation of Accountants

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October 13, 2004

Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

By e-mail to EDComments@ifac.org

Dear Jan,

Proposed Revised Code of Ethics for Professional Accountants (October 2004)

Introduction

Thank you for the opportunity to comment on the Proposed Revised Code of Ethics for Professional Accountants.

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.

Two responsible parties

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).

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.

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.

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.

Other matters

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 ~~which~~ whose financial statements a firm conducts an financial statement audit or review engagement.” The reasons for this suggestion are:

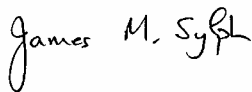
- (a) “an entity in respect of which a firm conducts a financial statement audit” is ambiguous – the entity could be the engaging party rather than the party responsible for the financial statements; and
- (b) to recognize financial statement review engagements.

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, or provides an expression of negative assurance, about whether financial statements are prepared in all material respects in accordance with an identified financial reporting framework; ~~s~~Such as an engagements are conducted in accordance with International Standards on Auditing or relevant national auditing standards.” The reasons for this suggestion are:

- (a) the current construction makes it appear optional as to whether the professional accountant in public practice follows auditing standards or not; and
- (b) to recognize financial statement review engagements.

Please do not hesitate to contact me should you have any queries on this submission or related matters.

Yours sincerely,



James M. Sylph
Technical Director

Cc John Kellas, Chair IAASB
Denise Esdon, Deputy Chair IAASB and Liaison member – Ethics Committee

15 November 2004

Jan Munro
IFAC Ethics Committee
545 Fifth Avenue
14th Floor
New York
NY 10017
USA

EDComments@ifac.org

Dear Jan

Proposed Revised Code Of Ethics For Professional Accountants

We are writing in response to the IFAC Ethics Committee's consultation on changes to section 8 (now to be section 290) of the proposed revised code on independence in assurance engagements. We note that you are not seeking comments on the other sections and have accordingly not included such comments in this letter, beyond offering our congratulations on applying the principles – based approach throughout the code.

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 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 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 pay 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.

We have made a small number of detailed comments on the substance of the existing section 8 in the 'Member Body Questionnaire' sent to us in October 2004 and these are not repeated here.

As regards the conforming amendments made to the 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.

Please do not hesitate to contact Tony Bromell or me in the event of any queries.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Neil Lerner', with a stylized flourish at the end.

Neil Lerner
Chairman, Ethics Committee
Institute of Chartered Accountants England and Wales



23 December 2004

Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York,
New York 10017
USA

Advance copy by email to EDComments@ifac.org

Dear Ms Munro

Exposure Draft: *Proposed Revised Code of Ethics for Professional Accountants*

Thank you for the opportunity to comment on the re-exposed IFAC Proposed Revised Code of Ethics.

We support the further proposed changes to the Code, as set out in the **attached** Submission containing our detailed responses to the Ethics Committee's *Request for Comments* on the Exposure Draft.

Should you have any queries, or require clarification on any matters in the submission, please contact either myself or Joanne Moores (*Joanne.Moores @icanz.co.nz*).

Yours faithfully

Craig Fisher
Chair –Professional Practices Board
Email: craig.fisher@hayesknight.co.nz



I n s t i t u t e o f
CHARTERED ACCOUNTANTS

o f N e w Z e a l a n d

SUBMISSION TO THE
INTERNATIONAL FEDERATION OF ACCOUNTANTS
ETHICS COMMITTEE

ON

EXPOSURE DRAFT

*PROPOSED REVISED CODE OF ETHICS FOR
PROFESSIONAL ACCOUNTANTS*

Prepared by
Institute of Chartered Accountants of New Zealand

December 2004

SUBMISSION TO THE IFAC ETHICS COMMITTEE
EXPOSURE DRAFT: PROPOSED REVISED CODE OF ETHICS FOR
PROFESSIONAL ACCOUNTANTS

A. OVERALL VIEW

Thank you for the opportunity to comment on the October 2004 Exposure Draft for the *Proposed Revised Code of Ethics for Professional Accountants*.

Overall we support the proposed revisions to the IFAC Code of Ethics exposed for comment.

Our specific comments are set out below.

B. SPECIFIC MATTERS FOR COMMENT

Assurance Framework

1. *Are the changes to conform to the Assurance Framework appropriate and clear?*

Response

We agree with these 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.

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.

Quality Control Standard

2. *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?*

Response

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.

We note that at ISQC1 (issued in March 2004) does not currently require the rotation of the individual who performs the engagement quality control review in audits of listed entities. Presumably ISQC1 will be changed at some stage to conform with this proposed change to the Code.

Effective Date

3. *Is the effective date appropriate?*

Response

We note that the effective date stated on page 39 of the revised Code is 31 December 2004. We are unsure whether the IFAC Ethics Committee intended that the effective date would be 31 December 2005, as the earlier date of 31 December 2004 would appear to be impracticable.

If the effective date is indeed 31 December 2005 we would be supportive of that, with encouragement of earlier adoption.

D. CONCLUSION

I trust the comments are helpful. Should you require anything further in connection with this submission please contact Joanne Moores (Director – Professional Standards, Joanne.Moores@icanz.co.nz Tel +64-4-460-0600).

Thank you.

Craig Fisher
Chair – Professional Practices Board

Institute of Certified Public Accountants of Kenya (ICPAK)

Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA
E-mail: EDComments@ifac.org

Subject: Comments on the Proposed Revised Code of Ethics for Professional Accountants

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.

Our views on the specific questions are as below:

Question

(a) Are the changes to conform to the assurance framework appropriate and clear?

Response

*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.*

Question

(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?

Response

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.

Audit firms world over will however have to reckon with the challenges of establishing working arrangements with professional Accountants outside their firms or networks.

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.

Question

(c) Is the effective date appropriate?

Response

Yes

This will however require firms to move fast in addressing the necessary capacity issues

We trust that the above comment will proof useful in the review of the code.

Kind regard

John Irungu

13 December 2004

Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

(By email: EDComments@ifac.org)

Dear Sirs,

**COMMENTS ON THE IFAC ETHICS COMMITTEE EXPOSURE DRAFT (ED)
PROPOSED REVISED CODE OF ETHICS FOR PROFESSIONAL
ACCOUNTANTS**

1. The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the IFAC Ethics Committee's Exposure Draft (ED) *Proposed Revised Code of Ethics for Professional Accountants* issued in October 2004. Our comments below address the specific questions set out in the "Request for Comments" section.

Question (a): Are the changes to conform to the Assurance Framework appropriate and clear?

We are of the view that the changes to conform to the Assurance Framework are appropriate and clear. Section 290 *Independence – Assurance Engagements* provides guidance to professional accountants in public practice on independence issues. We agree with the conceptual approach to independence indicated in Section 290.

We like to add that individual countries have their own rules and regulations governing ethics and independence. In Singapore, rules and regulations have been enshrined in legislation issued by our regulator (the Accounting and Corporate Regulatory Authority) and also the Singapore Exchange (on rotation of audit engagement partners, for example). The IFAC Code of Ethics ("the Code") as it stands will in certain circumstances, contradict our local rules. It therefore can only be implemented in Singapore when the regulators in question bring existing rules and regulations in line. This will require consultation with our regulators and if the IFAC Code is acceptable, will entail changes in legislation, which is a complex and prolonged task.

Question (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?


Current rules in Singapore only require rotation of an audit engagement partner of a listed entity after 5 years; whereas the IFAC Code is 7 years. There is no requirement to rotate the individual responsible for the engagement quality control review for audits of listed entities. The proposal to also rotate the individual responsible for engagement quality control review in our view may create additional risk in that the engagement partner and the quality review partner will be entirely new to the engagement with no previous in-depth knowledge of the client. This may not be desirable from a risk management perspective. An existing review partner could be allowed to assume engagement partner responsibilities provided there is a new review partner with no prior involvement with the engagement within the stipulated period.

Question (c): Is the effective date appropriate?

The ED proposes an effective date of 31 December 2005, and that subject to comments received, the IFAC Ethics Committee anticipates approving the final Code at its meeting scheduled for February 2005. We are of the view that the effective date is appropriate.

2. Please contact Mr Walter Ng (Assistant Manager, Technical Division) via email at walter.ng@icpas.org.sg should you require further information. Thank you.

Yours sincerely,


Janet Tan
Executive Director

December 3, 2004

Ms. Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York 10017
USA

**Re. Proposed Revised Code of Ethics for Professional Accountants - Exposure
Draft October 2004**

Dear Jan,

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.

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.

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.

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.

General Comments

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.

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.

Section 1: Responses to Your Request for Comments

(a) Are the changes to conform to the IAASB's International Framework for Assurance Engagements appropriate and clear?

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.

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.

1. 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

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 "*threats* to compliance with the ***fundamental principles***". The Code goes on to discuss *safeguards* to ***these*** 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 *threat* to the fundamental principle of ***objectivity***, and conversely, being demonstrably independent would therefore represent the application of a *safeguard* 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.

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.

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 [*sic*: see our comments on the use of the term "conceptual framework" below] framework...", which is no longer the case.

2. Clarity arising from the proposed changes

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 *subject matter* and *subject matter information* and 25 (b) of the International Framework for Assurance Engagements gives an example of an engagement involving two distinct parties responsible for the *subject matter* and *subject matter information* 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.

3. Changes to conform to ISQC 1 and ISA 220

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”.

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.

(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?

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.

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.

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.

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.

(c) *Is the effective date appropriate?*

Yes –provided that the Code is issued without undue delay we see no reason to alter our previous view.

Section 2: Responses to Amendments Proposed

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:

Level of Authority

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.

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 member bodies to notify their members of the provisions of the IFAC Code (and other pronouncements developed by the Ethics Committee) and allows no *member body* 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.

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 individual. On this basis, the Preface needs to be made consistent with SMO 4 and the IFAC Constitution.

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:

- a.) 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,
- b.) assess which of the requirements is the more stringent,
- c.) should this be the Code, determine whether compliance is prohibited by law in his or her jurisdiction
- d.) comply with the more stringent Code requirement when this is not the case.

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.

Practitioner override

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.

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.

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 *requires* such an override *beyond* 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.

What we are seeking is clarification whether the Code does in fact *require* 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.

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.

We would be pleased to be of further assistance in this matter and look forward to hearing from you.

Familiarity threats

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.

Acceptable vs. unacceptable

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 *acceptable*". This is more stringent, and does not correspond to the [unchanged] similar wording in 100.15, 290.3 and 290.15.

Using the work of an expert

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.

Section 3: Comments on Other Matters Previously Addressed in Our Letters

We appreciate the IFAC Ethics Committee's statements that it is not seeking comments on previously exposed parts of the Code. Nevertheless, we consider it appropriate to make the following comments, as certain amendments made do not go far enough:

Basic Deficits in the Code.

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):

“Fundamental Principles

The proposed revised Code regards its identified principles or objectives as a dichotomy, rather than as a continuum. It should be stressed that sufficient 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.”

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.

“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.

These represent basic deficits in the Code that should be remedied.”

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 *never* possible for an individual to attain *complete* 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.

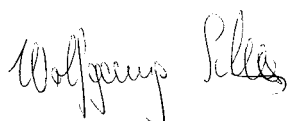
Conceptual Framework - Coupled with the deficiencies noted above we are not convinced that part A provides a *conceptual* framework as stated in the introduction (100.2). Current defects include:

- No reference to the need for each professional accountant to be *seen* to be complying with the fundamental principles. The only concession to this in the Code as currently drafted is in the section concerning *independence in appearance* in 290.2. This should apply throughout the Code and not exclusively to independence.
- 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.
- Application of safeguards (100.5-100.9) does not refer to safeguards as having to be *effective*, rather only to *appropriate* safeguards. The IDW has previously suggested that reference be made to *effective and appropriate safeguards*. This has not been addressed.

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.

If you have any further questions about our views on these matters, we would be pleased to be of further assistance.

Yours truly,



Wolfgang Schaum
Executive Director



Helmut Klaas
Head of Sections

494/541/333/538



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores

November 29, 2004

Ms. Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, NY 10017

Re: Proposed Revised Code of Ethics for Professional Accountants

Dear Ms. Munro:

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.

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.

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.

General Comments on Additional Changes needed in the IFAC Ethics Code

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.

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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.

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.”

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.

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:

- (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.
- (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).

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.

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 having knowledge of all relevant information" (emphasis added). By definition, when one is talking about the *appearance* of independence, most reasonable and informed third parties will not 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.

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.

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.

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.

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.

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.

Comments on Questions Raised in the Exposure Draft

Question (a) Are the changes to conform to the Assurance Framework appropriate and clear?

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.

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.

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.

Question (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?

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.

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.

Question (c) Is the effective date appropriate?

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.

Concluding Comments

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.

If you need additional information regarding the comments in this letter, please contact Susan Koski-Grafer or me at (202) 942-4400.

Sincerely,

Scott A. Taub
Chairman
IOSCO Standing Committee No. 1

CC: EDCComments@ifac.org
Chairman, IAASB
Chairman, IFAC Ethics Committee
Chairman, IFAC
Technical Director, IAASB

Mr. Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA
E-mail: EDCComments@ifac.org

December 6, 2004

Re: "Proposed Revised Code of Ethics for Professional Accountants"

Dear Mr. Munro

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."

- (a) Change corresponding to International Framework for Assurance Engagements issued by IAASB

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.

- (b) Change corresponding to International Standard on Quality Control 1 issued by IAASB

We agree.

- (c) Effective date

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.

Similarly, it is appropriate to consider the effective date for the 290.26 clause in the same way.

Yours faithfully,

Tsuguoki Fujinuma

Chairman & President

The Japanese Institute of Certified Public Accountants



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Ms Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York
New York 10017
USA

30 November 2004

Dear Ms Munro

IFAC Code of Ethics – Exposure Draft

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.

This response is made on behalf of the member firms of KPMG International, a Swiss cooperative.

Assurance Framework

We note that the Committee is proposing to make fairly minimal changes to the Code to conform to the *International Framework for Assurance Engagements* (Assurance Framework) issued by the International Auditing and Assurance Board (IAASB).

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.

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.

Restricted use engagements

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.

Effective date

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.

If you would like to discuss this letter, please contact David Winetroub (+1 (212) 909 5552) or Peter Hughes (+44 207 311 8281).

Yours faithfully



KPMG



Malaysian Institute of Accountants

(Established under the Accountants Act 1967)

Institut Akauntan Malaysia

(Diperbadankan di bawah Akta Akauntan 1967)

Our Ref: Tech/Ethics/HFM/SM/2004/226

30 November 2004

Ms Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA.

Dear Ms Munro,

Exposure Draft of IFAC's Proposed Revised Code of Ethics for Professional Accountants

We are pleased to have the opportunity to comment on the recent Exposure Draft issued by the IFAC Ethics Committee.

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.

On the specific comments raised by the IFAC Ethics Committee, we are pleased to respond as follows:

Are the changes incorporated into the Proposed Revised Code to conform to the Assurance Framework (International Framework for Assurance Engagements) appropriate and clear?

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.

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.

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.

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?

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.

Is the Effective Date appropriate?

We believe that the proposed Effective Date for the Proposed Revised Code, namely, 31 December 2005, is appropriate.

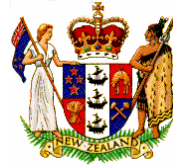
We however wish to highlight that this timeframe may be inadequate if there is any delay in the issuance of the Proposed Revised Code, which is at present expected to be approved and issued in February 2005. Member bodies would require time to draft the national version of the Revised Code of Ethics 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.

We trust that the above comments are of assistance to the IFAC Ethics Committee. We look forward to our comments being considered and adopted by the IFAC Ethics Committee.

Yours faithfully,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

HO FOONG MOI (MS)
Executive Director



OFFICE OF
THE CONTROLLER AND AUDITOR-GENERAL
Te Mana Arotake

29 December 2004

Our Ref: PS21-0001
PS21-0003
PS32-0001

Jan Munro
IFAC Ethics Committee
545 Fifth Avenue
New York 10017
USA

Dear Jan

COMMENTS ON EXPOSURE DRAFT "PROPOSED REVISED CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS" ISSUED OCTOBER 2004

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".

Alignment with ISQC 1

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".

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".

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.

References to "Subject Matter Information" and "Subject Matter"

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".

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".

We trust these comments are of assistance. If you require any further information or assistance please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Roy Glass', with a stylized flourish at the end.

Roy Glass
Director - Quality Assurance and Auditing Policy
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For the attention of Jan Munro
IFAC Ethics Committee
545 Fifth Avenue
14th Floor
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30 November 2004

Dear Ms Munro:

Proposed Revised Code of Ethics for Professional Accountants

We appreciate the opportunity to comment on the proposed revisions to Independence Requirements of the IFAC Code of Ethics to conform to the *International Framework for Assurance Engagements* (Assurance Framework) and ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance Related Services Engagements* (ISQC 1). This response is made on behalf of the PricewaterhouseCoopers network of member firms.

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.

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.

Greater clarity in the Assurance Framework needed

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.

Definition of assurance engagements

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.

For example, the Code will now require a professional accountant in public practice to be independent of the party responsible for the *subject matter information* and to consider any threats that may be created as a result of interests in and relationships with the party responsible for the *subject matter* (if different). We agree with these requirements.

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.

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.

Direct reporting engagements

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.

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.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Diana Hillier (+44 207 804 0472) or Andrew Pinkney (+44 207 804 2852).

Yours faithfully,

PricewaterhouseCoopers LLP