
IFAC ETHICS COMMITTEE FORUM SUMMARY OF COMMENTS

This document provides a high level summary of the views expressed at the Ethics Committee Forum, held in Brussels on October 11, 2005. The comments are presented against each of the questions discussed.

The comments do not represent the consensus view and, therefore, may be contradictory.

Question 1

What views and experiences do you have with respect to application of the framework?

- Experience with application of the framework is somewhat limited because it is still new
- General support for the framework approach but with some also supporting the need for specific rules/requirements that are consistent with the principles contained in the framework
- People may not be using the framework appropriately and are viewing it as permissive except when an activity is explicitly prohibited
- It would be useful if the Code contained more examples that demonstrate the application of the framework
- Some jurisdictions that incorporate the Code into law have difficulty with creating a short law which reflects the framework
- When there is a framework of principles and detailed requirements there needs to be clarity as to which takes priority.
- Application of a framework rather than compliance with a detailed list of rules requires education and training – not only for accountants who have to comply with the Code but for stakeholders and users such as audit committee and regulators
- Some regulators have concerns about how a principles based approach can be enforced

Question 2

The Ethics Committee has an objective of promoting international convergence in Code of Ethics. What steps do you believe the Committee should take to achieve this objective?

- Differing views on the meaning of convergence, for example:
 - It should first focus on harmonization on the five principles and then build for convergence with the details
 - Convergence and equivalence are not synonymous
 - Harmonization may not be possible because it necessitates a harmonized structure of regulation and a system of enforcement
 - Having principles plus specific prohibitions is necessary for convergence
 - Convergence could focus on the objectives to be achieved – for example, the principles could be viewed as the objectives to be obtained and the various examples and additional guidance could be a means to achieve the objectives
- Ethics Committee needs to decide on what goal they are trying to achieve with respect to convergence
- Convergence is not only a technical but also a political issue
- The Code is a good foundation for national ethical requirements, however, other requirements established by regulators are often stricter – the Committee should discuss these matters with regulators
- To achieve convergence the Code may need to be seen as more robust - any prohibitions should be clear
- Need to demonstrate the applicability of the Code – especially to small practitioners
- Clarity of language in the Code will assist with convergence and consistent application
- Harmonization/convergence may be stimulated by the 8th directive
- Extra-territoriality is a concern – it would be helpful if countries accepted the Code as the appropriate standard for auditors from another country
- Implementation guidance and education could assist in convergence

Question 3

Are non-audit services appropriately addressed?

- Mixed views on whether additional types of non-audit services should be addressed in Section 290:
 - Some of the view that no additional examples required
 - Others of the view that due diligence, and contribution in kind reports should be addressed
 - Some of the view that corporate finance services should be addressed in more detail
- The language used appears to be somewhat permissive – a non-audit service can be rendered provided it is not explicitly prohibited

- Should be more emphasis for firms to review compliance and demonstrate that appropriate controls are in place to ensure compliance
- Bookkeeping services – many countries prohibit bookkeeping services in all situations, conversely some believe that the reporting of small entities is improved if accounting assistance is provided. Also the terminology in Section 290 is not particularly clear, for example what is meant by bookkeeping services of a mechanical nature
- Tax services should be reviewed – the statement that tax services are generally not seen to create a threat to independence should be revised. Need to consider aggressive tax schemes
- Valuation services – the requirements should be clarified
- Network firms – the application of the Code with respect to non-audit services provided by network firms could be clarified
- Public interest entity – greater guidance could be given on the definition of a public interest entity. Also consideration should be given to extending the requirements related to listed entities to public interest entities

Question 4

Is partner rotation appropriately addressed?

- The seven year rotation schedule is arbitrary but the real question is what is the familiarity threat
- Rotating the individual responsible for the engagement quality control review has a negative effect on audit quality
- The rotation consideration should be extended to other partners, including the tax partner
- Needs to be more consideration of the threat created
- External review of an engagement by a regulator would be an effective safeguard whereas peer review would not be an appropriate safeguard
- Joint audits would be an effective safeguard provided there was appropriate rotation of the joint auditors
- Section 290 should clarify what a partner can and cannot do during the “time-out” period
- Sole practitioners should not be auditing listed entities

Question 5

The independence standard contains generic requirements but with a number of additional requirements for the audits of listed entities. Has this resulted in an appropriate standard for audits of small and medium sized entities?

- No support for differing requirements for small and large listed entities
- Section 290 is too restrictive with respect to bookkeeping and accounting assistance.
- It would be helpful to clarify the meaning of acting in a management capacity
- Would be useful to explain further the types of safeguards that would be effective for SMEs and SMPs

Other Comments

- Clarity of language is important – some of the terms in the Code are problematic when being translated, in particular the meaning of the phrases “should not” and “clearly insignificant”
- There may be lessons to learnt from the IAASB Clarity project
- Clarity would be improved by splitting the independence section to separately address audit engagements and other assurance engagements
- Splitting the section might allow for a better discussion of the different types of safeguards that would be effective
- A mandatory “cooling off period” before joining an audit client may not be enforceable in certain jurisdictions
- Interaction between objectivity and independence could be clearly expressed. There is little guidance on the Code on what is meant by objectivity