

Exposure Draft: Proposed Revised Section 290 Independence – Assurance Engagements Comments Received

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1.	General	CGA-Canada supports a strong international Code of Ethics which is universally applied. Such a code, especially if it is publicized widely and applied firmly and fairly on a global basis, can be a strong positive factor toward the building of strong economies, in all regions. A rigorous code is critical to building trust and respect for the profession. To this end, regular review of the code is necessary and important and we support this work.	CGA	General comment
2.	General	<p>ACCA welcomes the opportunity to comment on the proposed revised section 290 <i>Independence – Audit and Review Engagements</i> (proposed section 290) and the propose new section 291 <i>Independence – Other Assurance Engagements</i> (proposed section 291) of the <i>Code of Ethics for Professional Accountants</i> (the Code) issued for comment by the International Ethics Standards Board for accountants (IESBA) of the International Federation of Accountants (IFAC).</p> <p>We fully support the IESBA’s primary objective of the strengthening of the independence provisions of the Code is to enhance both the perceived and actual objectivity of those performing assurance engagements, thereby enhancing audit quality, as set out in the Explanatory Memorandum.</p>	ACCA	General comment
3.	General	<p>We are nevertheless concerned that:</p> <ul style="list-style-type: none"> proposed section 290 has moved to become a legalistic, rules-based standard, which can only encourage creative, loophole-based avoidance. We believe the robustness of the principles-based approach is being undermined by the proliferation of detailed underlying rules the IESBA does not appear to have acknowledged the public interest differences across the range of review engagements when determining the scope of the proposed section 290 the change in the definition of independence, if substantive, will be inconsistent with the Code, which is written on the basis that the knowledge of the ‘reasonable and informed third party’ includes knowledge of all relevant safeguards <p style="text-align: right;">Cont’d</p>	ACCA	General comment – concerns expressed discussed in more detail later in document

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4.	General	<ul style="list-style-type: none"> that the elimination of the flexibility for small firms to apply alternative safeguards to partner rotation will mean firms now effectively need to have at least four suitably skilled audit partners in order to undertake audits of ESPIs. This could have a significant effect on the availability of auditors in a number of jurisdictions around the world, particularly where the client is operating in a specialised or remote area, could result in a significant problem with choice of auditor or extra cost the additional restriction concerning the provision of non-audit services, in particular taxation services, do not appear to consider the significance of the threats. Indeed, from the perspective of the users of such services, the consequence of these restrictions will be that the cost of audit and other professional services will be unnecessarily higher the IESBA's primary objective of the strengthening of the independence provisions of the Code is to enhance both the perceived and actual objectivity of those performing assurance engagements, thereby enhancing audit quality will not be achieved. The independence provisions of the Code do not strike an appropriate balance between strengthening public perception of the integrity and objectivity of an audit, while still enabling auditors to carry out their work efficiently and not inhibiting commercial activity i.e. they need to be proportionate. As currently drafted, section 290 simply burdens audit firms, in particular small audit firms, and their clients. 	ACCA	General comment – concerns expressed discussed in more detail later in document
5.	General	<p>In accordance with the request in the Explanatory Memorandum forming part of the exposure draft, we have not commented on matters identified by the IESBA as to be addressed in subsequent revisions of the Code.</p> <p>We support the IESBA's aim to clarify and augment the existing section 290 to provide auditors with clearer guidance in addressing independence issues.</p>	ACCA	General comment

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6.	General	<p>It is important that standard setters ensure that their standards are relevant, proportionate and up to date and contribute to the maintenance of a high standard of audit quality. The Institute welcomes the diligence with which IFAC has clearly carried out this review. It is also important that standards be given time to be disseminated, understood and to have effect and we hope (having regard to the changes on networks issued last year) that this is not just one of a series of frequent part-changes. There are a number of international standards coming into force in other areas in 2009. These include the clarified and revised International Standards on Auditing which will replace all current ISAs. Also the IASB is due in 2009 to end its moratorium on the issue of new IFRSs. Therefore a period of stability will be necessary to absorb the changes.</p> <p>We understand that the International Ethics Standards Board for Accountants ('IESBA') is considering introducing 'shalls' into the text to help distinguish between mandatory requirements and guidance. Determining where the 'shalls' would be is a matter of great significance on which there needs to be some public debate. We therefore recommend that any draft 'clarified' text for the Code of Ethics be subject to public consultation.</p>	ICAEW	General comment
7.	General	<p>We welcome a number of aspects dealt with in the exposure draft ('ED'), including the potential simplification that could be achieved by separating audit requirements from those for other assurance engagements, and an introduction of a general threats and safeguards discussion on taxation, where the existing 'carve out' was unsustainable. However, we do have a number of concerns about how these and other changes have been effected and these are set out in our detailed comments below.</p>	ICAEW	General comment – concerns expressed discussed in more detail later in document

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8.	General	<p>We draw attention to our comments on the following matters, which we consider to be of particular importance:</p> <ul style="list-style-type: none"> • We support the division of section 290 into two but do not believe that the scope of section 290 should automatically include review engagements (paragraphs 17 and 18). • We agree in principle with the proposal to extend the additional requirements for listed entities to other entities of significant public interest ('ESPIs') (paragraph 12). • We agree with the need to replace the existing section on taxation with a general discussion of the threats that can apply in the provision by auditors of taxation services to audit clients, and of the types of safeguards that might be applied. (paragraphs 42 to 44). • We are not aware of evidence or widespread concern supporting the need for the new requirements proposed in respect of other non-audit services provided by the auditors of ESPIs, particularly in respect of valuations (paragraphs 40,41,45 and 46). • We have some concerns about the interaction of the 'cooling-off' provisions with the network requirements and the wide definition of key audit partners in group situations (paragraph 32). • We agree with the concept of 'key audit partner' but believe it should be restricted to partners "at group level": becoming a partner in charge of a subsidiary audit, not involved at group level, is often an important stage in developing future group audit partners (paragraph 56). 	ICAEW	General comment – concerns expressed discussed in more detail later in document

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9.	General	<p>This response is prepared by the Ethics Committee of the Institute of Chartered Accountants of Scotland. The Ethics Committee is the medium through which the Institute monitors developments in business ethics for members in practice and business. The Committee is broadly based, with members representing different sizes of accountancy practice, industry, etc.</p> <p>As the Institute's Charter requires, the Committee must act primarily in the public interest, and our proactive projects, responses to consultation documents etc. are predicated on the essential premise that their conclusions must be consistent with the public interest. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount. The Committee has considered the above consultation document and responds as follows:</p>	ICAS	General comment
10.	General	<p>The exposure draft proposes the revision of the former Section 290 of the Code and the creation of a new section 291; it does not specifically deal with the independence of the statutory auditor of accounts ², nor with the European status of the statutory audit of accounts ³.</p> <p>Sections 290 and 291 of the Code deal among other issues with situations likely to raise conflicts of interest and more especially with the question of services other than assurance services provided to the entity which would be likely to impair the professional accountant's objectivity when the latter, at the request of the entity management or of interested parties, performs or is about to perform an assurance engagement relating to historical accounts ⁴ or any other assurance engagement falling within the scope of application of international standards ISAE 3000 and 3400⁵.</p> <p>Prior to the presentation of our comments it seems useful to remind of the nature of the interventions performed by accountancy firms in France in order to better understand the orientations and the meaning of such comments.</p> <p style="text-align: right;">Cont'd</p>	CSOEC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
11.	General	<p>Assurance engagements performed by accountancy firms are contractual engagements, including mainly:</p> <ul style="list-style-type: none"> - <u>non recurring audit engagements of historical accounts</u>, performed at the request of the entity manager who himself is solicited by an interested third party, for example as part of a acquisition or sale transaction or of a request for external financing ; - <u>recurring moderate-level assurance engagements dealing with historical accounts</u> ⁶ that are limited review engagements such as are defined by international standards ⁷ - <u>non recurring assurance engagements</u> of a high or a moderate level dealing with items other than historical financial statements, which are covered by the provisions of international standards ISAE 3000⁸ and ISAE 3400 ⁹ <p style="text-align: right;">Cont'd</p>	CSOEC	General comment
12.	General	<p>Ahead of such assurance engagements, French firms of chartered accountants traditionally provide the entity with a range of services consistent with their skills and their expertise.</p> <p>Such services include:</p> <ul style="list-style-type: none"> • bookkeeping and payroll accounting on the basis of data provided by the client ; • recording of transactions for which the client has approved the accounting posting proposed by the professional accountant ; • report of the transactions approved by the client in the client accounts ledger ; • recording of transactions approved by the client in the accounts balance ; • preparation of annual, consolidated or interim accounts on the basis of information included in the accounts balance and presentation in compliance with a format required by the tax authorities ; • technical assistance and advice dealing mainly with the implementation of accounting standards, tax and social requirements, presentation of annual or consolidated accounts in compliance with a format required by a regulation, methods to be used in order to value assets and liabilities of an entity. <p style="text-align: right;">Cont'd</p>	CSOEC	General comment

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13.	General	<p>Such services <u>which are not management functions</u> ¹⁰ of the entity contribute to help the entity manager in his decisions and in the case when an assurance engagement would be requested from the professional accountant, such interventions are likely to improve the quality of the engagement.</p> <p>In France “Chartered Accountants” in addition have <u>an advisory duty in relation to the manager of the entity in which they intervene while the management remains responsible for all management decisions.</u></p> <p>In such a context, the “CSOEC” deems essential that Sections 290 and 291 of the future international Code of Ethics for professional accountants:</p> <ul style="list-style-type: none"> - <u>do not formally prohibit the accountancy firm which has provided such services to an entity from performing in the future one or several assurance engagements as defined above within that entity ;</u> - <u>does not disadvantage the small and medium practices that perform assurance engagements dealing with the financial statements of significant public interest entities</u> <p>To that end, our letter includes both general comments and specific comments which deal mainly with both these aspects; in its last part it addresses the answers brought to specific questions asked in the explanatory memorandum enclosed with the expose-draft.</p> <p>We believe that the following comments and observations are in a position to clarify the text submitted to public comments and therefore assist professional accountants in its application.</p>	CSOEC	General comment

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14.	General	<p>We would like in particular to stress that the framework and content of the French code of ethics is prepared and issued by a regulation (decree) of the Ministry of Justice. In addition, the CNCC draws the attention of the IESBA on the fact that it has no authority to issue or amend the French Code.</p> <ul style="list-style-type: none"> - The French Code applies without any distinction to all statutory audit engagements, (commissariat aux comptes) whether they be performed on behalf of listed entities or not, of public interest entities or not. - The approach taken is based both on prohibitions, and in the absence of a prohibition, on the necessary implementation of safeguards when faced with situations involving a threat on independence or a conflict of interests. - The statutory auditor (commissaire aux comptes) or an entity of his network is entitled only to provide to the audited entity with certain services that are directly related to the assignment of the statutory auditor, such as defined by the endorsed standards governing professional practice. - In addition The French code sets a number of prohibitions regarding the services delivered by the statutory auditor 's or his network to companies controlling the audited company or that are controlled by it. - There is no consideration given to materiality as regards services that are prohibited. - The French Code prohibits a professional accountant in public practice to become the statutory auditor of an entity when he or its network has provided to this entity certain services which may put him in a self –review position. The cooling off period consists of a two years period. <p>Accordingly, we wish to emphasize that generally, a Code of Ethics has to be considered and assessed as a whole. Any comparative approach between existing Codes cannot be limited to a mere analysis of their provisions taken in isolation but requires an assessment of the equivalence of the results to which they tend to achieve.</p>	CNCC	General comment

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15.	General	<p>In general the PPB believes that the proposals in the Exposure Draft do not go far enough. We are all aware that the auditing profession has come under intense scrutiny since the well-publicised corporate failures around the world in recent years. Much has been written and many studies have been undertaken looking at various related auditing issues.</p> <p>In particular, auditor independence has been questioned in a number of cases. For example, we note the recently published IOSCO Survey on the Regulation of Non-Audit Services Provided by Auditors to Audited Companies¹. The authors of the summary report of that survey note that:</p> <p><i>The heightened focus on auditor independence is a positive development for investor assurance and confidence. However, in order for capital markets around the world to receive the maximum benefit from increased investor confidence, the auditor independence regulations and requirements supporting that confidence need to be robust, conceptually sound and well understood.</i></p> <p>We are not convinced that the current proposals are robust, conceptually sound or well understood.</p> <p style="text-align: right;">Cont'd</p>	ICANZ	General comment – concerns expressed discussed in more detail later in document

¹ Technical Committee and Emerging Markets Committee of the International Organization of Securities Commissions. (2007). *A Survey on the Regulation of Non-Audit Services Provided by Auditors to Audited Companies*. Available for download on <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD231.pdf>

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16.	General	<p>Justice Owen in his report arising from the HIH Royal Commission², Australia, noted that “it is critical that the auditor should be seen to be exercising impartial and objective judgement in addition to the actual exercise of that impartial and objective judgement. Any standard of audit independence must reflect this requirement”.</p> <p>Justice Owen recommended an alternative definition for independence in appearance that is worthy of consideration. His recommendation 9 states:</p> <p><i>I recommend that all standards of independence of auditors in Australia, including those contained in ... professional standards ..., be consistent with the standard of independence defined as follows:</i></p> <ul style="list-style-type: none"> <i>An auditor is not independent with respect to an audit client if the auditor might be impaired – or a reasonable person with full knowledge of all relevant facts and circumstances <u>might</u> apprehend that the auditor might be impaired</i> 	ICANZ	General comment – concerns expressed discussed in more detail later in document
17.	General	<p>On an overall level NRF supports the proposed ED which means an improvement to the existing code.</p> <p>NRF supports the comments on the ED that have been submitted by FEE.</p>	NRF	General comment

² Hon Justice Owen. (2003). The Failure of HIH Insurance. Section 7.2 deals with The Audit Function. Section 7 can be downloaded from <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD231.pdf>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
18.	General	On an overall level FAR SRS consents to the proposed ED which we consider to be an improvement to the existing code.	FAR	General comment
19.	General	<p>This letter provides the U.S. Government Accountability Office's (GAO) comments on the IESBA's proposed revisions to the independence provisions of its Code of Ethics. We support the efforts of the IESBA to enhance the independence of professional accountants who perform assurance engagements. We view auditor independence as the crucial element for gaining and maintaining public trust. Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information.³</p> <p>We do, though, have significant concerns about the manner in which certain of the IESBA's proposed revisions would be extended to government audit organizations and audit firms that conduct audits of government entities. Accordingly, our comments focus on aspects of the proposed revisions that would affect public sector audit organizations and audit firms that conduct audits of government entities and programs.</p>	GAO	General comment – concerns expressed discussed in more detail later in document

³ U.S. Government Accountability Office, *Government Auditing Standards, January 2007 Revision*, GAO-07-162G (Washington, D.C.: January 2007), paragraph 3.03.

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20.	General	<p>We are in support of the Board's initiative to enhance the independence provisions of the Code. In general, we believe that the revisions and additions proposed by the ED are appropriate.</p> <p>We are pleased to set out below our comments on the ED. We continue to encourage the Board to adopt a principles-based approach to the extent possible. In particular, we are generally in support of a threats and safeguards approach, with appropriate guidance, for entities which are not of significant public interest. This provides greater flexibility for national regulators in prescribing additional rules or guidance taking into account local circumstances. It also mitigates the risk that the Code could become unnecessarily complex giving rise to implementation issues, but with the possibility of achieving little incremental benefits. We have provided examples below relating to the provision of tax services and the inclusion of all review engagements of "historical financial information" under Section 290.</p> <p>We hope that the Board will reassess its position with respect to the areas where we have made suggestions for change or enhancements. We believe that a reassessment of those areas is important to strike a better balance between the need to have more stringent standards and the likely incremental benefits that can be achieved in practice.</p>	PAOC	General comment – concerns expressed discussed in more detail later in document
21.	General	<p>The Basel Committee on Banking Supervision (Committee) welcomes the opportunity to comment on your recent exposure drafts on auditor independence. The Committee has a strong interest in promoting a high quality international code of ethics for accounting firms and auditors, and believes that these exposure drafts include many useful proposals.</p> <p>The Basel Committee on Banking Supervision' has a strong interest in high quality and independent audits of banks and has carefully analysed the proposals of the International Ethics Standards Board for Accountants (IESBA) pertaining to the proposed revised section 290: Independence - audit and review engagements and the proposed section 291: Independence - other assurance engagements.</p> <p>While the remainder of this appendix highlights certain issues and suggestions for IESBA's consideration, the Committee wishes to express its broad support for the approach taken in these redrafted sections.</p>	Basel	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
22.	General	The Ethics Committee of the Chartered Accountants Regulatory Board supports the IESBA objectives to strengthen and clarify the Code within a principles-based threats and safeguards framework. However, whilst accepting that the guidance is improved in a number of areas, we do have some concerns which we summarise below.	CARB	General comment
23.	General	<p>The CCAB Ethics Group welcomes many of the changes proposed by the IESBA. In particular, we welcome the:</p> <ul style="list-style-type: none"> • introduction of the general threats and safeguards discussion on taxation, which in our view supports the principles-based approach; • recognition that the introduction of a sixth category of threat, namely the management threat, is not necessary; • splitting of Section 290 into two to clarify the independence requirements for audits and other assurance engagements; and • recognition that regulators and/or members bodies should define the types of entities that are of significant public interest in their particular jurisdictions. <p>However, while the guidance is an improvement in a number of areas, we have some concerns which are summarised below.</p>	CCAB	General comment
24.	General	<p>The Committee of European Banking Supervisors (CEBS) welcomes the opportunity to comment on the <i>Proposed Revised Section 290 of the Code of Ethics for Professional Accountants, Independence - Audit and Review Engagements, and Proposed Section 291, Independence - Other Assurance Engagements</i>.</p> <p>Through their opinions on annual accounts and annual reports, external auditors constitute an integral part of the public oversight model and contribute to the financial stability of the market. As banking supervisors we therefore have an interest in ensuring that auditing standards, which are the basis for audit work, are of a high quality and are clear and capable of consistent application.</p> <p>In general, we welcome the changes to the Code which we regard as an improvement and strengthening of the Code, particularly in the area of threats posed by the provision of certain non-audit services.</p> <p>However, we believe that some further changes are necessary in order to ensure the Code is capable of being adopted more widely and in order to make it more robust.</p>	CEBS	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
25.	General	CMA Canada has reviewed the Exposure Draft for Section 290 of the IFAC Code of Ethics, <i>"Independence and Review Engagements"</i> . Generally, we found that the Exposure Draft is well thought out and provides good guidance in a number of areas. CMA Canada is however very concerned with respect to the definition and application of certain rules concerning Entities of Significant Public Interest.	CMA	General comment – concerns expressed discussed in more detail later in document
26.	General	<p>The Institute of Certified Public Accountants in Israel acknowledges the importance IFAC sees in the harmonization of ethical practices and in doing so ensuring the integrity and quality of the Standards.</p> <p>The Institute supports the approach that each Institute/body is authorized to set standards where such standards are not set by the State's laws or International Standards. The Institute believes the decision has to be made in accordance with the local circumstances.</p> <p>We would like to emphasize the fact that in the State of Israel, all entities, whether listed, non-listed or private, are required, by law, to be audited, with the exception of companies that have a very small and insignificant turn over, or an inactive company. This situation has evolved in light of the State's needs and in fact creates a wide spectrum of transparency to the public. Hence, the audited financial reports may be viewed by any interested party, reports which abide to the fullest by the professional restrictions.</p> <p>A committee within the Institute, consisting of representatives from the Large Firms and representatives from SMPs and SMEs has held several deliberations in regards to the Proposed Revised Sections of the Code</p>	ICPAI	General comment
27.	General	On an overall level the FSR consents to the proposed exposure draft	FSR	General comment
28.	General	As active member of FEE the ICJCE endorses its comment letter, however, due to the particular Spanish legal framework we wish to point out some specific further comments as set out below.	ICJCE	General comment

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29.	General	<p>We support the IESBA's direction in proposing a strengthening of the Code. We also support the benchmarking process that the IESBA has undertaken. As one of the largest international networks of accounting firms, we have a particular interest in harmonisation around a common set of standards internationally and believe that national regulators will only take their lead from the Code of Ethics if it is seen to be sufficiently robust. In this regard we encourage the IESBA to undertake continuous dialogue with regulators and encourage harmonization.</p> <p>We welcome the open and consultative approach that the IESBA has taken to the development of the Exposure Draft. In particular, we were pleased that the IESBA held a public forum to seek views on how the Code should develop as well as to share the IESBA's agenda with a wide group of stakeholders. We were encouraged that the participants in the Forum supported the principles-based approach in the Code which we also support and are pleased that the Exposure Draft continues to adopt a principles-based approach.</p> <p>We support in principle the general style of the Code, acknowledging that while it is less direct than that adopted by certain national regulators, it does provide better opportunity for the Code to be implemented around the world across differently developed countries and accounting firms. We are pleased to see that the IESBA is considering ways to continue to improve the clarity of the Code.</p>	KPMG	General comment
30.	General	<p>We welcome the opportunity to contribute to the further development of the IFAC Code of Ethics for Professional Accountants and we continue to support robust ethics standards that will reinforce the integrity and objectivity of auditors worldwide. Our comments relating to the significant proposals of the IESBA are set out in Section 1 below. Our responses to the questions raised by the IESBA are set out in Section 2 below. We also have a number of comments and concerns of a general nature related to the proposed Exposure Draft, which are set out in Section 3 below.</p>	E&Y	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
31.	General	<p>We support the Board's initiative to revise the independence provisions of the existing Code of Ethics. We believe that the proposed revisions are appropriate, subject to our recommendations which we detail below. ...</p> <p>Our comments below are aimed at assisting the Board in creating a revised Code that will be sufficiently robust for individual member bodies and national regulators to use (or continue to use) as a national standard of independence with little or no alteration. Achieving that objective will help to reduce the difficulty and risk of failure that firms and their staffs, often in a global network, face when having to apply numerous and complex independence requirements for similar assignments, such as cross-border assurance engagements. It would also help audit committees and others, including regulators, to gain a consistent understanding of the independence requirements.</p> <p>In cases where more stringent standards are deemed required in a particular territory for local purposes, we believe the Code should be the standard to apply on cross-border assurance assignments (i.e., in relation to a firm's or a network firm's interests and relationships with subsidiaries and other related entities outside the parent company's jurisdiction).</p>	PwC	General comment

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32.	General	<p>We commend and support the work of the Board toward meeting the objectives of providing “clearer guidance in addressing independence issues” and to “benchmark the existing Section 290 to the independence requirements in a number of jurisdictions”. However we have two primary concerns with the changes being proposed:</p> <ol style="list-style-type: none"> 1. We believe that the definition of “entity of significant public interest” needs to be revisited. In its proposed form it is both too broad and too loosely defined. 2. There are a number of proposals in the ED that impose new requirements going beyond the corresponding regulatory requirements in most jurisdictions. These include extending the current listed entity audit requirements (partner rotation, cooling off period, and financial interest) to review engagements. We question whether the benefits to the market arising from this proposed change will outweigh the costs. Expanding requirements that currently only apply to listed entity audits to include audit and review engagements for significant public interest entities will divert significant resources away from existing priority areas toward areas with lower inherent risk of independence threats without, we believe, significant benefits to the public. <p>In addition to answering the questions in the section above, we have provided detailed comments on several additional topics included in the ED based on our understanding of the resulting cascading effect of the proposed requirements. However, would like to highlight those sections that we believe are the most critical. We encourage a full and robust discussion of these sections by the Board before the Code is finalized</p>	Grant Thornton	General comment – concerns expressed discussed in more detail later in document

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33.	General	<p>Our comments on the Exposure Draft focus on two key points:</p> <ul style="list-style-type: none"> • A member body needs to consult with its regulators prior to issuing any changes to independence standards for its professionals. • Absence of adoption of a standard does not imply the specific independence requirements, in this case those included in the IESBA's independence standards for significant public interest entities, were not considered for adoption by the regulators. <p>To provide an appropriate context for our comments on the Exposure Draft, we note the recent history of regulation in the U.S., specifically governmental consideration of extending proposals similar to those in the Exposure Draft on Significant Public Interest Entities ("SPIE").</p> <p style="text-align: right;">Cont'd</p>	NASBA	General comment
34.	General	<p>As is well recognized, publicly listed companies fall under the jurisdiction of the U.S. Securities and Exchange Commission ("SEC") and the Public Company Accounting Oversight Board ("PCAOB"), which was created by Congress after the enactment of the Sarbanes-Oxley Act of 2002 ("SARBOX"). Also, many non-public entities that might be considered SPIE under the Exposure Draft, based on their size, nature of activities or sources of revenue, are already under the jurisdiction of a variety of Federal and State regulators.</p> <p>The introduction to the Explanatory Memorandum of the IESBA's Exposure Draft acknowledges that many jurisdictions have taken measures to address corporate failures including actions to strengthen auditor independence.</p> <p>In the U.S., financial reporting failures by public companies resulted in the creation of the PCAOB.</p> <p>The PCAOB initially adopted the independence standards contained in the Code of Professional Conduct of the American Institute of Certified Public Accountants ("AICPA"). The PCAOB then adopted additional independence standards (some required by SARBOX) and revised certain others to make them more restrictive.</p> <p style="text-align: right;">Cont'd</p>	NASBA	General comment

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35.	General	<p>The independence standards proposed by IESBA in the Exposure Draft are similar to those adopted by the PCAOB after the passage of SARBOX. Federal and State regulators (including State Boards and many State Legislatures) studied SARBOX to determine its relevancy to their jurisdictions. NASBA studied the relevancy of SARBOX to State Boards. SARBOX led to some rethinking of the necessary safeguards for other than listed companies. After giving consideration to SARBOX, there has been very limited and selective adoption of the new independence standards by State and Federal regulators or State legislatures. Part of the rationale was that listed companies have substantially different risks than private markets</p> <p>It is important to note that the independence standards contained in SARBOX were intentionally not extended to non-public entities or to those publicly-held entities that have been exempted by the SEC. Accordingly, the absence of independence standards proposed by the IESBA, which are similar to those of SARBOX, does not mean that regulators have not considered imposing such standards on other entities. If a U.S. member body of IESBA were to adopt the independence standards proposed in the Exposure Draft, it is likely that the appropriate governmental regulators (including State Boards) would take action to nullify the “standard.”</p>	NASBA	General comment
36.	General	<p>We appreciate the opportunity to provide input into the IESBA’s updating of the Code of Ethics. In that regard we are particularly mindful of feedback received from our members in response to the exposure draft of proposed Sections 290 and 291 of the Code.</p> <p>We and our members support the IESBA’s efforts to improve the provisions of the Code relating to auditor independence.</p>	Australia	General comment
37.	General	<p>As the statutory licensing body of accountants that leads and serves businesses and the public interest of Hong Kong, we are supportive of the current work of the IESBA which seeks to consider what revisions to auditor independence requirements might be needed given the changing environment in the past few years.</p>	HKICPA	General comment

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38.	General	Firstly, while we have an immense appreciation for the task that the IESBA has in standardising ethical guidance for member bodies, the proposed changes to sections 290 and 291 clearly illustrate this difficulty. While we support these changes in principle, the complexity of the issues involved and the need to cater for many different scenarios results in a bulky, oftentimes difficult to read (and understand) document, seemingly more focused on matters encountered by the large firms, and the Code of Ethics is in danger of becoming an unutilised resource by professional accountants generally.	SAICA	General comment – concerns expressed discussed in more detail later in document
39.	General	The views expressed in this submission represent those of all Australian members of ACAG and the attached comments focus on responding to the questions where specific comments were requested.	ACAG	General comment
40.	General	We are pleased to have the opportunity to comment on the above exposure draft (ED). This comment letter has been prepared by the relevant task force on behalf of the Committee for Auditor Ethics (CFAE) of the Independent Regulatory Board for Auditors (IRBA) of South Africa. The CFAE support the objectives of this project, and our comments should therefore be read in the context of the achievement of those objectives.	IRBA	General comment
41.	General	The Chartered Institute of Management Accountants (CIMA) welcomes this opportunity to comment on the exposure draft of Section 290 (Independence - Audit and Review Engagements) and Section 291 (Independence - Other Assurance Engagements) of the Code of Ethics for Professional Accountants, published in December 2006 by IFAC's International Ethics Standards Board for Accountants (IESBA). CIMA has also contributed to responses submitted by the Federation des Experts Comptables Europeen (FEE) and the UK's Consultative Committee of Accountancy Bodies (CCAB), as a member and a participant in the ethics groups of both of these	CIMA	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
42.	General	<p>The Canadian Institute of Chartered Accountants welcomes this opportunity to comment on the December 2006 Exposure Draft of proposed changes to the Independence requirements in the IFAC Code of Ethics for Professional Accountants (“the Code”) as prepared by the International Ethics Standards Board for Accountants (“IESBA”). We agree that the Independence provisions in the Code should be revised and updated at this time, and we support the efforts to create consistency internationally where possible.</p> <p>We have two main concerns with the proposals in the Exposure Draft which we discuss in detail in the sections that follow. Our responses to the Request for Specific Comments and our Other Comments are set out thereafter.</p>	CICA	General comment – concerns expressed discussed in more detail later in document
43.	General	Unless covered above, we are generally in agreement with the proposals in the ED.	DTT	General comment
44.	General	The APESB is pleased that the International Ethics Standard Board for Accountants (IESBA) has issued an exposure draft on independence with a view to updating and revising the existing requirements in the <i>Code of Ethics for Professional Accountants</i> .	APESB	General comment
45.	General	We support the IESBA’s efforts to review and strengthen, where necessary, the independence requirements contained in the IFAC <i>Code of Ethics for Professional Accountants</i> (the “Code”). Throughout its history the AICPA has been deeply committed to promoting and strengthening auditor independence. It is a core tenet of the accounting profession in the United States, which has a more than 100-year history of working to uphold auditor independence. Through the PEEC, the AICPA devotes significant resources to independence activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards.	AICPA	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
46.	General	<p>We support your efforts to establish and maintain appropriate independence requirements for your members. The concept of auditor independence is an important characteristic for accountants practicing in the United States, as we believe it should be worldwide. While we endorse your efforts to maintain strong, updated standards, as outlined in the Exposure Draft, we also offer the following comments for your consideration before any final decisions are made.</p> <p>We are very much in agreement with, and strongly endorse, the comments made by the Professional Ethics Executive Committee (PEEC) of the American Institute of Certified Public Accountants (AICPA), as discussed in their letter dated April 30, 2007, particularly with respect to (1) the need for a more principles-based approach, rather than specific guidelines, to the definition and application of "entities of significant public interest", and (2) partner rotation and cooling off requirements....</p> <p>We appreciate the opportunity to comment and your consideration of the matters discussed above and in the letter submitted by the PEEC. We firmly believe that the concepts included in the Exposure Draft related to all non-listed entities, regardless of size, will negatively impact audit quality on an international basis, and will severely restrict the number of firms that currently render quality professional services to non-listed entities; thereby reducing audit quality even further.</p>	Wolf	General comment – concerns expressed discussed in more detail later in document
47.	General	<p>We support your efforts to establish and maintain appropriate independence requirements for your members. The concept of auditor independence is an important characteristic for accountants practicing in the United States, as we believe it should be worldwide. While we endorse your efforts to maintain strong, updated standards, as outlined in the Exposure Draft, we also offer the following comments for your consideration before any final decisions are made.</p> <p style="text-align: right;">Cont'd</p>	MaCPA2	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
48.	General	<p>We are very much in agreement with, and strongly endorse, the comments made by the Professional Ethics Executive Committee (PEEC) of the American Institute of Certified Public Accountants (AICPA), as discussed in their letter dated April 30, 2007, particularly with respect to:</p> <ul style="list-style-type: none"> • The need for a more principles-based approach, rather than specific guidelines, to the definition and application of "entities of significant public interest." • Considerations involving the balance between the costs of certain proposed standards and the anticipated benefits resulting from them. • The opportunity to introduce more alternative safeguards than is the case in the current Exposure Draft. 	MaCPA2	General comment – concerns expressed discussed in more detail later in document

X ref	Par Ref	Comment	Respondent	Proposed Resolution
49.	General	<p>We are pleased to note that the December ED has resulted in a general strengthening of the IFAC Code. In particular we support:</p> <ul style="list-style-type: none"> • The split of the current Section 290 into two sections. We believe this will help clarify the requirements and guidance that apply to audits; • Including review engagements in the new Section 290. We believe that this is appropriate to the extent that such reviews result in public reports that are relied upon by external stakeholders; • The revised description of ‘Independence in Appearance’ in paragraph 290.7 better reflects the relevant thought process of a reasonable and informed third party; • The removal of ‘discussion with those charged with governance of the client’ as a possible safeguard against all of the specific threats identified in Sections 290 and 291. This ensures that such communications are not seen as optional safeguards, but as an area where firms should establish policies and procedures as part of their control environment; • The introduction of the term ‘key audit partner’ in the provisions on partner rotation. This acknowledges that in many larger audits a number of partners, other than the engagement partner and the individual responsible for the engagement quality control review play a significant role in the performance of the audit and make important decisions or judgments; • The introduction of new provisions in respect of a ‘cooling off’ period and partner compensation and evaluation arrangements for key audit partners. These provisions acknowledge that these specific threats cannot be addressed by the implementation of safeguards; • The inclusion of a specific provision that a firm which provides professional services to an audit client should not perform management functions. This makes the position much clearer and the guidance on what constitutes a management function in paragraph 290.157 is especially helpful; and • The approach adopted to the threats posed by the provision of different non-assurance services to audit clients. This should help lead to a greater consistency in the approach taken by firms on an international basis when evaluating and responding to the threats that arise. <p style="text-align: right;">Cont’d</p>	APB	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
50.	General	<p>As you know, in 2004 the APB issued Ethical Standards for Auditors (ESs) which apply to auditors in the UK and the Republic of Ireland. When developing the ESs we sought to ensure that they adhered to the principles of the IFAC Code. This did not prevent us from adding additional requirements where we thought that was appropriate and clarifying the guidance where we thought this was necessary.</p> <p>Even after the changes to the IFAC Code outlined above, there are a number of important differences between the December ED and the ESs as well as many differences in the detail. This is to be expected since a code intended to apply in many jurisdictions will have to make compromises to accommodate local practices. We are aware of the desire of the profession to achieve a set of principles which can be applied across all the countries in which they operate, and we share this aspiration. However we see this as a challenging journey which will progress as a consensus about appropriate principles and practices evolves and local laws and operations are brought into line. This year the APB will review its ESs and will make conforming changes where it can, so ensuring that we can still state that we are not aware of any significant instances where the relevant parts of the IFAC Code are more restrictive than the existing ESs. However, without prejudging the outcome of that review, it is clear that there will still be a number of areas where the ESs will be more rigorous than the revised IFAC Code.</p> <p style="text-align: right;">Cont'd</p>	APB	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
51.	General	<p>For the purposes of this comment letter we did not consider it helpful to simply re-assert the provisions of the ESs which differ from the December ED and try to explain why we still believe them to be appropriate. Instead, we have set out in appendices to this letter:</p> <ul style="list-style-type: none"> • Some important issues relating to the international acceptability of Section 290 of the IFAC Code as part of the framework of audit regulation (Appendix 1); • Some areas where we consider that our provisions are preferable and where we do not see great difficulty from an international perspective in adopting them (Appendix 2); • Responses on the specific questions within your Explanatory Memorandum to the December ED (Appendix 3); and • An analysis of where there are different definitions or terminology for the same or similar matters (Appendix 4). This analysis demonstrates the nature and extent of current differences. We believe that conforming these definitions would greatly assist with international convergence. <p style="text-align: right;">Cont'd</p>	APB	General comment – matters raised discussed in more detail later in document
52.	General	<p>A consequence of this approach will be that, even once the changes to Section 290 have been finalised, the ESs will continue to apply to audits undertaken in the UK and Ireland. However, the APB's objective will be to:</p> <ul style="list-style-type: none"> • endorse the IFAC Code for use by the auditors of overseas subsidiaries of UK and Irish companies, and • state that it is not aware of any significant instances where the relevant parts of the IFAC Code are more restrictive than the ESs. <p style="text-align: right;">Cont'd</p>	APB	General comment
53.	General	<p>In addition to the appendices which are attached to this letter, we have submitted separately a mark-up version of Section 290 with suggestions as to how the clarity can be further improved.</p>	APB	Document considered by Task Force and changes for clarity incorporated as appropriate in revisions

X ref	Par Ref	Comment	Respondent	Proposed Resolution
54.	General	As explained earlier in this letter, although we doubt that the revised IFAC Code will apply directly in the UK and Ireland, this does not mean that it is unhelpful as a means to helping the convergence of standards internationally in the future. While the following comments do not address all of those matters where we believe that a higher standard should be set, at least in the UK and Ireland, we highlight those matters which we feel are important to be incorporated if significant progress is to be made in the journey towards the convergence of international and national ethical standards	APB	General comment
55.	General	Currently there are significant differences between the requirements of many countries in relation to auditor independence. Furthermore, the degree of divergence seems to be increasing as the number of countries where the standards are established by law or by an independent body increases. The APB has long favoured the convergence of auditing and ethical standards on an international basis. However, before the IFAC Code becomes acceptable for this purpose, the APB believes that there are a number of structural issues that need to be addressed	APB	General comment
56.	General	We are very supportive of IESBA's commitment to international harmonisation. However, as stated in the Explanatory Memorandum, we are concerned that IESBA may be trying to achieve this objective by benchmarking the existing Section 290 to the independence requirements in a number of jurisdictions. Whilst benchmarking analyses are useful for comparing the requirements in different jurisdictions, the results which emerge from such analysis should be used as part of a wider evidence gathering exercise rather than as a justification for adopting the most stringent prohibitions globally.	CCAB	General comment
57.	General	DnR is a member of FEE, and has participated in the discussions who has lead to the final comments from FEE on the revised Code of Ethics Section 290 and 291, dated 18 th of April. DnR therefore support FEE's comments on the ED.	DnR	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
58.	General	<p>The Italian accountancy profession represented by the Consiglio Nazionale dei Dottori Commercialisti (CNDC) and the Consiglio Nazionale dei Ragionieri e Periti Commerciali (CNRPC) is pleased to submit its comments to the IFAC-IESBA Exposure Draft concerning the proposed revision of Section 290-291 of the IFAC Code of Ethics.</p> <p>The purposes of a regulatory framework for professional behaviour are to be identified, at least, with the following:</p> <ul style="list-style-type: none"> - assure the protection of the client; - assure the reputation and the credibility of the professional category; <p>In this sense, the Code and ethical rules are among the most determining factors that influence the quality of the engagement performance.</p>	CNDC CNRPC	General comment
59.	General	<p>In the quality chain there are determining factors which develop before the performance of professional activity - the qualification based on quality study courses and professional experience, quality rules on accounting and financial statements, quality standards for carrying out assessments and, finally, the institutional structure and governance of authorities, standard setters and professional bodies, exc. Considering then professional performance, we have the quality control and disciplinary procedures. Ethics cannot be placed only in one point of the quality chain; ethics is rather the element which ties the whole and accompanies the professional before he/she begins the engagement until much later than he/she has finished it.</p>	CNDC CNRPC	General comment
60.	General	<p>The Institute of Certified Public Accountants of Singapore (ICPAS) appreciates the opportunity to comment on the exposure draft of the International Ethics Standards Board for Accountants (IESBA) on Section 290 and Section 291 of the <i>Code of Ethics for Professional Accountants</i> (the Code). Our comments below address the specific questions set out in the “Request for Specific Comments” section.</p>	ICPAS	General comment
61.	General	<p>Please note that where I have not commented on specific revisions, I agree with the Board’s proposal.</p>	AC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
62.	General	<p>By way of response to the request for general comments on the proposed revised Section 290 and the proposed new Section 291 and to the request for specific comments made in the Explanatory Memorandum, we refer to the comment letter of April 18th, 2007 issued by FEE's President, Mr. Jacques POTDEVIN.</p> <p>We would hereby like to emphasize that we fully support and share the enclosed position of FEE on the IESBA Exposure Draft.</p>	IBR-IRE	General comment
63.	General	<p>The description contained in the Background section of the Explanatory Memorandum states that since the issuance of the last revision to the IFAC Code of Ethics (hereinafter referred to as the „Code“), several corporate failures had led to a loss of credibility in aspects of the financial reporting process, many jurisdictions have taken steps to restore credibility, and that some of these steps relate to independence requirements for accountants performing assurance engagements. Question 4 in the Request for Specific Comments states that the primary objective of the strengthening of the independence provisions of the Code is to enhance both the perceived and actual objectivity of those performing assurance engagements, and thereby enhance audit quality.</p> <p>We question whether the proposed changes meet the stated purpose of enhancing audit quality in every case – and in particular, question whether the supposed benefits from those changes would outweigh the costs incurred.</p> <p style="text-align: right;">Cont'd</p>	IDW	General comment – concerns expressed discussed in more detail later in document

X ref	Par Ref	Comment	Respondent	Proposed Resolution
64.	General	<p>In our view, audit quality does depend upon the <i>actual</i> objectivity (and hence independence in fact) of those performing audit engagements. However, audit quality does not depend upon the <i>perceived</i> objectivity (i.e., independence in appearance) of those performing audit engagements – only the <i>perceived</i> audit quality is affected. The question that needs to be asked is whether many of the measures proposed to improve perceived – as opposed to actual – audit quality need to be imposed on audits of financial statements of entities other than those of significant public interest. Capital markets are very much affected by perceptions of audit quality in relation to listed and some other significant public interest entities (such as large financial institutions or insurance companies), but such perceptions are not as relevant for audits of other entities because the entity and users generally have a direct mutual relationship without intermediaries. Consequently, in our view, the costs incurred by implementing the proposed measures to improve such perceptions of audit quality for entities of less significant public interest exceed the benefits to such entities and the users of their financial statements. Such measures also risk creating distortions in the market for audit services.</p> <p>Since the corporate failures mentioned in the Background section of the proposals appear to relate to entities of significant public interest, we believe that the steps to strengthen the independence provisions in the Code should have been focused on strengthening those for public interest entities: the independence provisions of the Code for other entities than those of significant public interest should have been amended only to the extent necessary in order to ensure that the principles-based approach is adhered to. We will address specific instances of where we believe the Code imposes unreasonable requirements on auditors of entities that are of less significant public interest in the comments to specific matters.</p>	IDW	General comment – concerns expressed discussed in more detail later in document

X ref	Par Ref	Comment	Respondent	Proposed Resolution
65.	General	<p>The current independence provisions in the IFAC Code of Ethics were agreed in November 2001 and since then a number of critical events in the financial markets have prompted regulators and other stakeholders to revise standards and rules applicable to auditors. Given the key role played by independence rules in determining whether auditors can objectively perform their intended task, the European Commission welcomes the IESBA effort to update and modernize the relevant section of the IFAC Code of Ethics.</p> <p>In the European Union, the European Commission adopted on 16 May 2002 a Recommendation' defining a set of fundamental principles relevant to the independence of statutory auditors. The Recommendation was prepared during the two preceding years and run in parallel with the work in IFAC. Both texts followed a very similar approach.</p> <p>The 2006 European Union Directive² (a mandatory legal text) on statutory audits (the modernized "8th Company <i>Law Directive</i>") also deals with independence rules. Of particular interest are recitals 9 and II as well as Articles 2.7, 2.13, 2.16, 3.4(b), 3.4(c), 22, 24, 25 and 42.</p>	EC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
66.	General	<p>IOSCO Standing Committee No. 1 on Multinational Disclosure and Accounting (“SC 1”) appreciates the opportunity to comment on the exposure draft of proposed Sections 290 and 291 of the Code of Ethics for Professional Accountants (“Code” or “ Ethics Code”).</p> <p>As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Members of SC 1 seek to further IOSCO’s mission through thoughtful consideration of accounting, auditing and disclosure concerns and pursuit of improved global financial reporting. As we review proposed auditing, ethics and independence standards, our concerns focus on whether the standards are sufficient in scope and adequately cover all relevant aspects of the subject area being addressed, whether the standards are clear and understandable, and whether the standards are written in such a way as to be enforceable.</p> <p>Our comments in this letter reflect a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.</p>	IOSCO	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
67.	General	<p>We believe that a number of the proposed specific revisions to the Code represent progress in the right direction. They address some of the areas that have been the subject of scrutiny by securities regulators and others. However, we also believe the proposed Code is in need of significant clarification and needs to be further improved in certain subject areas addressed in the ED and in other areas.</p> <p>As the Code's independence standards for audits of public listed companies are of high interest to IOSCO securities regulators, we appreciate that the IESBA has encouraged feedback on further improvements needed in the Code as part of the exposure draft comment process. Our comments regarding the proposed changes in the Exposure Draft and other general improvements needed are in the main body of this letter. These main letter comments are followed by two Appendices providing additional comments and suggestions for further improvement in the Code, and our responses to questions in the Exposure Draft.</p>	IOSCO	General comment – concerns expressed discussed in more detail later in document

X ref	Par Ref	Comment	Respondent	Proposed Resolution
68.	General	<p>The International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Committee and Developing Nations Committee (DNC) welcome the opportunity to comment on the exposure draft (ED) of the proposed revisions to Section 290 Independence (S290) and the proposed new Section 291 of the IFAC <i>Code of Ethics for Professional Accountants</i> (Code) published for comment on December 29, 2006 by the International Ethics Standards Board for Accountants (IESBA).</p> <p>The letter has been formally endorsed by the SMP Committee at its meeting in Tunis on May 3-4, 2007. The letter incorporates many of the comments the SMP Committee made previously, in particular to Geoffrey Hopper's presentation at the SMP Committee meeting in Hong Kong on July 5, 2006, the SMP Committee comment letter of August 8, 2006, and to Jean Rothbarth's presentation at the SMP Committee meeting on October 9, 2006 in Rome.</p> <p>Our committees are wholly supportive of the IESBA in its quest to improve the Code by issuing an ED containing proposals designed to strengthen its independence requirements. This project should help maintain the relevance of its Code, ensure it reflects global best practice and enhance its clarity.</p> <p>The 'Wong Report'⁴ identified widespread concern as to the relevancy and appropriateness of international standards of accounting, auditing and ethics to SMEs and SMPs, especially those operating in developing nations and where the profession is in a developmental phase. This concern has continued to increase over the past few years to the point that over-regulation of SMEs, largely the result of imposing one size fits all standards which have been drafted from a large entity and developed country perspective, is considered one of the biggest problems confronting the small business sector. The burden of regulation is such that the viability of SME audits is a threat as indeed is the viability of many SMPs remaining in the assurance market. Cont'd</p>	SMP/DNC	General comment

⁴ 'Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs', September 2004.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
69.	General	<p>Our committees look to the IESBA to develop and maintain a high quality Code. We, therefore, welcome initiatives such as this one aimed at improving the Code. IESBA is, rightly, held in high regard as a global standard setter and as such many regulators and member bodies will unquestioningly adopt the revised Code and adhere to the letter rather than follow its spirit. Hence, it is vital that every effort be made to ensure we achieve an optimal outcome.</p> <p>The SMP Committee and DNC acknowledge the considerable progress made in enhancing the Code. We are also generally satisfied with the way the IESBA has approached this important project. While more effort could have been made to research how best to serve the public interest in the revision of the Code, the general approach taken has been deliberate, considered and consultative. IESBA has engaged with a broad range of interested parties as part of its consultation exercise. This has gone some way towards ensuring that the eventual standard reflects the combined counsel of all constituents that have an interest in and/or are affected by the proposals. Moreover, there is clear evidence that the IESBA has considered and acted on the feedback.</p> <p>This submission is organized into four parts. First, the basis for this submission is described. Second, general background issues are presented, including the principles underlying the detailed points. Third, the key points of our submission are explained. Finally, the specific comments including detailed responses to the questions posed in the Explanatory Memorandum at the front of the ED are set out in the final section.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
70.	General	<p>The views expressed in this letter represent the general views of the SMP Committee and Developing Nations Committee. This response letter is a joint submission of the SMP Committee and Developing Nations Committee. The rationale for this is that consultations with members of these two committees have revealed a high degree of commonality of views.</p> <p>Compiling a single response that wholly satisfies all of the members represented on our committees is impracticable, owing to their diversity. Not surprisingly, the views expressed by members varied, often reflecting a particular national stance. Therefore, when formulating its views the committees have sought to take a global, public interest position. This perspective may not always be consistent with individual national laws, regulations and interests.</p> <p>Collectively our committees boast substantial experience of accounting and audit, especially of SMEs. Their members are drawn from over 30 IFAC member bodies from some 25 countries from all regions of the world are represented on these committees. In addition, we have consulted regional accountancy organizations.</p> <p>We have sought to encourage active and constructive consultation and research aimed at helping the IESBA obtain an optimal outcome. We have also encouraged our constituents to respond to the ED.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	General comment
71.	General	<p>The SMP Committee and the Developing Nations Committee see a considerable public interest angle to the proposals contained in the ED. Strengthening the Code has the potential to enhance the quality of assurance and other services provided by professional accountants, harmonize this quality across national borders, and, in turn, bolster the quality and credibility of financial statements worldwide. Ultimately, the public interest will benefit from more efficient allocation of capital, the effective exercise of business ownership and supervision of management's stewardship, and even the prevention of fraud. It should also help prevent a recurrence of the financial collapses of recent years, most notably of entities of significant public interest (ESPI).</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
72.	General	<p>This section sets out the key points of this submission. Many of these points are elaborated upon under the next section “Specific Comments”. It should be noted that the responses do not cover every conceivable issue but rather concentrate on what we consider to be the most relevant from an SME/SMP perspective.</p> <p>There is considerable merit in many of the proposed revisions and these we welcome. For example, in many areas there is much greater clarity than the original version and this will enhance consistent application. Other proposals are less welcome, but justified on the grounds they stand to significantly improve audit quality. However, there are some proposals which we do not welcome; they carry a high cost, especially for SMEs and SMPs, with minimal corresponding benefit. In this letter we focus on these aspects of the proposals and suggest resolutions.</p>	SMP/DNC	General comment – concerns expressed discussed in more detail later in document
73.	Principles /Rules	<p>CGA-Canada is concerned that sections 290 and 291 are evolving towards a very rules- based approach. As section 290.8 now states:</p> <p><i>“Many different circumstances, or combination of circumstances, may be relevant in assessing independence. Accordingly, it is impossible to define every situation that creates threats to independence and specify the appropriate mitigating action. A conceptual framework that requires firms and members of audit teams to identify, evaluate and address threats to independence rather than merely comply with a set of specific rules that may be arbitrary is, therefore, in the public interest.”</i></p> <p>In our view this approach remains correct. However, the clear direction of the proposed amendments is a movement from the intended conceptual approach and in our view takes a prescriptive rules-based approach. This is not in the public interest.</p>	CGA	<p>Discussed by IESBA at June 2007 meeting agreed issue to be addressed as part of discussion of each specific topic considering whether individual proposals are consistent with a principles-based approach.</p> <p>Basis for conclusions to provide a summary of the additional restrictions and an explanation of how, in the IESBAs opinion, specific restrictions are not inconsistent with a principles-based approach because the restrictions flow logically from the application of the principles</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
74.	Principles /Rules	<p>The issues raised by the Enron and WorldCom collapses are many and varied. Poor governance, market conditions and greed may be cited as causes, as can aggressive earnings management in the face of the inability to meet revenue forecasts and declining stock prices. The key message, however, from the Enron and WorldCom debacles is the danger of prescriptive rules-based standards which encourage creative, loophole-based avoidance. The concepts of 'true and fair' and 'substance over form' are clearly what is needed, alongside a return to the traditional values of 'professional scepticism'.</p> <p>For the principles-based approach to be robust, it should not be undermined by the proliferation of detailed underlying rules. We accept that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that examples of how these should be applied are necessary. However, the examples should not become prescriptive rules; the aim should be to deter auditors from 'tick-box' compliance with the form of the requirement rather than the substance.</p> <p style="text-align: right;">Cont'd</p>	ACCA	See above
75.	Principles /Rules	<p>We fully agree with the IESBA's objectives set out in the Explanatory Memorandum but we do not believe these are achieved. The ethical standards should seek to strike an appropriate balance between strengthening public perception of the integrity of an audit, while still enabling auditors to carry out their work efficiently and not inhibiting commercial activity i.e. they need to be proportionate.</p> <p>In attempting to benchmark the existing section 290 to a number of jurisdictions to identify matters to be reconsidered has inevitably led to additional restrictions. This exercise does not of itself, provide evidence of a need for these restrictions in an international code. A restriction may be considered necessary in one jurisdiction in light of particular set of circumstances; it does not necessarily follow that a similar restriction is appropriate in other jurisdictions.</p> <p>We do not believe, therefore, that the introducing 'blanket' prohibitions, even in circumstances where acceptable safeguards may be available, is justified either on grounds of enhancing independence or evidence of a need to restrict further the ability of businesses to have access to and obtain their professional service needs cost effectively</p> <p style="text-align: right;">Cont'd</p>	ACCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
76.	Principles /Rules	<p>The proposed standard should serve the needs and interests of both the general user and the financial markets. As such, there are a number of matters which need to be taken into account when proposing additional prohibitions, particularly for smaller entities. For example, cost and management time is often greater when non-assurance services are obtained from a provider other than the auditor. In addition, in audits of smaller entities, the additional information acquired when providing other services enhances audit quality. As currently drafted, section 290 simply burdens audit firms, in particular small audit firms, and their clients.</p> <p>We support the IESBA's commitment to international harmonisation. However, we are concerned that IESBA may be trying to achieve this objective by benchmarking the existing section 290 to the independence requirements in a number of jurisdictions. While benchmarking analyses are useful for comparing the requirements in different jurisdictions, the results which emerge from such analysis should be used as part of a wider evidence gathering exercise rather than being as a justification for adopting the most stringent prohibitions globally.</p> <p style="text-align: right;">Cont'd</p>	ACCA	See above
77.	Principles /Rules	<p>In our view additional prohibitions should only be introduced if it is clear that there are significant threats and that public confidence in audit and assurance engagements is adversely affected by activities carried out in line with existing requirements.</p> <p>The confidence of investors and the public is of key importance for capital markets to operate effectively and efficiently. The interests of stakeholders, who rely on information in the public domain, must be protected. We believe that any system of regulation of the accounting and auditing profession must be transparent and proportionate, and must reflect global best practice.</p> <p>ACCA as an international body is in a unique position to comment from a global perspective. We believe global problems need global solutions. To that end we believe there should be adherence to international standards. As such standards should promote global best practice and promote the necessary harmonisation of global markets.</p>	ACCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
78.	Principles /Rules	We propose that additional safeguards or prohibitions should only be introduced if it is clear that there are significant threats and that public confidence in audit and assurance engagements is affected adversely by activities carried out in line with existing requirements.	CCAB	See above
79.	Principles /Rules	<p>NIVRA is an advocate of a principle-based approach to regulations. NIVRA believes that such an approach, where the emphasis is on the purport of the regulations rather than on the specified offerings or prohibitions, produces sufficiently powerful legislation, which also takes account of the fact that not all practical cases can be organised in advance or in detail.</p> <p>On the other hand, this exposure draft contains various requirements, including some that are completely prohibited (particularly for entities of significant public interest [ESPIs]), that are formulated in detail to such an extent that a change from a principle-based to a rule-based approach is perceptible. NIVRA is not in agreement with these (possibly unintentional) changes and is also concerned that such rule-based-provision compliance leads to “in form rather than substance”.</p> <p>NIVRA concludes from the explanatory memorandum (under “Background”) that the various corporate failures relating to financial reporting are the reason for the review of the independence rules. NIVRA questions whether the tightening of legislation in the area of independence is directly related to the independence problems associated with these scandals.</p>	NIVRA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
80.	Principles /Rules	<p>It is highly important to safeguard the framework approach and the issue of principles. The new draft sometimes proposes specific and detailed rules which do not correspond with the approach chosen at the begin, i.e. the approach based on principles. The consideration of threats to independence and of the appropriate safeguards must be made by the professional. It is a decision of the professional and should not risk to become a simple technical review for ascertaining the compliance with rules established by IFAC. We therefore propose to highlight the principle (including the types of threats) and let a separate indication follow for safeguards, exemplifications and recommended procedures (written in an appropriate style and set apart from the types of threats) - but the decision should remain with the professional; this specification is necessary also to avoid the risk that independence is interpreted in a too limiting sense. If this is not specified in a written form, that means that it is not required and it cannot be proved: this would reduce the responsibility and safeguard, especially in questionable cases. On the contrary, a general principle becomes all the more binding (especially because this is not a case of criminal provisions, which must ensure that each and every single rule is clearly comprehensible in order to guarantee a correct application in the general interest). In the field of professional ethics, "not to express" does not equal "not to demand", and faithfully respecting what has been expressed may not mean being exempted from responsibilities.</p>	CNDC CNRPC	See above
81.	Principles /Rules	<p>Regarding the readability of the Code as a whole, it may be objected that it is not easily and immediately comprehensible. It is very long and risks to place obstacles in the way even to the best intentioned. This does not at all mean that rules in themselves are superfluous or inappropriate, but that, before making them binding, it might be worthy to consider again a total simplification of the style. The adoption of a model and a set of rules may be difficult especially for civil law countries, due to the different legislative style these are used to. We are used to the issue of principles and of specific rules. Another example is the numbering of the Code - we do not see why articles start from no. 100. We deem expedient that IFAC perceives the enormous difference between the legislative approaches, favouring the objective rather than the sheer adoption of the Code's provisions.</p>	CNDC CNRPC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
82.	Principles /Rules	<p>It is also apparent that there is a clear preference for retention of the principles-based approach, which requires threats to independence to be evaluated and if possible, eliminated or reduced to an acceptable level by safeguards – failing which the particular assignment should not be undertaken.</p> <p>Such an approach in our view provides a more sturdy and resilient structure than a rules-based one for dealing with independence matters. Principles-based regulation is generally preferable and less cumbersome than attempting to address, as is the case with the current exposure draft, a range of possible circumstances dealing with independence issues. It is not clear how the benefits flowing from the proposed changes will outweigh the costs related to the additional obligations proposed. In applying the threats and safeguard approach practitioners would look to the IESBA for guidance, rather than rules.</p>	Australia	See above
83.	Principles /Rules	<p>We regret that the draft Code appears to depart from a threats and safeguards principles-based approach. Although the draft claims to found the revised sections on a threats and safeguards approach, the sections nevertheless contain a large number of prescriptions such that in practice they reflect a move towards a rules-based approach.</p>	Mazars	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
84.	Principles /Rules	<p>The ICAS Ethics Committee welcomes this opportunity to respond to the proposed revisions to the IFAC Code of Ethics. In particular we support:...the Board's continued support for a principles-based approach although we are concerned that there are a growing number of specific restrictions. ICAS is committed to the principles-based approach as being the most robust because, inter alia, 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. Whilst appreciating that there will always be a fine line in deciding where specific prohibitions require to be introduced we are concerned that the proposed Code is moving towards becoming too prescriptive.</p> <p>ICAS specifically supports the use of the principles-based approach. However, we understand the rationale and support the extension of the provisions for listed entities to entities of significant public interest. However, there is a danger that the number of additional prohibitions being introduced for listed entities and SPIEs has resulted in a move away from the principles-based approach towards a rules-based approach with the counter-productive result that what might appear to be a stronger code will actually be weaker, being complied with in form rather than spirit. Therefore, the IESBA should consider reviewing the balance of principles and rules in the Code of Ethics as well as the presentation of the Code in its future work programme.</p> <p style="text-align: right;">Cont'd</p>	ICAS	See above
85.	Principles /Rules	<p>We are very supportive of IESBA's commitment to international harmonisation and would welcome a position where only one robust global Code of Ethics could be applied to all professional accountants. However, we are concerned that the IESBA may be trying to achieve this objective by benchmarking the existing Section 290 to the independence requirements in a number of different jurisdictions. Whilst we appreciate the merits of undertaking benchmarking analyses, great care is required to ensure that the final output is not merely a Code which adopts the strictest requirements of different codes found in particular jurisdictions.</p>	ICAS	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
86.	Principles /Rules	<p>We are also concerned for a number of reasons, summarised in paragraph 10, about the direction taken by the ED in terms of the increased number of absolute prohibitions, regardless of the circumstances.</p> <p>The Institute was instrumental in the development of the principles based threats and safeguards approach some years ago, firmly believing it to be a robust but proportionate means of regulation, allowing for the almost infinite variations in circumstances that arise in practice but preventing the use of legalistic devices to avoid compliance. This approach has since been accepted as the most appropriate by a wide range of regulators and other bodies, including the Fédération des Experts Comptables Européens, the European Commission and IFAC itself. In practical operation the threats and safeguards approach is invariably accompanied by examples containing some basic prohibitions where it can clearly be seen that no safeguard could be acceptable and effective. However, there is a fine line between a comprehensive set of examples and a set of detailed prohibitions that becomes a self-contained set of regulations. Absolute rules, based on a premise that the regulator always knows best, encourage a culture of compliance by box-ticking, searching for loopholes, adding unnecessarily to cost, detracting from knowledge and thus audit quality and often obscuring the spirit behind the requirement in the first place.</p> <p style="text-align: right;">Contd</p>	ICAEW	See above
87.	Principles /Rules	<p>We note that the explanatory memorandum ('the Memorandum') refers to a benchmarking process that has been carried out. IFAC has clearly noted that some national regulators have extra prohibitions and has picked some of these up. However, while harmonisation around generally accepted standards is good, trying to achieve this via benchmarking is not the right solution. Benchmarking does not of itself provide evidence of a need for particular restrictions in an international code, to maintain public confidence. While it is always useful to ensure that good ideas are picked up, it is unclear to us what the ultimate result of this process will be: on implementation, national regulators will justify their existence by adding new prohibitions, which IFAC will eventually benchmark into the next iteration of the Code, and so on until eventually, everything is prohibited.</p> <p style="text-align: right;">Cont'd</p>	ICAEW	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
88.	Principles /Rules	We are pleased to see that the IESBA has maintained a stand in certain areas in the face of tighter requirements by a number of regulators, for example in maintaining the partner rotation period at seven years. When considering its forward agenda we would welcome the IESBA looking to undertake dialogue with national regulators who continue to diverge significantly from the IFAC Code. This would be of great assistance in the important drive towards harmonisation.	ICAEW	See above
89.	Principles /Rules	<p>The current Spanish Independence rules are stated in the Audit Law (law 19/1988). This law was amended in 2002 after the approval of the recommendation of the European Commission on Auditors' Independence but new provisions related to independence have not yet been developed by a regulation and they are basically rules based. Since the amendment of the Audit Law, the ICJCE has asked for a revision and for a development of the regulation in order to apply principles-based approach as the first criteria for the analysis of potential independence impairment situations. In this regard the ICJCE has promoted several actions, among them, a preliminary draft Bill to amend the audit law before the total transposition of the new 8th Directive (which should be done in 2008) and several discussions with the members of the Spanish Parliament.</p> <p>Within the above-mentioned context the ICJCE welcomes the retention of the principles-based threats and safeguards approach as the base of the revised Sections 290 and 291. We believe that there are certain aspects in the proposal that are an improvement to the existing code. However, we should note that the introduction of new absolute prohibitions in section 290 moves that section further away from the principles-based approach, fact that could have unintended consequences.</p>	ICJCE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
90.	Principles /Rules	FEE welcomes the retention of the principles-based threats and safeguards approach as the base of the revised Sections 290 and 291. As noted below, there are certain aspects of the proposed new Sections that we also welcome, as we consider them to be an improvement on the existing Code. However, we are deeply concerned that the introduction of yet more absolute prohibitions into Section 290 moves that Section further away from the principles-based approach, with a number of no doubt unintended consequences: Cont'd	FEE	See above
91.	Principles /Rules	<ul style="list-style-type: none"> FEE is committed to the principles-based approach as being the most robust because, inter alia, 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. This has been recognised in Europe by the European Commission Recommendation on Independence⁵, which follows this approach, and the recently revised Statutory Audit Directive⁶, which specifically endorses the approach in Article 22. We accept that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that examples of how these should be applied are necessary. We believe that the requirements now included in Section 290, particularly for the audits of entities of significant public interest, have moved too close to a rules-based approach which can encourage a tick-box compliance with the form of the requirement rather than the spirit; Cont'd	FEE	See above

5 European Commission Recommendation on Statutory Auditor's Independence in the EU: A set of Fundamental Principles, May 2002

6 Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts

X ref	Par Ref	Comment	Respondent	Proposed Resolution
92.	Principles /Rules	<ul style="list-style-type: none"> We note from the Explanatory Memorandum accompanying the ED that the IESBA has applied benchmarking in a number of jurisdictions. This will inevitably indicate additional restrictions but does not of itself provide evidence of a need for these restrictions in an international code. The fact that a restriction is considered necessary in one jurisdiction because of particular circumstances does not necessarily indicate that it is appropriate on a global basis; The introduction of additional absolute prohibitions even in circumstances when acceptable safeguards could be applied does not seem justified either in terms of enhanced independence (see (a) above) or evidence of a need to restrict further the ability of businesses to have access to and obtain their professional service needs cost effectively. There are a number of matters that need to be considered when proposing additional prohibitions, particularly for smaller entities. For example, cost and management time is often greater when non-audit services are obtained from a provider other than the auditor. In addition, in audits of smaller entities, the additional information acquired when providing other services enhances audit quality. 	FEE	See above
93.	Principles /Rules	We have expressed concern above that the examples will be seen as a rule-book and applied in form rather than substance. The IFAC Code will be applied globally in a wide variety of circumstances and we believe that it is imperative that the purpose and context of the examples be stressed, as well as the link between independence and the principle of objectivity. Accordingly, we propose that 290.3 be put at the beginning of Section 290 and that both 290.8 and 290.100 (neither of which mention principles) be expanded to remind the user of the key requirements of the framework and how the examples derive from them	FEE	See above
94.	Principles /Rules	FAR SRS has been informed by FEE of its comments on the ED and agrees to these. FAR SRS would especially like to emphasize the comments that the introduction of yet more absolute prohibitions into section 290 moves that section further away from the principle based approach.	FAR	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
95.	Principles /Rules	<p>The text of Sections 290 and 291 submitted to comments confirms the "threats and safeguards" approach which has been recognised in Europe since Mai 2002 ¹¹ and confirmed by the Eighth directive on statutory audit (Article 22), provides with clarifications and examples of practical situations which are likely to improve the previous version.</p> <p>The "CSOEC" supports this position and the split of existing section 290 into two sections</p> <p>However, and contrary to this principle, Section 290 includes a number of prohibitions, even in circumstances when appropriate safeguards could be applied; this in particular impacts on significant public interest entities and henceforth makes the "threats and safeguards" approach move too close to a rules-based approach to be complied with, which makes the text more rigid and deprives the professional accountant from exercising professional judgement.</p> <p>Prior to drawing up of the text submitted, the IESBA proceeded with a survey of ethical practices in a number of countries.</p> <p>This could lead to the introduction of additional restrictions which undoubtedly need to be applied in some jurisdictions because of particular circumstances but are not expected to form part of an international Code.</p> <p>Contrary to the spirit behind the "threats and safeguards" approach mentioned hereabove and for significant public interest entities, the text of Section 290 includes prohibitions to provide some services when the professional accountant performs or is invited to perform an assurance engagement.</p> <p>We believe that the introduction of "absolute prohibitions", even in circumstances when appropriate safeguards could be applied, is not likely to provide wider safety as regards objectivity of the professional accountants.</p> <p>In addition, those prohibitions inevitably lead to increase the costs of services requested by the entity ¹³, especially when such services may be provided in a more efficient way by the professional having performed an assurance engagement. Moreover, in smaller entities, the fact of providing other than assurance services leads to improve the quality of the assurance engagement.</p> <p>We deem that the decision to introduce additional absolute prohibitions in the Code without any possible safeguard needs to be re-examined.</p>	CSOEC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
96.	Principles /Rules	The CNCC regrets that the drawing up of the draft Code seems to have moved away from the principles-based threats and safeguards approach. Although such a threats and safeguards approach is presented as the basis of the revised sections, we have noticed that these sections include more and more requirements and henceforth move closer to a rules-based approach.	CNCC	See above
97.	Principles /Rules	While much of the proposed Code is written using the principles-based threats and safeguards approach, we note that there is an increasing number of effective “rules” within the Code. Furthermore, it is becoming increasingly difficult to determine which provisions in the Code are “requirements” as opposed to “guidance”; indeed the requirements are mixed with guidance throughout the Code of Ethics text to the extent that it is not always clear what the overriding principles are. We therefore believe that the current structure of the Code militates against a principles-based approach to a Code of Ethics because of the fact that it is difficult to differentiate requirements that must always be complied with from guidance on the application of the threats and safeguards approach.	IDW	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
98.	Principles /Rules	<p>In our opinion, since the Code of Ethics has to be written for worldwide application, the Code needs to be written at a high level, but also accommodate examples and application guidance where applicable. We wonder whether the International Ethics Standards Board for Accountants might like to consider whether it would be advantageous to draw on experience gained during the IAASB's clarity project. In our opinion, this would be of benefit to both auditors and regulators, since such a project would lead to a vast improvement in the structure of the Code. In this way, principles would be clearly presented in one section and examples and other guidance could be placed in an appendix or application section. The IAASB has shown that clearly differentiating the objectives of a particular group of provisions, and differentiating requirements from guidance, facilitates a principles-based process to developing standards. We take the view that the IESBA ought, once this current project has been fully completed, to seriously consider a "clarity project" to restructure the Code of Ethics into separate standards for particular issues. In this case each standard would contain a clear objective together with requirements that are clearly differentiated from application guidance. This is an appropriate solution to the principles versus rules problem.</p> <p>We would also like to point out that the Clarity Project at the IAASB is the enabling factor for the adoption of the ISAs by the EU. Clarification of the Code of Ethics along the lines of the ISAs would serve to facilitate the acceptance of the Code by regulators.</p>	IDW	<p>See above</p> <p>Address the comment on the structure of the Code in the Basis for Conclusions. The exact nature of the comment will depend upon the feedback on the Strategic Plan ED</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
99.	Principles /Rules	<p>In 2005 the Code was considerably revised and converted to a principles-based approach. We highly appreciate the result of these efforts, especially because the principles-based approach is also supported by the EU Statutory Audit Directive (Article 22). We recognise that a very sophisticated Code like the Code of Ethics needs to include, apart from principles, threats and safeguards, examples to illustrate how its requirements are to be applied.</p> <p>Nonetheless we are concerned about the disproportion between the principles-based framework and the number of absolute prohibitions in the proposed Section 290, especially for entities of significant public interest even in cases where acceptable safeguards could be applied.</p> <p>In our point of view this might be a step backwards to a rules-based approach and the Code might become a pure catalogue of prohibitions in the eyes of the public. This might bare the risk that the users might develop the attitude that everything, which is not prohibited by the Code, is allowed. The result might be that the auditor, who considers whether to accept an engagement, might just tick-off the catalogue without deliberating the underlying principles.</p> <p>Therefore we recommend the Board to emphasise the importance of the principles-based approach by starting Section 290 with par 290.3 and to expand the presentation of the framework based on the threats- and safeguards-approach in par 290.7 to 290.9.</p>	WpK	See above
100.	Principles /Rules	NRF would especially like to emphasise FEE's observation that the introduction of yet more absolute prohibitions into section 290 moves that section further away from the principles based approach.	NRF	See above
101.	Principles /Rules	Secondly, when the Code of Ethics was initially revised to introduce a conceptual framework using a principles-based approach with threats and safeguards, the concept was supported as simplifying the process to identify ethical dilemmas and the steps necessary to deal with them. However, the current proposed revisions seem to be introducing "rules-based" concepts (for example, by means of absolute prohibitions as safeguards), thereby confusing some of the issues and limiting the exercise of professional judgement by professional accountants.	SAICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
102.	Principles /Rules	<p>We support, in principle, the proposed revised structure and believe that the separation of audit from the other assurance engagements makes the standards easier to follow. We also welcome the retention of the threats and safeguards principles. However, whilst we acknowledge that a purely principles-based code is unlikely to be sufficient, we are concerned with the increase in the number of restrictions. Additionally, we are concerned that costs associated with certain aspects of the standards as proposed, may outweigh the intended benefits.</p> <p>We note that the explanatory memorandum details the benchmarking process that has been undertaken. The result is that the code has picked up numerous restrictions deemed appropriate by regulators in local jurisdictions without any indication of their relevance to an international code, or whether they are needed in order to ensure either audit quality or public confidence. If this benchmarking process continues over a period of time, then the ultimate outcome is likely to be a move to a rules-based, rather than a principles-based code.</p>	BDO	<p>See above</p> <p>Basis for conclusions will address the benchmarking process that was undertaken. Will make the following points:</p> <ul style="list-style-type: none"> • It was important to conduct the benchmarking exercise to for convergence purposes to gain an understanding of the position taken in other jurisdictions • IESBA has not always taken the most restrictive position (eg partner rotation of 5/5) because it was of the view that many of the more restrictive requirements were not appropriate for a global code • The existing independence section was issued in 2001 and a lot has happened since then.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
103.	Principles /Rules	<p>We support the IESBA's efforts to strengthen the provisions of the Code relating to auditor independence. We also favor the principles-based approach that provides a framework for defining threats to independence and identifying safeguards to eliminate those threats or reduce them to an acceptable level. This approach provides a more robust structure in our view for addressing independence issues than a set of rules that are designed to cover specific circumstances only. Consequently, we are concerned that certain provisions of the Code, if adopted as reflected in the ED, would expand the deviations from a principles-based approach without commensurate benefit, as more fully described below.</p> <p>We recognize that the public interest is best served by standards that provide sufficient guidance on matters that accountants commonly encounter in practice. Such guidance also needs to be based upon what a reasonably-informed third party would consider if independence in appearance is to be maintained. Thus, there is no doubt about the need for examples. We question though whether the ED has gone farther than is necessary.</p> <p>Given the challenges a global organization has in complying with different independence requirements depending on the jurisdiction of the audit firm, network firms, the audit client and its affiliates, we strongly support efforts to enhance the Code in a way that takes into account the more recent changes in independence standards adopted in various jurisdictions. By doing so, the likelihood of convergence with the IFAC independence standards is increased because they will be seen as high-quality and credible standards. However, convergence will only be achieved if the standards are also viewed as reasonable, comprehensive and appropriate, while at the same time protecting the public interest. We believe some of the proposed provisions have potential unintended consequences and will neither improve audit quality, promote convergence, nor protect investors and others relying on audited financial statements.</p>	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
104.	Principles /Rules	We remain supportive of the principles-based approach adopted in the Code and are concerned that the Code is increasingly becoming more rules driven, particularly with respect to the requirement that enhanced safeguards must be applied in certain circumstances when the entity is deemed of significant public interest. We encourage the Board to maintain a principles-based approach in the Code to the extent possible. Some of our recommendations in this letter are intended to assist the Board in achieving that objective.	PwC	See above
105.	Principles /Rules	<p>As advocates of a principles-based approach to codes of ethics, we are concerned that the increased detail within these sections of the code presents a risk that the principles-based approach will be undermined by prohibitions and requirements. The examples within the code are increasingly comprehensive, with the result that the independence requirements within the code are moving towards being rules-based rather than being a conceptual framework. The focus on the use of codes to guide and direct professional conduct in a way that assists members as they seek to comply with the principles rather than just the letter of the code is a valuable objective; it would be a shame if the drive to more detail resulted in this aim being lost.</p> <p>We believe that as the Code increases in length and detail it may become less user friendly, which would make it less effective as a tool for guiding professional behaviour. There is a risk that the length of the code may discourage accountants from reading it thoroughly and make it more difficult for users to locate relevant examples within the Code for a particular situation. The style of these sections is inconsistent with the rest of the code: they are written in a much more specific way than the rest of the code. If user-friendliness is sacrificed for detail in this way, the effectiveness of the Code may become limited, particularly with regard to accountants who are not working in audit. CIMA asks the IESBA to consider whether such detail needs to be located in the code itself, or whether it might be contained in separate standards, practice manuals or similar that could flow from the code.</p>	CIMA	<p>See above</p> <p>Basis for conclusions to mention that structure and implementation support (exact comment dependent on comments received on exposure of Strategic Plan ED)</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
106.	Principles /Rules	<p>We have been a strong supporter of the IFAC conceptual approach of threats and safeguards to achieving and maintaining independence. We have found this approach very appropriate and proportionate to the variety of situations encountered by our firm. Although we agree that certain situations should clearly be prohibited as the result of a robust assessment, we are concerned that the new Exposure Draft is introducing more prohibitions and that the threats and safeguards conceptual framework is progressively replaced by much more prescriptive provisions. The Exposure Draft seems to demonstrate increasingly that the response to an independence situation is the creation of a rule, which is contradictory to the overall premises of the Code. We would encourage the IESBA to continue to support and maintain the conceptual approach as the most appropriate answer to addressing auditor's independence and ensure that professional accountants would focus on substance rather than form when assessing an independence situation. This is particularly true in relation to independence requirements on rotation and cooling-off period that are overly prescriptive for other key audit partners, could prove very onerous and have unintended consequences detrimental to audit quality and effectiveness</p>	E&Y	See above
107.	Principles /Rules	<p>We have always been a strong advocate for the continued application of a principles-based approach, therefore we welcome the retention of this approach as the basis for the revised Sections 290 and 291.</p> <p>We do however note that there is a move to introduce a greater number of prohibitions in the revised Code. Whilst acknowledging the need for such measures in relation to listed companies we find the argument for extending them beyond this class of company less compelling.</p> <p>We would request that the IESBA, when making further revisions to the Code, consider carefully before introducing further rules and moving away from the threats and safeguards approach for the companies other than listed.</p>	CARB	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
108.	Principles /Rules	<p>We understand the rationale and support the extension of the provisions for listed entities to entities of significant public interest. However, we believe that the introduction of additional prohibitions has resulted in a move further away from the principles-based approach towards a rules-based approach with the counter-productive result that what might appear to be a stronger code will actually be weaker, being complied with in form rather than spirit. The IESBA should consider reviewing the balance of principles and rules in the Code of Ethics as well as the presentation of the Code in its future work programme.</p>	CCAB	See above
109.	Principles /Rules	<p>DnR are sceptical to the increasing use of prohibitions and detailed rules as it moves the code away from the principle-based approach. The use of detailed rules may lead to the misbelief that anything that is not said to be prohibited is legal. Furthermore, when the examples in the code is being to detailed, it is more likely that a conflict will occur between the examples and national legislation.</p> <p>This is already an issue in Norway, and makes it difficult for us to translate and implement the code as is.</p> <p>For instance, the proposed Section 290.168 allows, in some circumstances, that accounting and bookkeeping services may be provided to an audit client in emergency situations or other unusual situations. According to Norwegian legislation providing such services are not allowed.</p>	DnR	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
110.	Principles /Rules	<p>However, in general we are somewhat sceptical of the increasing tendency to an extensive use of detailed rules that is obviously inspired by American practice. In most areas, a preparation of the Code from a principle-based approach will be far more appropriate and fully adequate. The more extensive and detailed rule-based approach should be limited to areas where it is called for or where it is considered more appropriate.</p> <p>The detailed rule-based approach may easily lead to the misunderstanding that anything that is not exactly described as illegal will be understood as legal, just as a long text with many details will become even more impossible to get an overall view of.</p> <p>It should be considered to categorize and structure the Code so that all principles appear from one part of the Code and all the detailed rules appear from a second and separate part</p>	FSR	See above
111.	Principles /Rules	<p>The apparent focus on matters that may seldom be encountered by smaller firms discourages reference to the Code of Ethics in seeking solutions to ethical dilemmas, and the latest proposed revisions also appear to exclude these same firms from certain engagements due to the restrictive nature of the safeguards (see comments below).</p> <p>Secondly, when the Code of Ethics was initially revised to introduce a conceptual framework using a principles-based approach with threats and safeguards, the concept was supported as simplifying the process to identify ethical dilemmas and the steps necessary to deal with them. However, the current proposed revisions seem to be introducing “rules-based” concepts (for example, by means of absolute prohibitions as safeguards), thereby confusing some of the issues and limiting the exercise of professional judgement by professional accountants</p>	SAICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
112.	Principles /Rules	The increased regulation necessarily results in an increase in rules, particularly for significant public interest entities, through prohibitions and mandatory requirements. We are concerned that a principles based code may become a rulebook which does not allow auditors the flexibility to manage their ethical challenges. Ethics should be about applying your mind to an issue and then doing the right thing rather than just following a set of rules, particularly in a professional environment. Some of our comments on the proposals that introduce prohibitions and mandatory requirements should be read in this context.	IRBA	See above Basis for conclusion to stress tat revisions are founded on a principles-based approach and the overall requirement that accountants consider the conceptual framework still exists.
113.	Principles /Rules	<p>APESB does not believe that the introduction of these additional rules support the principles based approach of the current code. Even when complied with, it may not be known whether or not the auditor is truly independent.</p> <p>The major issue is the dual activity of assurance and non-assurance services which will always bring focus onto independence of auditors. The issue is what are the types of professional work accounting firms can do that are compatible with the role of the auditor.</p> <p>Every time a firm collapses – and it is inevitable that more will – auditor independence will be under the microscope – even with firms and auditors complying with the rules set in place.</p> <p>An option to consider is whether “Chinese walls” are required between assurance and other functions in firms which provide non assurance services to assurance clients</p>	APESB	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
114.	Principles /Rules	<p>We accept and support the conceptual framework underlying the approach to identify, evaluate and address threats to independence. In particular, we agree with the comment in paragraph 100.5 of the Code of Ethics which states:</p> <p><i>"A conceptual framework that requires a professional accountant to identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary, is, therefore in the public interest."</i></p> <p>We strongly agree, as stated in paragraph 100.4 (b) of the Code of Ethics, that objectivity is a fundamental principle and that:</p> <p><i>"A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments."</i></p> <p>However, we are also of the view that independence is so fundamental to the accountancy profession that it deserves recognition as a fundamental principle in its own right - rather than being subsumed into the fundamental principle of objectivity.</p> <p>Paragraphs 290.3 and 291.3 of the Exposure Draft provide the link back to the fundamental principle of objectivity by stating that it is in the public interest and, therefore, required by this Code of Ethics that members of audit and assurance teams, firms and network firms be independent of audit and assurance clients. Cont'd</p>	CAGNZ	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
115.	Principles /Rules	<p>The conceptual approach is weakened by the application guidance</p> <p>Whilst we support the conceptual framework to independence, we consider that the application of the conceptual framework fails to ensure that auditors and the providers of assurance engagements are both independent and seen to be independent. In our opinion the existing guidance in Section 290 of the Code of Ethics does not establish sufficiently high standards of independence. The changes proposed in the Exposure Draft introduce some minor improvements but fail to tackle what we regard as core independence considerations. We have significant concerns about two fundamental aspects underlying the conceptual approach being:</p> <ul style="list-style-type: none"> the definition and application of "independence in appearance"; and the application of safeguards. <p>Both of these matters are discussed under the respective headings below.</p>	CAGNZ	See above
116.	Principles /Rules	<p>We support the IFAC principles-based approach of threats and safeguards to identifying, evaluating and addressing independence. We believe that this approach is very appropriate and allows for an adequate balance taking into account the different situations to be faced by auditors. However, we are concerned that the new Exposure Draft is introducing more prohibitions and that the principles-based approach framework is progressively replaced by much more prescriptive provisions, which is contradictory with the overall premises of the Code. We would encourage the IESBA to continue to support and maintain the principles-based approach as the most appropriate answer to addressing auditor's independence and ensure that professional accountants would focus on substance rather than form when assessing an independence situation. This is particularly true in relation to independence requirements on rotation and cooling off period that are overly prescriptive for other key audit partners could prove very onerous and have unintended consequences detrimental to audit quality and effectiveness</p>	FACPE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
117.	Principles /Rules	<p>We fully support the idea of a principle-based Code which adopts a threats and safeguards approach to determining the appropriate requirements. The Code should be a vehicle for communicating to all interested parties, in a clear and understandable way, that the profession is concerned about ethics and that it has objective, effective and straightforward rules to ensure ethical conduct. Such an approach is inherently superior to that of a rules-based one which tends to promote a tick-box/checklist compliance with the form of the requirement than the spirit.</p> <p>However, we have serious reservations about whether the proposed S290 adopts a principles-based approach. In many instances the specificity of the circumstances and the attendant requirements are such that the exercise of judgment is effectively eliminated and prescriptive rules supersede principles. For example, there are a number of outright prohibitions, especially for ESPIs, in the application section. For an SMP this often means that there are either no safeguards at all or else safeguards which are not able to be applied. This begs the question how can blanket prohibitions, or situations where there is no practical relief, be reconciled with a principles-based approach?</p> <p>We, therefore, encourage the IESBA to prioritize the redrafting of the entire Code using a similar drafting convention to that used by the IAASB on its Clarity project. The Code should set out a concise set of clearly understandable principles or objectives so that these might be communicated effectively outside the profession. The main body of the Code should clearly differentiate between what the accountant is required to do, ideally kept to a minimum, from non-binding explanatory and application material. We discuss this in more detail below.</p>	SMP	<p>See above</p> <p>Drafting TF to propose what will be included as a requirement.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
118.	Principles /Rules	<p>The SMP Committee notes that independence and audit quality sometimes conflict. A good knowledge and understanding of the business is the key to an auditor executing a high quality audit. Concerns have been expressed in recent months that partner rotation requirements in certain countries, for example the UK, may inadvertently have a negative impact on audit quality, particularly in specialized sectors, because key audit partners are removed without always having someone of sufficient experience of the industry to replace them. This problem may well be exacerbated in the context of SMP/SME and developing nations. Hence, we suggest that where there is doubt as to the ultimate impact on audit quality, it is better to avoid prescriptive rules.</p>	SMP/DNC	See above
119.	Principles /Rules	<p>We are concerned that, when developing the Exposure Draft, insufficient recognition has been given to the intent expressed in paragraph 100.5 of the Code of Ethics that it is in the public interest that a professional accountant should identify, evaluate and address threats to compliance with the fundamental principles, rather than merely comply with a set of specific rules which may be arbitrary.</p> <p>The guidance in the Exposure Draft is both voluminous and very detailed and there is a significant risk that this material may become a set of specific rules that may be inappropriately applied by professional accountants - without a proper appreciation of the fundamental principles. It is our opinion that the conceptual framework that is used to make judgments on independence matters is not sufficiently robust (for instance, in assessing threats to "independence in appearance" and in the application of safeguards) to ensure, appropriate and consistent standards of independence are maintained. If the key matters that influence the application of the conceptual framework were clearer and unambiguous we believe that there would be less need for lengthy guidance material. This is because most facts and circumstances would be readily addressed by reference to matters of principle.</p>	CAGNZ	Change made – new text states that if a specific circumstance is not addressed in the Sections the conceptual framework should be applied to the particular circumstances faced.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
120.	Applicatio n of safeguard s	<p>We have a concern that some of the safeguards included in paragraphs 200.10 to 200.15 of the Code of Ethics may assist in mitigating threats to "independence of mind", but do little to mitigate threats to "independence in appearance". An often suggested safeguard is to use personnel not associated with the assurance engagement to provide non-assurance services to an assurance client. This "Chinese walls" safeguard would not enable an informed third party to conclude that independence had not been impaired as they would not have knowledge of all relevant information - hence the "appearance of independence" test a would not be satisfied. In any event, the informed third party is unlikely to be persuaded that "Chinese walls" do achieve the desired level of independence given the tendency to focus on the firm as a whole.</p>	CAGNZ	<p>Minority comment – many other respondents expressed strong support for a principles-based approach with the application of safeguards to eliminate the threats or reduce them to an acceptable level.</p>
121.	Applicatio n of safeguard s	<p>We believe that the Code of Ethics would be more effective in its role of balancing the public interest and self-regulatory responsibilities of the profession with the interests of its members if it were to presume that any threats to independence should require the firm and the members of the assurance team to either eliminate the threat to independence or resign from the assurance engagement. If this approach is taken, the fundamental issue of preserving independence is given full prominence. The emphasis on safeguards, in our view, tends to encourage behavior to circumvent or attempt to minimize any threats to independence. Such behavior is inappropriate and should not be encouraged.</p> <p>Furthermore, it appears that predominance has been given to the "state of mind" rather than the "appearance of independence" in the practical examples in Sections 290 and 291 of the Exposure Draft. For example, the examples in paragraphs 290.170 (valuation services) and 290.177 (preparation of tax calculations for financial reporting) of the Exposure Draft indicate that the provision of such services may be acceptable if performed by professionals who are not members of the audit team. This safeguard does not address the threat to "independence in appearance".</p>	CAGNZ	<p>Minority comment – many other respondents expressed strong support for a principles-based approach with the application of safeguards to eliminate the threats or reduce them to an acceptable level.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
122.	Application of safeguards	<p>Further, the PPB believes that some of the safeguards included in the Code of Ethics are more relevant to independence of mind than independence in appearance. For example:</p> <ul style="list-style-type: none"> ▪ Structuring the responsibilities of the audit team so that the person with the independence issue does not deal with certain matters or, in some cases, excluding that person from any significant decision-making concerning the audit engagement. Users will still see that person on the audit team. ▪ Relying on the ‘Chinese wall’ when the firm provides other services to audit clients. In this example users are going to doubt that the auditor will be objective when auditing the result of work carried out by a colleague and, further, if they do audit it objectively and discover a problem, whether they will raise this with the client management. (There is a view that independence of mind is also affected here, particularly in a small practice – is the audit partner really going to question work done by his fellow partner, or raise it with the entity?) 	ICANZ	Minority comment – many other respondents expressed strong support for a principles-based approach with the application of safeguards to eliminate the threats or reduce them to an acceptable level

X ref	Par Ref	Comment	Respondent	Proposed Resolution
123.	Applicatio n of safeguard s	<p>We consider safeguards to be appropriate in circumstances where the safeguard provides a reasonable basis for a third party to conclude that the auditor's independence in fact or appearance has not been impaired. We make a distinction between "safeguards against a threat" and "steps to eliminate a threat." We observe that the Code provides two safeguards that we consider are more properly described as steps to eliminate the threat: (1) removal of the member from the audit team and (2) disposal of the financial interest.</p> <p>The characterization of steps that <i>eliminate</i> a threat as a safeguard <i>for</i> a threat can generate confusion, as it reinforces the message that there are safeguards to most threats regardless of type, instead of the message that certain threats cannot be mitigated by appropriate safeguards. We recommend greater emphasis on identifying threats that can not be mitigated by safeguards and specifying the actions to be taken to address such threats, for example, as in the case cited in paragraph 290.182, "where the effectiveness of certain tax advice depends on a particular accounting treatment or presentation in the financial statements." It is helpful that here the Code clearly concludes that "no safeguards could reduce the threat to an acceptable level" and thus such a service could not be provided unless the firm were to withdraw from the audit engagement.</p> <p>To provide a clear explanation, it is important that the Code distinguishes between actions taken to eliminate a threat (for example by prohibiting a specific service or arrangement) from safeguards put in place to guard against threats related to a specific service or arrangement. Language that is more direct would improve the effectiveness of the Code.</p>	IOSCO	<p>This matter is broader than Section 290. The critical matter is that the threats are at an acceptable level – if a threat is eliminated it is at an acceptable level.</p> <p>290.4 amended with (d) stating that when no safeguards are available to eliminate or reduce the threat the engagement should not be accepted</p> <p>All safeguards to be carefully reviewed to ensure they are adequate and appropriate</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
124.	Applicatio n of safeguard s	<p>In regard to paragraphs 290.28-290.30, we do not see how “obtaining the client’s acknowledgement of responsibility for the results of a non-assurance service” subsequent to the audit firm having provided that service could be considered a safeguard. In our view, obtaining a client acknowledgment of responsibility could only be considered as a safeguard to the extent the client has acknowledged and taken responsibility on the front-end of the provision of the non-assurance service (not after the non-audit service has been provided, as implied by the wording in the current standard). The issuer would also have to continue to assume that responsibility throughout the course of the non-assurance engagement.</p> <p>In another example, we refer to paragraph 290.146, where the Code states that a subsequent review by an additional professional accountant who was not a member of the engagement team may be a safeguard that could reduce a threat to an acceptable level. We question whether having a second professional accountant in the same audit firm or in another audit firm review the work of a person who is not independent (as opposed to having a review or inspection by an independent oversight body) is a sufficient safeguard in itself. Perhaps such a review may provide some limited comfort related to the work of the accountant that was not independent, and in conjunction with other safeguards could conceivably reduce a threat to an acceptable level in audits of non-public companies. But we consider this doubtful and are concerned that in some cases review by another professional accountant is the only safeguard proposed in the Code. This implies that reliance on another professional accountant’s review is able to provide a much greater degree of comfort in an audit by a non-independent person than is warranted, and serves to undermine independence requirements.</p>	IOSCO	<p>First safeguard in 290.30 regarding obtaining client approval deleted.</p> <p>No change – IESBA is of the view that a review by another professional accountant in the firm is, in certain circumstances, an appropriate safeguard that can reduce a threat to an acceptable level.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
125.	Convergence	<p>The European Commission might be interested in the possibility of using international rules on independence as a benchmark when assessing equivalence of third country regimes and third country auditors (Articles 45 and 46 of the Directive). The possibility of using the IFAC independence rules as a benchmark was one of the questions raised in the consultation³ on the treatment of third country auditors launched by the European Commission last January and closed in March. We will continue examining this question in the light of the generally positive reaction from market participants.</p> <p>The results of the survey⁴ carried out by IOSCO in 2006 and released in January 2007 on the regulation of non-audit services provided by auditors to audited companies goes in the same direction as the result of the European Commission consultation. They indicate that in half of the jurisdictions the non-audit service requirements do not apply to foreign listed companies and that approximately 75% of the IOSCO member jurisdictions use either IFAC Code (very few), or local independent requirements that incorporate the IFAC Code in varying degrees.</p> <p>Considering the increasingly globalize nature of securities markets, and in particular the growing numbers of cross border listings, the European Commission considers that it would be helpful for the EU, and for the international community as a whole, if the newly proposed IESBA rules on independence, once adopted, include as a minimum the EU principles and rules contained in the above-mentioned Directive and Recommendation.</p> <p style="text-align: right;">Cont'd</p>	EC	IOSCO survey taken into account when considering all comments received on non-audit services.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
126.	Convergence	<p>It is our understanding that in the elaboration of the exposure draft, IESBA has already made an effort to largely take into account latest developments in the European Union and in particular the provisions in the 2006 Directive on statutory audit. We sincerely appreciate this effort. We propose to continue working together during the forthcoming negotiation phase to achieve the above-mentioned objective.</p> <p>Regarding the drafting style and wording used in the updated section 290, there is a widespread concern as to whether we are missing a unique opportunity to produce rules which are both easier to understand and to be enforced. In our opinion the experience gained under the IAASB "Clarity Project" should be transposed when possible to the revised Code of Ethics.</p> <p>At present the European Commission is heavily involved, in cooperation with the EU Member States, in ensuring a harmonious implementation of the 2006 Directive. In this context I would like to call your attention to some key specific issues: Cont'd</p>	EC	Drafting TF to consider implications of IAASB Clarity Project on the Code.
127.	Convergence	<ul style="list-style-type: none"> • Networks of audit firms. Networks are defined in Article 2.7 of the 2006 Directive. In practise an identical definition is found in the new section 290. The concept is developed afterwards in paragraphs 290.10 to 290.21. Whereas in the Explanatory Memorandum it is indicated that comments are not being sought on these paragraphs, let me remind you that, despite starting from the same definition, discussions with our Member States on this matter are still inconclusive. In increasingly interrelated financial markets the thorough clarification of what constitutes a network is becoming of primary importance. We encourage further work on this issue as to properly and fully reflect market reality. • Public interest entities. Public interest entities are defined in a somewhat open manner in Article 2.13 of the 2006 Directive. Paragraph 290.22 contains, in the middle, a definition of the so-called "Entities of Significant Public Interest". In order to avoid misunderstandings we encourage clarifying this matter. We suggest that (i) the concept be included in the section on definitions, (ii) the definition be close to that in our 2006 Directive, and (iii) the word "significant" is erased. Let me remind you that the 2006 Directive foresees different regimes whether you are or not a public interest entity. Cont'd 	EC	<p>IESBA will consider whether additional guidance is necessary in this area as there is more experience with application of the definition and after consideration of responses to the strategic and operational plan ED.</p> <p>The term "significant" to be dropped. In addition there will be a suggestion that member bodies and firms should consider whether any additional entities should be treated as an entity of public interest for independence purposes.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
128.	Split of 290	<p>We are pleased to note that the December ED has resulted in a general strengthening of the IFAC Code. In particular we support:</p> <ul style="list-style-type: none"> • The split of the current Section 290 into two sections. We believe this will help clarify the requirements and guidance that apply to audits; • Including review engagements in the new Section 290. We believe that this is appropriate to the extent that such reviews result in public reports that are relied upon by external stakeholders; 	APB	<p>Discussed by IESBA at June 2007 meeting agreed that split would be revised as follows:</p> <ul style="list-style-type: none"> • 290 Audit and review of full set financial statements and single financial statements • 291 All other assurance engagements (including audit and review of one or more specific elements, accounts or items of a f/s <p>In addition agreed that definition of review engagement would be reconsidered for clarity.</p>
129.	Split of 290	We are in favor of dividing the existing section into 2 separate sections distinguishing between the different types of assurance engagements	Mazars	See above
130.	Split of 290	The APESB supports the concept of splitting the independence section into two – one relating to audit and review engagements, the other to other assurance engagements. In reviewing the exposure draft, the APESB would like to raise the following general issues for consideration by the IESBA:	APESB	See above
131.	Split of 290	DnR consents to the split of existing Section 290 into separate sections. Despite the fact that the splitting will result in an extension of the total volume, we think that the sections will become more easy-to-grasp for the users.	DnR	See above
132.	Split of 290	IRE welcomes the splitting of the existing Section 290 into two sections and the retention of the conceptual approach as the base of Sections 290 and 291	IBR-IRE	See above
133.	Split of 290	We welcome the split of the existing section into two separate sections.	CNCC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
134.	Split of 290	We support the new structure of the Code of Ethics proposed by the IESBA	E&Y	See above
135.	Split of 290	We are particularly pleased that review engagements will be subject to the same Independence standards as audit engagements, as is generally the case in Canada where the use of review engagements is extensive.	CICA	See above
136.	Split of 290	Splitting existing Section 290 into two sections will also be more obvious and understandable	FAP	See above
137.	Split of 290	In particular we support ...the split of Section 290 into two separate sections to clarify the independence requirements for audits and other assurance engagements, although we do have concerns about the length of the proposed revised Code as a result	ICAS	See above
138.	Split of 290	Splitting the independence requirements into two sections; one for audit and review services and the other for all other assurance services should greatly facilitate the professional accountant's understanding of these requirements, which should also enhance compliance.	AC	See above
139.	Split of 290	Fourthly, we support the proposed split of section 290 and the creation of a new section 291. It would help with the understanding of the difference between audit and review engagements, and other assurance engagements.	SAICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
140.	Split of 290	<p>We are happy with the proposed split of Section 290 and Section 291, but are concerned that this has resulted in repetition. For example, there is direct repetition in Section 290.4 and 291.4 with the exception of substitution of the word 'assurance' for 'audit'. Similarly, Sections 290.5 & 290.6 are the same as 291.5 & 291.6 and the 'conceptual approach to independence' and 'other considerations' sections are the same in both Section 290 and Section 291.</p> <p>We see several potential ways of avoiding this repetition. For example, the common elements of 290 and 291 could be consolidated into just one 'front end' followed by two sections comprising the specific examples for 'audit and review' in one and 'other assurance' in the other. We believe that this would also achieve advantages in terms of consistency with the style of the rest of the Code. Another alternative would be to cross-reference readers of Section 291 to the relevant paragraph in Section 290 rather than repeating the text word for word within the body of the code. Finally, a third option would be to move the examples (Section 290.100 onwards and Section 291.100 onwards) from the main body of the code into two separate appendices. This would emphasise the principles and would help to make the code shorter and more focused, thus making it easier for accountants to use.</p>	CIMA	Minority comment – majority are of the view that Sections 290 and 291 should be self-standing
141.	Split of 290	We are sceptical of the categorization of the Code into sections 290 and 291 as it results in a considerable extension of the total volume. There are many repetitions between sections 290 and 291.	FSR	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
142.	Split of 290	<p>Following on from our comments above on the possible trend towards a rules oriented approach, we are of the opinion that the provision of separate guidance on other assurance engagements is unnecessary. This is because it is not possible to anticipate every fact or circumstance that may threaten independence and the better approach to remove or mitigate threats to independence is by reference to principles. The principles do not vary with the nature of the engagement and, for this reason, it is preferable that the guidance on independence is contained within one section of the Code of Ethics.</p> <p>We are also of the opinion that the split between audit and review (in Section 290) and other assurance engagements (in Section 291) is quite arbitrary. As a consequence there is a risk that the lesser guidance material in, Section 291 may be inappropriately applied. For example, Section 290 is limited to audits and reviews of historical financial information. If an auditor is requested to examine and report on prospective financial information to be included in a prospectus document they would likely refer to the guidance material in Section 291 when considering independence matters. In this instance it is our opinion that reference to Section 291 would be inappropriate and it is the guidance material in Section 290 that should be referred to.</p>	CAGNZ	<p>See above</p> <p>Paragraph 291.1 redrafted to clarify the intention.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
143.	Split of 290	<p>We believe that standards of independence for assurance engagements should distinguish between public reporting and private reporting engagements. For public reporting engagements, such as an accountant reporting on financial information in a prospectus, conceptually public interest requires that the same high level standards of independence should apply as on an audit. However, there are practical issues that need to be considered.</p> <p>APB has recently issued an Ethical Standard for Reporting Accountants (ESRA) which applies to engagements that are in connection with an investment circular in which a report from the reporting accountant is to be published. In finalising this standard, we needed to take account of the market characteristics in relation to the role of the reporting accountant. Particular problems were identified in relation to the need to maintain confidentiality in relation to some corporate finance transactions and for the reporting accountant to be appointed quickly. This resulted in:</p> <ul style="list-style-type: none"> • the inclusion of additional guidance on the extent of enquiries that need to be made throughout the network; • narrowing the audience for disclosures of significant facts and matters that bear upon the reporting accountant's objectivity; and • restricting the consideration of threats arising from an engagement where there are two responsible parties, one of which is already an audit client, to those which are known as a result of limited enquiries. <p>Similar issues may be faced in other jurisdictions where there are multiple responsible parties in relation to an engagement where a firm is issuing a report on historical financial information that is included in a prospectus.</p>	APB	<p>The majority of assurance engagements are audit or review engagements. It is important to maintain the clarity of Section 290.</p> <p>There are a wide range of other assurance engagements covering many different types of subject matter. Therefore it is important to maintain the principles-based approach in Section 291 so that it is capable of application to a broad range of engagements.</p> <p>There may be regulatory requirements in the jurisdiction with which compliance is required.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
144.	Split of 290	<p>We do not believe that the scope of section 290 should automatically include review engagements as well as audit engagements. ‘Review engagements’ covers a much wider range of possible activities than the latter, however, meaning different things around the world and indeed within the same country. In some jurisdictions and some circumstances they can indeed refer to engagements with a clear public interest perspective such as auditor review s of interim reports which are issued to the market. However, in other jurisdictions and circumstances a review opinion (often applied to a small entity that does not require an audit and frequently intended for restricted use) would not demonstrate a public interest perspective and the guidance in section 291 (which requires the same standard of independence but is more principles based in achieving that) would be more appropriate. We note that the proposed definition of ‘review engagement’ is one “...conducted in accordance with International Standards on Review Engagements or equivalent.” This indicates that IFAC does not intend section 290 to apply to all forms of engagement that might be called ‘review’ but as the International Standards on Review Engagements have not been adopted everywhere in the world we think there will be confusion. We also note that the terms ‘audit’ and ‘review’ are commonly used in place of ‘reasonable assurance engagement’ and ‘limited assurance engagement’ by practitioners and their clients alike. Considering the complexities and general lack of understanding as to what types of ‘review’ engagements exist, the definition of types of engagements to be covered by section 290 should be considered carefully. We believe that IFAC should seek to apply section 290 only to engagements with a clear public interest perspective such as where there is reporting to capital markets: indeed it may be appropriate for national standard setters to decide on this, in line with the approach in respect of ESPIs Cont’d</p>	ICAEW	See above
145.	Split of 290	<p>We further note that the scope of 290 has been extended to cover not just audits and reviews of entire financial statements but also components of financial statements and special purpose statements. We concur that there is a set of expectations associated with ‘audit’ and that therefore section 290 should apply to engagements seen to be audits. However, the inclusion of such a wide range of components and special purpose statements further reinforces the need to carefully consider the extension of section 290 to non-audit assurance engagements.</p>	ICAEW	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
146.	Split of 290	We support the IESBA decision to split Section 290 into two sections dealing separately with audit and assurance engagements, this, we believe, will provide greater clarity for all users of the Code. However we are concerned that the new Section 290 has been extended to include review engagements. Whilst noting the definition of review engagement refers to ISRE2400 we do not believe that this provides sufficient clarity as to which engagements would in fact be included within the scope of Section 290. We would suggest that the public expectation of the level assurance to be provided by a review engagement varies from country to country. In our opinion the majority of review engagements would not be similar in nature to audit and consequently Section 291 should apply. We believe that only in exceptional circumstances, where the review engagement has a significant public interest perspective, should Section 290 apply	CARB	See above
147.	Split of 290	<p>Although we welcome splitting of Section 290 into audit and other assurance engagements, we have a strong concern about including automatically review engagements in Section 290 of the Code. In the UK and Ireland, there is a wide range of views about the scope of review engagements and what they mean, which would make the guidance in Section 290 very difficult to apply. We believe that only review engagements which have a public interest perspective such as those on interim reports to the market should be included in Section 290. All other review engagements should be included in Section 291.</p> <p>We have also noted that the guidance on independence has increased significantly, partly as a result of splitting of Section 290 into two. Whilst it may not be possible to reduce the length of the guidance, the introduction of an index may help professional accountants to refer to guidance in an efficient manner</p>	CCAB	See above
148.	Split of 290	We support the division of the existing section into separate sections covering audit and other assurance engagements.	FEE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
149.	Split of 290	<p>We note that the proposed Section 290 on audit engagements has been extended in 290.1 to cover review engagements conducted in accordance with International Standards on Review Engagements (ISREs) 'or equivalent', as well as financial information ranging from general purpose financial statements to individual elements of a financial statement.</p> <p>As regards the extension to review engagements, it is important that it be clear what type of engagements Section 290 is intended to apply to</p> <ul style="list-style-type: none"> a. Despite the description of the level of assurance in ISRE2400, we note that the public expectation of whether a review engagement opinion should be regarded as similar in nature to an audit opinion, or giving a very much lower level of assurance, varies from country to country; b. In particular we do not believe that review engagements for restricted use should fall within the scope of Section 290 as they are unlikely to be similar in nature to audits; c. We note that ISRE2400 states: "This ISRE is directed towards the review of financial statements. However, it is to be applied <i>to the extent practicable</i> to engagements to review financial or other information..." It is unclear therefore whether a review of other financial information would (or even could) fall within the scope of Section 290. <p>As regards audit engagements, we note that the proposed new ISA800 changes the wording used to describe special purpose financial statements and it may be necessary to amend 290.1 to align with ISA800 when finalised.</p>	FEE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
150.	Split of 290	<p>We do not believe that the split of sections 290 and 291 properly reflects the market place in which smaller entities operate. Many smaller entities in a number of countries are in the position within their local market place to elect for the issuance of a review report instead of an audit opinion.</p> <p>We believe that if distinctions are to be made in the Code with respect to the level of assurance in an accountant's report, the distinction should be between positive assurance reports and all other assurance reports. Where an accountant opines or provides positive assurance on financial statements or attestations by client management, that factor creates a fundamental and clear distinction from other reports where the accountant provides negative or no assurance on the financial statements or attestations by client management.</p> <p>As we understand sections 290 and 291, a notable distinction is the discussion surrounding entities of significant public interest and the associated requirements. It is not likely that entities such as these would be subject to a review engagement. If they were to request a review of their financial statements, it would not be appropriate to apply many of the requirements associated with the audit of an entity of significant public interest to that of a review engagement. We believe that the public and smaller entities would be better served if the discussion of threats and safeguards for review engagements was included in the proposed section 291 and section 290 dealt exclusively with positive assurance reports.</p>	Grant Thornton	See above
151.	Split of 290	<p>We are supportive of the split of the Code into two sections, in particular so that Section 290 can be kept (largely) free of the difficult language in Section 291 flowing from the IAASB International Framework for Assurance Engagements. We note that practitioners have difficulty in practice in applying the concepts of "subject matter" and "subject matter information" and also in distinguishing between assertion-based and direct reporting assurance engagements. We make some specific comments in this respect in Part C of this letter</p>	KPMG	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
152.	Split of 290	We are not certain that it is appropriate to require all the audit provisions to apply to review engagements, but suspect that such engagements are not particularly common in practice. We acknowledge that the types of review engagements for which full audit independence may not be appropriate could well be special purpose restricted use engagements where the provisions for restricted use in Section 290 may provide a reasonable base level requirement. However, we would recommend that the IESBA conducts further research into this matter before making a final determination as to how review engagements should be classified for the purposes of the Code.	KPMG	See above
153.	Split of 290	We support splitting existing Section 290 into two sections and believe that this will enhance a reader's ability to comply with the independence requirements that are relevant to the specific assurance engagement. We are concerned, however, that the allocation of engagement types between Section 290 and Section 291 would subject certain engagements to independence requirements that may go beyond user needs and may impose an excessive compliance burden on the professional accountant, which in turn will hinder the ability of companies to obtain timely service and, ultimately, disadvantage those companies as well as the users of the their financial information that the accountant reports on. Under the proposals, for all audits and all reviews of "historical financial information" (as defined) the accountant would have to comply with the same independence requirements that apply to a "financial statement audit engagement," whereas under existing Section 290, for all assertion-based engagements that are not financial statement audit engagements and for all review engagements, the accountant would be required to comply with independence requirements that apply to "other assertion-based assurance engagements." This is a significant change in that, inter alia, independence would be required of network firms for more than just financial statement audit engagements. Cont'd	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
154.	Split of 290	<p>Engagements that would, under the proposals, be covered by the additional requirements include audits and reviews of matters such as:</p> <ul style="list-style-type: none"> • Operating cost statements for rental buildings, where the statements are used for the allocation of common area and related costs to tenants. • Reports on store sales for purposes of percentage rent calculations. • Reports on costs incurred for determination of royalties that are payable under statute or an agreement. • Reports on costs incurred to qualify for various government assistance programs. • Reports on expenditures incurred, or distributions made, as required by trust deeds or other similar agreements. <p>We do not agree that if the subject matter of an engagement comprises historical financial information, the independence requirements should always be greater than if the subject matter was of a non-financial nature, such as an assurance engagement to issue an opinion on a company's sustainability report – a report that may generally be widely distributed. We note that Section 291 appropriately allows application of a threats and safeguards approach in circumstances not permitted in Section 290 and recommend that the Board consider whether a similar approach for certain services covered by Section 290 would be appropriate.</p> <p style="text-align: right;">Cont'd</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
155.	Split of 290	<p>A rationale for the split seems to be to align the Code with the "Structure of Pronouncements" to be issued by the IAASB, with ISAs 200-800 dealing with audits and reviews of historical financial information. We acknowledge that the IAASB recently decided to revise the applicability of its body of standards to clarify that the requirements and guidance in the ISAs should apply to any audit (or review) opinion on historical financial information irrespective of whether the subject matter is full financial statements or something less, for example, a single element of a financial statement. This was based on a view that the work effort should be the same. However, in so doing, the IAASB did not express a view on whether all of these audit and review engagements require the same independence considerations to apply to all circumstances.</p> <p>Because the rigour of a review engagement is less than that of an audit and because the level of assurance provided by a review is less than that provided by an audit, the independence requirements for a review engagement do not need to be, in principle, the same as the independence requirements for an audit engagement. An exception that could be made is a review of "general purpose¹ financial statements." For that type of review engagement, which is often undertaken for private companies as a cost effective alternative to full scope audits, and in view of the likely user needs, we believe the independence requirements should be the same as for the audit of general purpose¹ financial statements. Similarly, the same independence requirements would also seem appropriate to apply to an audit or review of a "complete set of financial statements prepared in accordance with a framework designed for a special purpose," when those financial statements are broadly distributed (i.e., are not restricted use) subject to our comments in 2.3 below.</p> <p style="text-align: right;">Cont'd</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
156.	Split of 290	<p>Accordingly, we do not believe that all audits and reviews of historical financial information should be covered by Section 290. We question whether users would expect that the independence requirements pertaining to audits of general purpose¹ financial statements would also necessarily apply to (as indicated in Paragraph 290.1) an audit or review of a "single financial statement" (whether general purpose or not), or an audit or review of "one or more specific elements, accounts or items of a financial statement." We recommend that for those engagements the Board consider whether the standard established by Section 291 (consistent with current requirements) is more appropriate and reconsider the proposed split between Sections 290 and 291. In doing so, the Board should have regard to the fact that whilst some such engagements may be for restricted use and therefore subject to the differing independence requirements this will often not be the case, as practical and other considerations (such as the nature of user groups) will often prevent the conditions required for restricted use from being met. Nonetheless, those engagements also may deserve different independence requirements.</p> <p style="text-align: right;">Cont'd</p>	PwC	See above
157.	Split of 290	<p>Consequence of using the term "so significant that no safeguard(s) could reduce the threat to an acceptable level"</p> <p>Certain paragraphs of the ED include a conclusion that a threat is "so significant that no safeguard(s) could reduce the threat to an acceptable level." However, that conclusion is too far reaching in some of the cases described in the ED where it has been included. We believe this issue is highlighted by the emphasis in Section 290 on a wider definition of "audit" that covers a broader range of engagements and a broader range of subject matter information. The following example illustrates this.</p> <ul style="list-style-type: none"> • Company X is a listed entity that publishes books; • Company Y is a subsidiary of X; Y sources and supplies paper for use in books, but Y is not involved in publishing; • Audit Firm A has an engagement to audit (and report publicly on) annual statements of royalties due to and from X; • The annual financial statements of Company X and Y are audited by Audit Firm C; • Company Y engages a partner of Firm B to serve as its interim finance director; • Firms A and B are part of the same Network; Audit Firm C is not; • Firms A and B provide no other services to X, Y or any related entity of X or Y. 	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
158.	Split of 290	<p>Under the ED, because the "audit client" (defined as "an entity in respect of which a firm conducts an audit engagement") is a listed entity, the independence requirements extend to the audit client's related entities (unless otherwise stated). Further, network firms are required to be independent of the audit clients of other firms in the network and "firm" includes network firms (290.2). Serving as an interim finance director of Company Y involves Firm B acting as management of Company Y and because Company Y is a related entity of Company X, such an appointment would be prohibited by paragraph 290.142. According to paragraphs 290.142 and 158 of the ED, there are no safeguards that could reduce to an acceptable level the consequent threats to the independence of Firm A. Accordingly, under the ED, Firm A would not be considered independent of Company X.</p> <p>Cont'd</p>	PwC	See above
159.	Split of 290	<p>We believe this conclusion is not justified because it fails to take into account the fact that the subject matter information of Firm A's engagement for Company X is unrelated to Firm B's service of providing an interim finance director to Company Y. Further, we would not expect that the users of Firm A's report (e.g., royalty payees) would be concerned about such services provided to Company Y by Firm B. Paragraph 290.160 of the existing Code recognises that independence needs to be considered in the context of the subject matter information of the relevant assurance engagement. Section 290 of the ED does not include an equivalent paragraph, but the extension of the scope of Section 290 to a broader range of engagements makes that paragraph highly relevant.</p> <p>Accordingly, we recommend that the Board reassess each conclusion that "no safeguard(s) could reduce the threats to an acceptable level" to determine the situations where such a conclusion would not be justified, as in the case described above. In conjunction with this, we recommend the following actions:</p> <ul style="list-style-type: none"> a) reconsider the wide definitions of "audit" and "audit client" that have been proposed and the resulting split; b) modify the conclusion in some cases; and c) re-introduce the principles of paragraph 290.160 of the existing Code into the new Section 290. 	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
160.	Split of 290	Our second main concern relates to the IESBA proposals that would require the same Independence standards for each of audits and reviews of general purpose financial statements plus single financial statements or discrete financial numbers. The existing approach would treat these latter items as other assurance services, which would be covered by the new Section 291. This change would result in broader independence requirements for those services, in terms of application to the firm and network, partners of the firm, and members of firm management. Cont'd	CICA	See above
161.	Split of 290	<p>We believe that this would create significant practical issues and is not necessary from a public interest perspective. There are several types of service that would be affected, including:</p> <ul style="list-style-type: none"> • reports on operating cost statements for rental buildings, where the statements are used for the charge of common area and related costs to tenants. In such cases, the property manager and the property owner are often not the same party, and obtaining the consent of all of the tenants is not something that could reasonably be done. The auditor of these statements is often the auditor for the property manager; • reports on store sales for purposes of percentage rent calculations. Generally, the auditor is the auditor of the store's financial statements, but may or may not be the auditor of the entire chain that consolidates the results; • reports on working capital or other financial statement items in connection with purchase and sale agreements for assets, divisions, or entire entities; • reports on costs incurred for determination of various Crown royalties or other royalties that are payable under statute or an agreement; • reports on costs which qualify for various assistance programs; and • reports on expenditures incurred, or distributions made, as required by trust deeds or similar agreements. <p>In these cases, the user community is not generally of wide public interest. The subject matter is generally related to specific matters over which small (and generally identifiable) groups have any relevant interest. Defining the "audit client" broadly to include the entire entity is unnecessarily restrictive (and this assumes that it can be agreed in each case which in the group is the audit client). It is also difficult to see the benefit in restricting a broad range of individuals. Cont'd</p>	CICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
162.	Split of 290	<p>We do not believe that the “restricted use” provisions solve the problem in every instance. Those provisions require some agreement or understanding with the users as to the independence standards that have been applied. As noted in the example above, this is not always possible or practical in many of these cases.</p> <p>The practical effect of the proposal is that frequently the corporation's financial statement auditor will be the only logical choice to conduct these audits, given that the ability for all firms to become “independent” may be next to impossible. That will result in a significant change in allocation of audit work within the firm which itself is probably not in the public interest. Moreover, in some cases, other auditors from the same firm or network firm may be better equipped, due to office locations or resources, to do these audits which are often in varied or remote locations away from the normal corporate offices.</p> <p>We would therefore recommend that the two levels of Independence standards should be as currently exists – one level in Section 290 for audits (and reviews) of complete sets of general purpose financial statements, and a second level in Section 291 for all other “assurance services”.</p>	CICA	See above
163.	Split of 290	<p>While we believe that the split results in repetition in some areas, we also believe that it is useful in the sense that the practitioner can readily access the requirements applicable to a particular engagement, e.g., if the practitioner performs an other assurance engagement, it is not necessary to refer to section 290 (unless the assurance client is also an audit or review client). We agree that a reasonably informed third party would expect that the same independence requirements have been met in the engagements, but are not convinced that the general public is aware of the difference between an audit and a review. By including both audits and reviews under section 290 means that the stricter independence requirements which apply to audits, as should be the case, also applies to review engagements. We believe that the threats to independence in a review engagement may be less than for an audit, e.g. when a practitioner performs a review engagement, the prohibition of other services may not be as critical as it would be had the practitioner performed an audit engagement. Another example of the difference between independence requirements for audits and reviews is the cooling off period. Whilst we believe the cooling-off period requirements are relevant to alleviate familiarity threats within an audit engagement, the same need not apply to a review engagement</p>	IRBA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
164.	Split of 290	<p>We support the split of the existing Section 290 into two sections:</p> <ul style="list-style-type: none"> • The proposed revised Section 290 (Audit and Review Engagements). • The proposed new Section 291 (Other Assurance Engagements). <p>The current Code addresses independence requirements for all types of assurance engagements and the differing standards to be applied for various types of assurance engagements under a single section. This makes the section unnecessarily complicated and less reader-friendly. The split will simplify the Code, promoting more understandable guidance and providing better clarity between independence requirements for financial statements audit and other assurance engagements</p> <p>We do not, however, believe it appropriate to treat every review engagement of “historical financial information” as equivalent to a financial statements audit. This means that the independence requirements as applicable to a financial statements audit will apply equally to every such review engagement.</p> <p>We acknowledge that the nature of a financial statements audit calls for more stringent standards. This is in part due to a need to also meet the expectations of the market and other relevant stakeholders. Therefore, the stringent standards include many requirements that address perception risk, peculiar to an audit. Cont’d</p>	PAOC	See above
165.	Split of 290	<p>On the other hand, a review engagement is a “limited assurance” engagement that has the following characteristics:</p> <ul style="list-style-type: none"> • The limited level of assurance means that the rigour employed in performing the work is necessarily less than that of an audit • It is arguable whether the market and other stakeholders expect that the standards applied to review engagements necessarily have to be as stringent as those of an audit on every case. For example, users may expect the same standards to be applied to a review engagement of a complete set of general purpose financial statements (such as a review of the interim financial statements of listed companies for announcement). However, users are unlikely to expect the same standards to be applied to a review engagement involving only one or more specific elements, accounts or items of a financial statement • Furthermore, it is counter intuitive that the independence requirements relating to “historical financial information” should be more stringent than those relating to a non-financial matter, which are generally included under the proposed new Section 291. Cont’d 	PAOC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
166.	Split of 290	For the above reasons, we encourage the Board to reconsider whether it would be more appropriate for the stringent standards in Section 290 to apply to only certain classes of review engagements, such as the review of a complete set of financial statements. Review engagements, such as those involving one or more specific elements, accounts or items of financial statements should be more appropriately categorised under Section 291. Section 291 allows the application of a threats and safeguards approach in situations not permitted in Section 290, and we believe this to be more appropriate for such classes of review engagements	PAOC	See above
167.	Split of 290	<p>We do not agree with the way section 290 has been split. We understand that the need to split the section arose as result of a request by regulators that independence provisions relating to audit be separate and hence clearly visible. The simple way to give effect to this would have been to divide the section into one dealing only with audit and one or more sections dealing with other assurance engagements.</p> <p>We do not agree with the reasons offered by the IESBA for including review engagements in the proposed section 290.</p> <p style="text-align: right;">Cont'd</p>	ACCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
168.	Split of 290	<p>The first reason advanced is that: ‘most assurance engagements are either audit or review engagements’. The point at issue here is presumably the relative usefulness for review engagements of having the requirements separated from those in proposed section 291. The IESBA presents no research to support the view that the number of review engagements is of such significance that separate presentation (or at least combined with equivalent requirements for audit engagements) is necessary. Even if this were the case, we suggest that the conclusion drawn by the IESBA is wrong. The correct conclusion is that review engagements demand a separate section. It is only in the special case where the independence requirements for review engagements are the same as for audit engagements that the IESBA conclusion can arise, and that is a circular argument.</p> <p>The second reason advanced is that ‘the subject matter and subject matter information of the engagement is the same as in an audit engagement’. The discussion of this mentions that there is a different level of assurance obtained (by the practitioner) but clearly this is not considered as a factor that is relevant to independence. Cont’d</p>	ACCA	See above
169.	Split of 290	<p>The focus on subject matter and subject matter information is not valid as, if it were, it would also apply to compilation engagements. This may seem a difficult statement to make as there are no independence requirements for such engagements at present⁷ but it is clear that a compilation engagement may have identical subject matter and subject matter information to both an audit and a review. It could be suggested that the fault in the argument can be ignored if compilation reports can be ignored, perhaps because the practitioner obtains no assurance⁸. This would be a difficult suggestion to sustain however as the IESBA has dismissed the importance of the level of assurance.</p> <p>We now advance two arguments to support our recommendation below that proposed section 290 should apply only to audit engagements. These are related, because both are based on the contention that it is not correct to ignore factors that are highly relevant to the level of independence that ought to be achieved for an engagement. The arguments deal with the level of assurance that the user derives from the assurance engagement and with the level of public interest in the assurance engagement. Cont’d</p>	ACCA	See above

⁷ Other than to included a statement in the accountant’s report when the accountant is not independent (paragraph 5 International Standard on Related Services 4410 *Engagements to Compile Financial Statements*).

X ref	Par Ref	Comment	Respondent	Proposed Resolution
170.	Split of 290	The level of assurance that the user derives from the assurance engagement depends to a large degree on the assurance obtained and reported by the practitioner. Other factors influencing the user's assurance level include knowledge of the practitioner's competence and independence. It has long been recognised that competence and independence are of less significance to the user when the level of assurance and their interest in the subject matter information are reduced. The competence of auditors is often subject to law and regulation; accounts compilation is generally unregulated. Major institutional investors regard audit quality and auditor independence of paramount importance to capital markets; statutory review engagements may be carried out by persons not qualified as accountants. Cont'd	ACCA	See above
171.	Split of 290	The level of assurance is itself important because for a given subject matter, the user derives higher value from higher assurance (though usually at higher cost). Standards should not impose disproportionate costs on engagements to provide lower assurance as the benefit to users (and society) are lower. This has been recognised by other standard setting Boards of IFAC, for example by issuing different standards for audits and for reviews. We recommend, therefore, that the level of assurance be considered when determining the scope of proposed section 290. Because reviews provide lower assurance than audits they should not be subject to the same independence provisions. There is a need to consider the public interest argument below, however, in relation to reviews of entities of significant public interest (ESPIs). Cont'd	ACCA	See above
172.	Split of 290	The user's interest in the subject matter is already incorporated into the extant Code through recognition of different levels of public interest (with more stringent requirements for listed entities). We argue that the public interest differences across the range of review engagements should also be acknowledged by the IESBA when determining the scope of proposed section 290. Cont'd	ACCA	See above

8 The user of the practitioner's report may derive assurance even though the practitioner reports no assurance. That assurance is derived from factors such as the knowledge that a professional accountant has undertaken the compilation.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
173.	Split of 290	<p>Review engagements are proposed to be defined, in essence, as engagements ‘conducted in accordance with International Standards on Review Engagements or equivalent’. The International Standards on Review Engagements are currently divided into those applicable practitioners who are also the auditors of an entity and practitioners who are not. The former would have to apply proposed section 290 (if it were to apply only for audit engagements) as required by paragraph 291.1 of proposed section 291. For practitioners who are not also auditors of an entity we see no reason to force the adoption of proposed section 290 unless it is clearly in the public interest on a global basis. It could only be argued that that is the case in relation to ESPIs.</p> <p>We recommend, therefore, that (using the conventions adopted in the exposure draft):</p> <ul style="list-style-type: none"> proposed section 290 applies only to audit engagements proposed section 291 requires that section 290 applies if the assurance engagement is in respect of an audit client, or if the assurance engagement is a review engagement of an ESPI. <p style="text-align: right;">Cont’d</p>	ACCA	See above
174.	Split of 290	<p>In relation to the proposed split of extant section 290, we are not convinced by the arguments advanced in the Explanatory Memorandum that any consideration has been given to different ways to divide the material, whether into two sections or more. We would have liked there to have been a wider consultation on the form of the independence sections of the Code, as at this stage, we do not believe that the consultation will elicit sufficient responses to do other than pursue a two-section format.</p> <p style="text-align: right;">Cont’d</p>	ACCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
175.	Split of 290	<p>There is a growth in providing assurance on sustainability reports issued by major global corporations. These are often assured by reference to International Standard on Assurance Engagements 3000 <i>Assurance Engagements Other Than Audits or Reviews of Historical Financial Information</i>. There is a strong public interest argument in support of applying proposed section 290 to such engagements. This may, however, be countered by an argument on cost/benefit.</p> <p>The application of the proposed sections to small engagements, particularly by small practitioners could have been addressed through the provision of a section or sections applicable to those circumstances. Typically, such circumstances involve considerable differences from larger engagements in the degree of public interest and in relation to the threats encountered, their significance and the availability and relative effectiveness of safeguards. For example, the paragraphs dealing with network firms could be eliminated from such a section.</p> <p style="text-align: right;">Cont'd</p>	ACCA	See above
176.	Split of 290	In view of these examples and others that might arise from further consultation, we recommend addressing the wider issues of the format of the Code in a subsequent consultation (perhaps in conjunction with considering the implications for the Code of the new drafting conventions adopted under the IAASB Clarity Project).	ACCA	See above
177.	Split of 290	<p>NIVRA agrees with the splitting of section 290 into one chapter for audit engagements and a chapter for other assurance engagements.</p> <p>However, NIVRA objects to the regulation of audit and review on the same level in section 290. The public now has less high expectations regarding the independence that should be taken into account with review engagements, than is the case with audit engagements. The application of the rules for audit on review has rather a lot of consequences, such as, for example, the interaction with non-assurance services. NIVRA believes that a safeguard approach in accordance with section 291 is adequate for review engagements. For this reason, NIVRA calls for the inclusion of review engagements in section 291.</p>	NIVRA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
178.	Split of 290	We support the proposal to split extant Section 290 between audit and review engagements and other assurance engagements. However, we would like to raise a number of general matters in respect of the proposals before commenting in detail on specific aspects of the proposals and responding to the Board's specific questions and request for comments on specific matters.	IdW	See above
179.	Split of 290	<p>We note that the intention is for section 290 to apply to audits and review engagements. We have concern that whilst the term '<i>audit</i>' has a certain ubiquitous understanding, the understanding of what constitutes a <i>review</i> engagement is often inconsistent. In many jurisdictions, a review is associated with a service provided to clients who do not require audits and provides a form of assurance far lower than that of an audit. For such an engagement, there would be no expectation, or public interest, in applying the provisions of section 290. The IESBA may have already considered this aspect when defining reviews as '<i>equivalent to reviews performed in accordance with ISRE or equivalent standards</i>'. However, we believe that this dichotomy between treating some review engagements in accordance with section 290 and others in accordance with section 291 will be inconsistently applied in practice and is unnecessary with respect to the public need. It is our view that including them within the scope of section 290 may unnecessarily increase the cost of the review without any perceptible corresponding increase in public confidence.</p> <p>We do, however, agree with the Board's clarification that section 290 is applicable to all audits, whether to an audit of whole financial statements or more specific elements in isolation.</p>	BDO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
180.	Split of 290	<p>We appreciate the split of the former Independence-Section into Section 290 regarding audit and review engagements and Section 291 dealing with other assurance engagements.</p> <p>We note that the scope of Section 290 as prescribed in par 290.1 covers audit and review engagements, whereas a review engagement is a limited assurance engagement performed in accordance with International Standards on Review Engagements (ISREs) issued by the IAASB, or equivalent standards. This implicates an extension of the existing Code to review engagements. In our opinion it is vital to make clear, which type of review engagements shall be covered by Section 290.</p> <p>According to ISRE 2400, par 2, ISRE 2400 is directed towards the review of financial statements and is to be applied “to the extent practicable” to engagements to review financial or other information. Regarding a review of other financial information we are not sure, whether they should be covered by Section 290.</p> <p>Regarding audit engagements we note that the definition of “Special Purpose Audit Engagements” (par 290.1, Bullet 3) is not in line with the corresponding definition of the effective ISA 800 and ISA 800 (revised). We could not figure out any reason for this difference which might lead to misinterpretations.</p>	WpK	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
181.	Split of 290	<p>The PPB is not convinced that this is appropriate. Conceptually the issue should be <i>is the accountant required to be independent for this engagement?</i> If the answer is ‘yes’, then the type of engagement is largely irrelevant. To illustrate this further, consider two examples where section 290 does <i>not</i> apply: an engagement in respect of prospective financial information for inclusion in a prospectus (not an audit engagement as defined on page 89 of the document); any direct reporting audit (e.g. performance audit, audit of effectiveness of internal controls, audit of service organisations for the purpose of providing assurance to the organisations’ clients’ auditors on the controls operating within the service organisation). It is difficult to understand why the provisions of section 290 should not apply to these types of engagement. An entity issuing a prospectus would be an entity of <i>significant public interest</i> but under the proposal, a practitioner would appear to only need to consider section 291, and apply its far less detailed provisions. Similarly an audit of a service organisation is potentially going to be considered and possibly relied on by auditors of entities of <i>significant public interest</i>, and yet section 290 does not apply to this type of engagement.</p> <p>Accordingly, the PPB does not support the splitting of the existing section into two as, rather than achieving greater clarity, it introduces unnecessary complexity.</p>	ICANZ	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
182.	Split of 290	<p>As securities regulators we believe that all assurance engagements involving listed companies should adhere to the same independence requirements, with the possible exception of restricted use reports provided to a non-audit client. We understand the perceived benefits of dividing the guidance into two areas in order to make it easier to apply the code in particular circumstances. However, we are unconvinced that the right place to draw the line is between audit and review engagements on the one hand and “other assurance” engagements on the other hand. As securities regulators we see no reason why “other assurance” reports from a professional accountant, that investors may rely on, should be subject to lower standards of independence than apply to the audited financial statements.</p> <p>In some cases, as in the example of internal control reports by auditors in jurisdictions that require them, the auditor of a listed entity is responsible for non-audit assurance reports addressed to or for the benefit of investors. In these cases, it is important that the comfort that is provided by the higher standards of independence that are applicable to the auditor as the principal auditor of the financial statements apply to all “other assurance” engagements that he performs. There could also be “other assurance” engagements performed not by the entity’s auditor of the financial statements that would broadly be for the benefit of investors.</p> <p>We are concerned that creating multiple versions of the independence standards may add complexity for auditors, for those charged with governance, and for report users. Having one standard, with some sub-points addressing certain types of engagements if necessary, could likely provide clearer understanding as to the required independence standards.</p> <p>We are also concerned that the Code does not fully define or explain “other assurance” engagements or provide helpful examples of such engagements, nor are these types of engagements suitably explained elsewhere in the auditing standards. We anticipate that report users, practitioners and others will have difficulty sorting out which assurance engagements apply to Section 290 versus Section 291.</p>	IOSCO	<p>Firms that audit listed entities are required to maintain “listed entity” independence. As noted in the opening paragraph of 291 if the firm is also the auditor of the entity the provisions in Section 290 still apply.</p> <p>Majority of respondents support the split of the 290. The majority of assurance engagements are audits or review of financial statements – a stand alone section for such engagements provides clearer guidance.</p> <p>IESBA has issued an interpretation to explain the application of the independence requirements to other assurance engagements. The IAASB is responsible to defining assurance engagements and providing examples of such engagements if deemed necessary.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
183.	Split of 290	<p>We have no issues, per se, over the demarcation. There is inherent logic in advocating different approaches depending on the level or existence of assurance provided. However, we feel the demarcation line is inappropriately drawn and suggest that S290 apply to audits only, while S291 applies to all other assurance engagements. We posit various practical reasons for this.</p> <p>First, it reinforces the distinction between an audit and other types of assurance service. Second, in many jurisdictions there is a lack of clarity as to what exactly constitutes a 'review' engagement. In some countries there are clear frameworks that carefully define these but in others various types of assurance engagements could fall within this definition. Redrawing the line as suggested would make this a non-issue. Third, the proposals for S290 would greatly undermine the market for alternative assurance services such as review or any new service that may be developed by member bodies and/or the IAASB.</p> <p>Finally, we note that within S290 there are some requirements relating to audit engagements/clients and others to assurance engagements/clients. This is potentially confusing, a confusion that may be eliminated were S290 only to relate to audit.</p> <p>In sum, we feel that limited forms of assurance should be married with less onerous independence requirements, so as to ensure an appropriate balance of costs and benefits.</p>	SMP/DNC	See above
184.	Language and clarity	I am a strong proponent of expressing independence and other ethics requirements in clear and simple language. I believe the more direct, streamlined style of the proposal would significantly enhance the Code.	AC	General comment
185.	Language and clarity	<p>We support the work being undertaken to increase the clarity of the language in the Code. However, we do not wish the drive for directness of language to translate into an increase in prohibitions, which again would be a move away from principles and towards rules.</p> <p>Additionally, we believe that some of the language in the exposure draft is inconsistent with a principles-based code. For example, use of words such as 'violation' (Section 290.32) are usually used in reference to rules-based codes and could be replaced with language such as 'breach' or 'non-adherence'.</p>	CIMA	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
186.	Language and clarity	We are supportive of the work undertaken to use more direct language. However, it is important not to take this too far as it is important that directness does not of itself result in more rules and for the user to realise that merely complying with the specific example set out is insufficient. As noted in 1.2 above, it is vital that it be clear how the examples are to be applied within the context of the conceptual framework	FEE	General comment
187.	Language and clarity	Based on our Canadian experience, we agree with the IESBA that more direct language with respect to specific restrictions is beneficial.	CICA	General comment
188.	Language and clarity	<p>We believe that a key issue is the somewhat ambiguous status of the requirements or prohibitions contained within the IFAC Code. In particular, there is currently no clear indication of which sentences within the IFAC Code require or prohibit a particular action and therefore need to be complied with. In this regard the IFAC Code is inferior to the International Standards on Auditing (ISAs) issued by the IAASB. Currently ISAs distinguish the basic principles and essential procedures by use of the word 'should' and the bold type convention. IAASB's Clarity Project is aimed at improving, still further, the status of the requirements and guidance contained in ISAs.</p> <p>We understand that IESBA has, subsequent to the issuance of the December ED, agreed to explore whether the final version of Section 290 of the IFAC Code will distinguish requirements from associated guidance by the use of the word 'shall'. While this development will help, we believe that there is much to be done to achieve the same degree of clarity as IAASB's auditing standards and thereby to achieve high quality ethical requirements.</p>	APB	Drafting TF to address how requirements are to be treated.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
189.	Language and clarity	<p>As mentioned above (see our comments under the heading General Comments), we welcome the IESBA's aim to make the language, in particular the specific restrictions, more direct and minimise repetition in order to clarify and augment the existing section 290 and thus provide auditors with clearer guidance in addressing independence issues. We have, nevertheless, also expressed our concern that proposed section 290 has moved the independence provisions of the Code too far towards being legalistic and rules-based.</p> <p>While we support the work undertaken to use more-direct language, IESBA needs to guard against taking this too far. Directness should not result in more rules, nor should it result in the user assuming that mere compliance with the specific example set out in the Code is sufficient.</p> <p>We note that the IESBA is not seeking comments on the implications of the Clarity project at this time. We look forward to providing comment on that in relation to the IESBA's proposed strategic and operational plan.</p>	ACCA	General comment
190.	Language and clarity	<p>Many of the Board feel that the document is hard to follow, particularly the section on Financial Interests. The language is overly complex with some very long sentences. We would recommend that, once the content has been agreed on, the document be subject to a readability review</p>	ICANZ	Consistent with usual practice the final language will be subjected to a plain English review.
191.	Language and clarity	<p>In order to assist in comprehension, we would like the distinction between the scope of the IFAC Code's application of principles (with the exception of those applying to non-audit services) to the audit of entities of significant public interest, and of other entities, to be better highlighted. It is clear that this scope must be differentiated depending on whether the audit client is a listed entity or other entity of significant public interest, or not, but the reader of the Code does not have this distinction to hand for each paragraph he or she consults. Understanding the Code's requirements is thereby rendered more difficult and errors may be made</p>	Mazars	Section 290 and 291 to be reviewed to ensure use of headings is consistent

X ref	Par Ref	Comment	Respondent	Proposed Resolution
192.	Language and clarity	Although it is stated in the explanatory memorandum that comments relating to the implications of the Clarity project will not be requested at this stage, NIVRA nevertheless makes an urgent request for sections 290 and 291 to be designed in accordance with the system of the Clarity project. In this way, it becomes clearer what the requirements are and what the explanation and examples are. Incidentally, this should certainly not lead to an increase in the number of requirements but rather to a reduction in their number.	NIVRA	Drafting TF to consider how requirements are to be presented
193.	Language and clarity	We recognise the complexity and range of issues that the proposed Code will address and accept that this may have contributed to a Code (now in two Sections) that, as exposed, is of considerable length and complexity itself. However, this inevitably will make it more difficult for readers to gain an easy and clear view of the requirements. We encourage the Board to look for ways to streamline the final Code to make it as easy to read and understand as possible. Some of our recommendations in this letter are intended to assist the Board in achieving that result.	PwC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
194.	Language and clarity	<p>While the construction set out in paragraph 290.2 reduces repetition within the text of the Code and enhances its readability, we believe it will have unintended and inappropriate consequences (and extend independence requirements for certain engagements beyond that justified by user needs). For example, the phrase "audit of the financial statements," which is used in the definition of "key audit partner," would, as a result of 290.2, include a review of other historical financial information, such as a report on store sales for purposes of percentage rent calculations. This means that the phrase "audit of the financial statements" and similar references (e.g., audited financial statements) would have to be read, and related provisions applied, in a wider context to cover more than simply an audit of traditional annual financial statements.</p> <p>When deliberating the definition of "key audit partner" and when setting certain proposed requirements, for example, dealing with partner rotation, employment with clients, and the provision of non-assurance services, we assume that the Board did so in contemplation solely of the audit of full financial statements. However, the proposed construct would seem to result in, for example, a rotation requirement for the key audit partner who provides a regular review of other historical financial information for an entity of significant public interest that is not a financial statement audit client. We assume this was not intended and we would agree that rotation should not always be required in that situation. Accordingly, we believe this is a drafting issue that can be resolved during the Board's redeliberations (e.g., by allowing alternative safeguards).</p> <p>We recommend that the construction of the entire Section be reviewed to ensure that the implications of the terminology construct in 290.2 are clear and as intended. At a minimum, we believe the construction of the first two bullets of paragraph 290.2 require some change, possibly to differentiate between audits and reviews and also financial statements and other historical financial information.</p> <p>Our comments in Topics 2.1, 2.2, and to an extent 2.3 below, are inter-related and accordingly it is not feasible to propose an overall solution pending the Board's consideration of these related issues.</p>	PwC	<p>Section 290 and 291 reviewed to ensure no unintended consequences of construction of 290.2</p> <p>IESBA is of the view that a non-auditor would not have a public interest entity (definition as revised) as a review client.</p> <p>Under revised split of 290, 290 applies to audits and review of financial statements, audit or review of single line item would be addressed under 291</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
195.	Language and clarity	As one reads through the Ethics Code, the impression that arises is that despite the specific improvements that the IESBA is proposing at this time, the overall tone of the Code is still not direct and active, and that the Code is not always clear about what is intended. The proposed standard is very long and sometimes difficult to read. The language used is sometimes indirect, and ambivalent or weak. Threats to independence are not always clearly stated. In general, our view is that the Code is less clear and less enforceable than the ISAs, both in structure and in language, and that the Code would benefit from significant work to improve its overall clarity. In describing a threat, even one recognised as being so significant that there are no appropriate safeguards to mitigate it, the Code as written today usually qualifies the description by using the verb “may” -- in statements such as “these circumstances or services <u>may</u> create a threat...” To strengthen the Code, we believe the language used should be made more direct, such as by saying that “such circumstances or services create a threat”. For example, we refer to paragraph 290.101, which states that “Holding a financial interest in an audit client may create a self-interest threat.” We think it is definite and self-evident that holding a financial interest in an audited company creates a self-interest threat.	IOSCO	Drafting TF to address requirements. Construction of Section 290 is to include a general statement saying that “holding of a financial interest may create a threat” – this is followed by specific examples of when such a holding does create a threat and examples of situations where the threat is so great safeguards could not address the threat and as such the activity is prohibited
196.	Language and clarity	The language used in the Code is rather ambivalent and it is not always clear whether there is or is not an obligation on the accountant, or there is or is not a threat. The overall tone of the Code is not direct and active e.g. it is often stated that “ ‘X’ may create a threat...”. To strengthen and clarify the code, the tone could be made more direct. In most cases the situation provided will be perceived to create a threat. The issue is then whether safeguards can be applied to reduce the threat to an acceptable level such that the auditor's objectivity is not perceived to be compromised. Therefore more direct language could be used. E.g. " 'X' creates a threat". Adopting some of the conventions of the clarity project, as applied in the clarified ISAs, could also help in this respect. In addition, there should be a greater emphasis of those situations which are prohibited. As currently worded, some of the prohibitions are a little unclear e.g. 290.182.	CEBS	Drafting TF to address requirements. Construction of Section 290 is to include a general statement saying that “holding of a financial interest may create a threat” – this is followed by specific examples of when such a holding does create a threat and examples of situations where the threat is so great safeguards could not address the threat and as such the activity is prohibited

X ref	Par Ref	Comment	Respondent	Proposed Resolution
197.	Language and clarity	The IESBA should consider clarifying the text of sections 290 and 291 of the code by including more specificity regarding the obligations of the auditor to address threats to independence. For example, in numerous cases the text states that 'x (ie some circumstance or relationship) may create a threat' rather than stating that 'x creates a threat.' If the text were more direct, auditors could potentially have greater confidence in appropriately applying the code.	Basel	<p>Drafting TF to address requirements.</p> <p>Construction of Section 290 is to include a general statement saying that “holding of a financial interest may create a threat” – this is followed by specific examples of when such a holding does create a threat and examples of situations where the threat is so great safeguards could not address the threat and as such the activity is prohibited</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
198.	Language and clarity	<p>We recognize the significant effort made to ensure the text is unambiguous, easy to translate and likely to result in consistent implementation. However, we feel more can be done and suggest that the IESBA look to the IAASB Clarity project for ideas on how to improve clarity both in terms of structure and language. Indeed, we suggest that the entire Code would benefit from redrafting in accordance with the Clarity drafting conventions. For example, clearly distinguish requirements, especially for outright prohibitions, from application material/guidance and link the two with cross referencing. This structure would lend itself to a web-based version of the Code with hyper-links built into the text taking readers to the relevant sections.</p> <p>While full scale redrafting of the entire Code may not be possible in the near future, we would encourage a certain degree of redrafting of S290-291 prior to its publication. First, we suggest the presentation and structure make it clear what the prohibitions are, especially outright ones and those relating to material matters. For example, by using bold text.</p> <p>Second, we suggest some restructuring so as to clearly distinguish what requirements apply to ESPI and what apply to other entities. In this way practitioners can readily see what requirements apply to their ESPI clients and what relate to other clients. Again, this could be achieved through the combination of bold text and/or sectioning off material that relates to ESPI.</p> <p>Third, tables could be used in some cases to summarize the requirements for a particular sub-section so that practitioners could see at a glance what was required. A good candidate would be taxation services. See Table 1 for a sample draft illustration. [Appendix 6 to this agenda paper]</p>	SMP/DNC	<p>Drafting TF to consider implications of Clarity Project on Code.</p> <p>Bold text has been considered in the past and the IESBA determined that this would not improve the clarity.</p> <p>Sections 290 and 291 reviewed for consistent use of headings</p> <p>To be considered under the proposed Implementation Support project</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
199.	SPIEs	<p>Yes (though see our comments above on whether all of those provisions should apply even to listed entities). See comments under item 2.1 above.</p> <p>We agree with the extension of specific listed entity requirements to other entities of significant public interest (ESPIs). We also agree that it would be inappropriate for the IESBA to provide a detailed definition of what sort of entity should be regarded as an ESPI, to any greater extent than is included in the ED.</p> <p>We support the proposal to extend the requirements relating to listed entities to entities with significant public interest. We agree that the definition of such entities is best left to the national regulator or the national IFAC member body, as appropriate. We also note that the provisions present certain changes of a practical nature from the current Code in addition to the proposed change of terminology from listed to public interest entities. However, with the exception of matters that impact on SMP services, as explained in our comments below, we believe these to be generally acceptable</p>	FEE	Discussed by IESBA at June 2007 meeting agreed definition of SPIEs should include all listed entities and any entities that have been designated an entity of significant public interest by legislation or a regulator. In addition the section would contain a strong encouragement for firms and member bodies to consider whether there were any other entities that should be treated as entities of significant public interest for independence purposes.
200.	SPIEs	We agree to the proposal to extend the application of all of the rules covering listed corporations to entities of significant public interest. We find no problem in the extension of exemplified entities to entities of significant public interest. Exemplified non-profit organizations, however, include a wide range of entities; consideration should be given, therefore, in determining the extent of significance.	JICPA	See above
201.	SPIEs	We are of the view that it is appropriate to extend the listed entity provisions to entities of significant public interest, and agree with the IESBA's interpretation of "significant public interest".	ICPAS	See above
202.	SPIEs	Like FEE, NRF has noted with satisfaction that IESBA has refrained from providing a detailed definition of what sort of entities should be regarded as an ESPI. NRF believes that the definition should be narrow and that only entities of real significant public interest shall be considered as such.	NRF	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
203.	SPIEs	<p>We can agree to the proposed extension of the requirements for quoted companies to also cover other companies of significant public interest in the future.</p> <p>In the Danish legislation on auditors we already have the same requirements for auditor's independence for quoted companies and other companies of significant public interest including regulated financial institutions and government owned businesses.</p>	FSR	See above
204.	SPIEs	Yes. Our response assumes that local regulators will arrive at a reasonable definition of what is a "significant public interest entity".	ICAS	See above
205.	SPIEs	We believe the rationale for the application of additional requirements for the audit of listed entities is that in such entities, there is a wider range of financial stakeholders than for most entities and that therefore safeguards needed to address perception issues take greater precedence. By their very nature, entities of significant public interest share the characteristic of a wide range of financial stakeholders so in principle we agree with the proposal. We also agree that it would be inappropriate for IFAC to seek to promulgate a detailed international definition and that this should be done by national regulators or, in their absence, member bodies: national differences will be too great for a detailed IFAC definition to apply sensibly.	ICAEW	See above
206.	SPIEs	<p>With some exceptions, I believe the requirements that currently apply to listed entities should also apply to other significant public interest entities (SPIEs). Conceptually, it is difficult to justify that the safeguards applying to listed entities should not also apply to other SPIEs. The challenge lies in defining these other entities.</p> <p>I agree that the Code should provide a generic (i.e., conceptual) description of what constitutes a SPIE but that IFAC Member Bodies should determine the specific interpretation of SPIE in their jurisdictions. Regulatory regimes differ significantly from country to country and it would be impracticable, I think, for the International Ethics Standards Board for Accountants (IESBA or the Board) to attempt to define them.</p>	AC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
207.	SPIEs	We agree to the proposed extension of the requirements for the auditor's independence for listed companies to other entities of significant public interest. In our opinion such an extension is reasonable since there are no good explanations for maintaining different independence provisions for auditors in listed companies and auditors in other companies with a large number and wide range of stakeholders. We also agree with the IESBA conclusion that it should be determined in each jurisdiction what type of entities that are of significant public interest.	DnR	See above
208.	SPIEs	The APB believes that conceptually it is desirable to extend all of the listed entity provisions to entities of significant public interest. It is important that entities with a high level of visibility or which are socially or economically important within a jurisdiction have more stringent auditor independence requirements attached to them due to the higher level of public interest in their operations and financial reporting processes. However, there are problems in defining such entities. We support the approach of the IESBA to rely on member bodies to determine the types of entities that are of significant public interest where there is no legal definition in place. The guidance that is provided by the IESBA in paragraph 290.23 is considered helpful and appropriate in this regard.	APB	See above
209.	SPIEs	<p>NIVRA agrees with the definition of ESPI, because this largely corresponds with the definition of public interest entity from the EU Statutory Audit Directive and also offers the possibility to keep using any definition of this term in national legislation or regulations.</p> <p>Not applicable. The Netherlands and NIVRA continue to use the definition of public interest entity taken from the EU Statutory Audit Directive</p> <p>See above item 2.1. For the rest, it is undesirable that the IESBA further expands upon the definition of ESPI, in order to avoid creating more differences with a possible definition in national legislation or regulations.</p>	NIVRA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
210.	SPIEs	<p>We refer to our comment no. 2.1 above in which, in particular, we support the Board's stipulating that the definition of an entity of significant public interest should be a national issue. ...</p> <p>We support the extension of the requirements for listed entities to entities of significant public interest. We agree with the Board that, as long as entities of significant public interest are defined for independence purposes by law or regulation, these national requirements should be applied in connection with the proposed Section 290.</p> <p>Regarding the question whether all specific provisions should be extended we refer to our general comments above.</p>	IDW	See above
211.	SPIEs	<p>We support the IESBA's approach to extend all of the listed entity provisions to entities of significant public interest. We agree that it is appropriate depending on the facts and circumstances for regulated financial institutions to normally be entities of significant public interest. We also agree pension funds, government agencies, government owned entities and not-for-profit entities may be entities of significant public interest.</p> <p>We believe criteria should be specified by which government agencies and government owned entities would be determined to be 'entities of significant public interest'. There would be a number of public sector entities, on a size basis at least, where the full array of audit provisions (eg second partner review) would not be warranted from a cost benefit perspective.</p> <p>Whilst we agree it is appropriate to extend most of the listed entity provisions to entities of significant public interest, some flexibility and further guidance is required with regard to 'client acceptance', 'partner rotation' and the definition of 'firm' in relation to auditing public sector entities as detailed below.</p>	ACAG	<p>See above</p> <p>Comments on these matters considered below</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
212.	SPIEs	<p>We believe that public interest entities should always include credit institutions, even when some of these 'credit institutions would not have a large and a wide range of stakeholders'. The fact that a credit institution accepts money from the public and has a pivotal role in the economy (e.g. payments services - loans) justifies that it should be considered as being an entity of public interest. We strongly recommend the Board to take the same approach as the European Union has taken.</p> <p>We also note that the definition of 'entities of significant public interest' in the Code is not the same as that covered in the 8th Directive. We would encourage the Board to harmonise the Code's definition with that in the 8th Directive to maximise the possibility of the Code's acceptance in the EU.</p>	CEBS	<p>See above</p> <p>Rationale for not including all credit unions will be addressed in the Basis for Conclusions</p>
213.	SPIEs	<p>We appreciate the proposal to extend the independence provisions to all entities of significant public interest (ESPI). Actually not only listed entities but also other entities carry out activities that are of significant public interest. We agree that credit institutions and insurance companies should be included, but it is appropriate also to include NPEs (small and large) both for the trust they obtain and for the social purposes they pursue in their activities. The concept of public interest should not be limited to risk capital market, but more generally to the trust towards the pursue of objectives that are accepted and appreciated by the public. We agree with the choice not to provide a stringent definition of ESPI and to let jurisdictions define them; we also agree with the choice not to define quantitative indicators.</p>	CNDC CNRPC	See above
214.	SPIEs	<p>Fifthly, we support the introduction of the concept of entities of significant public interest and applying appropriate requirements to the nature of the entity. However, the definition of the concept should be harmonised across all IFAC committees to avoid confusion.</p>	SAICA	See above
215.	SPIEs	<p>We agree that auditor independence is an important issue especially in light of the proposed amendments to the Companies Act and the Corporate Law Reform which is currently underway in South Africa. It is our opinion that it would be appropriate and in the public's interest to extend the provisions to all the stated entities.</p>	IRBA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
216.	SPIEs	We agree with the extension of the requirements applicable to assurance engagements in listed companies to other entities with a significant public interest that are mentioned in the exposure draft. However we think that at this stage, it is not necessary to provide for the criteria meant to identify a significant public interest entity.	CSOEC	See above
217.	SPIEs	We agree with the IESBA that it would be impossible to define such entities in a global context and that the regulators /member bodies should define the types of entities that are of significant public interest in their jurisdiction. However we believe that it would be helpful if it were made clear by the IESBA that significance should be measured at national rather than local level thereby ensuring that small entities are not included. This is of particular importance given the extension of the provisions relating to listed entities to SPIE's and the likely significant cost implications.	CARB	See above
218.	SPIEs	We agree with the proposals in this respect.	IRBA	See above
219.	SPIEs	<p>We support in principle the extension of the listed entity provisions to all entities of significant public interest. However, we believe that the Code should clarify that only those larger entities of widespread public interest are to be regarded as entities of significant public interest. As currently drafted, paragraph 290.22, with its reference to business, size or number of employees, taken together with paragraph 290.23 ("normally include regulated financial institutions such as banks and insurance companies, and may include pension funds, government agencies, government-controlled entities and not-for-profit entities"), might suggest that the nature of its business alone might be sufficient to qualify an entity as a significant public interest entity.</p> <p>We support the extension of the listed entity provisions to entities of significant public interest with the clarifications suggested in Part A</p>	KPMG	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
220.	SPIEs	<p>1° As to whether it is appropriate to extend all of the listed entity provisions to entities of significant public interest, we do not see any objection to this approach.</p> <p>2° As to whether pension funds, government agencies, government-owned entities and not-for-profit entities may be entities of significant public interest, we believe that this question should be decided on the basis of criteria such as size, resources and the applicable governance rules. For example, the factors to be considered might include, in the case of pension funds, the amount of managed assets and of members; in the case of not-for-profit entities, the amount of public contributions or government grants; in the case of government agencies and government-owned entities, the degree of governance exercised by the applicable oversight bodies.</p>	Mazars	See above
221.	SPIEs	<p>CGA-Canada agrees that the provisions for listed entities should be extended to “entities of significant public interest.” It seems apparent to us that regulated financial institutions, certain private businesses, government agencies, and controlled entities and <i>certain</i> not-for-profit organizations affect significant numbers of stakeholders by virtue of their economic or social impact on significant stakeholder groups. Those that do should be included in the category of entities of significant public interest. We concur, in the interests of simplicity, efficiency, and equitability that, generally speaking, <u>all</u> of the listed entity provisions should be applied to all entities of significant public interest – not just listed companies.</p> <p style="text-align: right;">Contd</p>	CGA	See above
222.	SPIEs	<p>In our view, it is appropriate that, <u>depending on the facts and circumstances</u>, regulated financial institutions would normally be entities of significant public interest. We also agree that pension funds, government agencies, government-owned entities, and not-for-profit entities may be entities of significant public interest.</p> <p>However, it cannot be emphasized enough that there is a wide variation within these categories. Pension funds may include as few as one person and as many as several hundred thousand. Not-for-profit organizations may have fiduciary responsibilities affecting a significant part of the population (e.g., a national charity organization) or virtually no such responsibilities and only a small number of stakeholders (e.g., a group of parents organizing a children’s neighborhood sporting league.) Government-owned entities may be as small as a village football field or as large as a major national electrical power utility.</p>	CGA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
223.	SPIEs	Proportions must be guarded here, especially in light of the proposed changes regarding partner rotation (290.147), bookkeeping services (290.166), tax calculations (290.173), and material valuations (290.178) to be applied to entities of significant public entities. Large numbers of smaller agencies, not-for-profit organizations, and the like simply do not have in-house resources to perform calculations of deferred tax assets and liabilities, prepare all the year-end adjustments and disclosures to comply with IFRS, or perform material valuations. It is not reasonable in many cases that they should engage several firms to perform these functions; the inefficiencies should be apparent. Moreover, smaller audit firms who may not be able to meet the rotation requirements set out in the ED, may, in fact, be better suited to serve such smaller entities by virtue of their flatter organizational structure, experience, and expertise in providing assurance services to them. Safeguards such as those suggested by way of example at 290.165 for bookkeeping, 290.170 for valuations, and 290.177 for taxation services should be sufficient for such smaller entities. Contd	CGA	See above
224.	SPIEs	The matter comes down to the meaning of “significant public interest.” We recommend further guidance be provided regarding the interpretation of “significant” in this context. Perhaps “significance” for this purpose should be understood to mean national or regional economic or social impact. Further, it should be made very clear that there is no intention to include all pension funds, government agencies, or not-for-profit organizations in the category of entities with significant public interest	CGA	See above
225.	SPIEs	The International Ethics Standards Board for Accountants states that all listed entities will always be Entities of Significant Public Interest; however, there is no rationale associated with his statement. We note that some listed entities are relatively small in a number of countries. The all-inclusive scope automatically captures all listed entities, regardless of size. The International Ethics Standards Board for Accountants believes that no safeguards effectively counter the familiarity threat with respect to the partner rotation rules and therefore requires rotation of key audit partners after seven years on all audits for entities of significant public interest. Cont’d	CMA	See above IESBA’s view that all listed entities are entities of public interest will be addressed in the Basis for Conclusions

X ref	Par Ref	Comment	Respondent	Proposed Resolution
226.	SPIEs	<p>The combination of the above two proposed changes may lead to the following consequences which are not in the public interest:</p> <ul style="list-style-type: none"> • The lack of availability and choice of audit firms in some jurisdictions. • Small entities that are classified as Entities of Significant Public Interest may be forced to have multiple suppliers of services. This may not be possible in some jurisdictions due to the number of firms or it may not be in the entity's interest. • If an existing audit firm does not have the requisite number of partners, entities will be forced to rotate the firm, not the partner within the firm. Cont'd 	CMA	See above
227.	SPIEs	<p>The following alternatives are suggested to address the consequences:</p> <ul style="list-style-type: none"> • A threshold for an entity's size should be established in collaboration with the regulator in each jurisdiction. The threshold can address the specific parameter issues in the jurisdiction. This threshold will apply to all entities, including listed entities. • In the event that a jurisdiction does not wish to apply the threshold to all entities, consideration may be given for the jurisdiction to retain the existing rule. The existing rule provides for an exception to the partner rotation rule when an audit firm only has a small number of partners; however, appropriate safeguards must be established. Cont'd 	CMA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
228.	SPIEs	<p>It is critical to emphasize that the above alternatives would be implemented in collaboration with the appropriate regulators in the jurisdiction.</p> <p>Canada has a large number of very small listed entities. In response to this, listed entities with a market capitalization of under \$10 million Canadian are exempt from the additional existing listed entity restrictions in Canada. This has been developed and agreed to with the regulators. We believe that the first alternative solution can effectively be implemented in Canada.</p> <p>We believe that there should be some flexibility in the application of the rules for Entities of Significant Public Interest in order to address the possible consequences. By acknowledging that jurisdictions will require varying degrees of flexibility and identifying appropriate alternatives, we are confident that the rules will be more effective and meet the needs of all jurisdictions</p>	CMA	See above
229.	SPIEs	<p>The IESBA has proposed extending the listed-entity independence provisions to auditors of entities of “significant public interest.” The proposed standard states, “Entities of significant public interest will always include listed entities, and will normally include regulated financial institutions such as banks and insurance companies, and may include pension funds, government agencies, government-controlled entities, and not-for-profit entities.” (emphasis added) The proposed changes would allow some flexibility for IFAC member bodies to determine, based on the facts and circumstances, which entities should be considered of significant public interest within their respective jurisdictions. In the United States, the American Institute of Certified Public Accountants (AICPA) serves as the IFAC member body.</p>	GAO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
230.	SPIEs	<p>The proposal sets forth the following hierarchy for determining whether entities are of “significant public interest” and, therefore, whether these entities are subject to the same enhanced auditor independence safeguards as listed entities. Where law or regulation defines the entities that are to be considered of significant public interest for independence purposes, the IESBA concluded that IFAC member bodies should use those definitions for applying the independence standards of Section 290. In the absence of such a legislative or regulatory definition, the proposed standard states that the appropriate IFAC member body should determine which entities in addition to listed entities will be treated as entities of significant public interest. Table 1 illustrates the IESBA proposal. [See Appendix 2 to this agenda paper]</p> <p style="text-align: right;">Cont’d</p>	GAO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
231.	SPIEs	<p>Our concern is that IFAC member bodies that are national auditing standard setters are generally not the appropriate parties for determining independence requirements for auditors of regulated financial institutions, pension funds, government agencies, government-controlled entities, and not-for-profit entities. In addition, the conclusions reached under the proposed hierarchy and the resulting implementation of the standard likely would be inconsistent, depending on the context and the facts and circumstances. For example, a municipal water treatment plant likely would be considered of significant public interest within the context of the municipal environment. However, that same water authority would not be considered of significant public interest within a state or national context. Auditors in the first instance would be required to apply enhanced independence safeguards, while auditors in the second instance would not.</p> <p>We agree with the Board's conclusion that it is impracticable to develop a single definition of an entity of significant public interest that would have global application and be suitable in all jurisdictions. We also agree that in jurisdictions where law or regulation defines entities that are of significant public interest for auditor independence purposes, IFAC member bodies should use those same laws or regulations in determining the appropriate auditor independence standards.</p> <p style="text-align: right;">Cont'd</p>	GAO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
232.	SPIEs	<p>However, in the absence of such a law or regulation, an appropriate government entity, such as the national or state audit office, and not IFAC member bodies that are national auditing standard setters, should determine applicable enhanced independence safeguards for auditors of government agencies, government-controlled entities, and certain government-funded not-for-profit organizations. For regulated financial institutions and pension funds, the agency that regulates these institutions should make the decision. We also believe that in both of these situations the party making the decision should coordinate with the appropriate IFAC member body. Our proposed model is illustrated in table 2. [See Appendix 2 to this agenda paper]</p> <p>In the United States, U.S. <i>Government Auditing Standards</i> 9 provide the model for how the national audit office should determine independence requirements for government agencies, government-controlled entities, and certain not-for-profit organizations that receive government funding. In the United States, auditors of government entities and entities that receive government awards are required to follow U.S. <i>Government Auditing Standards</i>. These standards include independence requirements that differ from national standards in that they are more stringent in a number of respects and are tailored to address the unique aspects and risks of government audits. U.S. <i>Government Auditing Standards</i> emphasize the importance of independence for both auditors and audit organizations in audits of government entities and entities that receive government awards. In establishing and promoting adherence to these standards, GAO regularly coordinates and communicates with the AICPA; federal, state, and local government auditors; CPA firms that audit government entities and government-funded programs; and other stakeholders</p> <p style="text-align: right;">Cont'd</p>	GAO	See above

9 U.S. *Government Auditing Standards* may be accessed at <http://www.gao.gov/govaud/ybk01.htm>. The independence standards are in paragraphs 3.02-3.30.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
233.	SPIEs	<p>The enhanced auditor independence requirements for audits of government entities that are included in U.S. <i>Government Auditing Standards</i> were developed following extensive due process, including deliberations by the Comptroller General’s Advisory Council on U.S. <i>Government Auditing Standards</i> and public exposure and comment. Based on U.S. <i>Government Auditing Standards</i>, we agree that auditors of government-agencies, government controlled entities, and not-for-profit entities should apply enhanced safeguards in certain circumstances in order to maintain their independence both in fact and in appearance. For example, U.S. <i>Government Auditing Standards</i> includes safeguards similar to those proposed by the IESBA to protect against threats to independence when auditors provide nonassurance services to audit clients. However, some of IESBA’s proposed enhanced safeguards are not appropriate and necessary for auditors of government agencies, government-controlled entities, and not-for-profit entities</p> <p style="text-align: right;">Cont’d</p>	GAO	See above
234.	SPIEs	<p>Specifically, the enhanced safeguards related to an audit team member joining an audit client are not appropriate and necessary in audits of public sector entities. Because of different motivations, circumstances, and issues in government entities, the self-interest, familiarity, and intimidation threats created by such employment would be much less for auditors of public entities than for auditors of listed entities</p> <p style="text-align: right;">Cont’d</p>	GAO	See above
235.	SPIEs	<p>Partner rotation offers another example of how government entities, such as national audit offices, can best determine the applicable enhanced independence safeguards that are most appropriate based on the relevant facts, circumstances, and regulatory context for auditors of government agencies, government-controlled entities, and certain not-for-profit organizations. The proposed provisions related to the threats that may arise from using the same senior audit personnel on an engagement over a long period of time are inappropriate and unnecessary for public entity auditors. In audits of entities of significant public interest, the IESBA’s provisions state that “an individual should not be a key audit partner for more than seven years. After such a time, the individual should not return to the engagement team or be a key audit partner for the client for two years. During that period the individual should not participate in the audit of the entity.”</p> <p style="text-align: right;">Cont’d</p>	GAO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
236.	SPIEs	<p>After passage of the Sarbanes-Oxley Act of 2002 (the Act) in the United States, GAO analyzed whether the partner rotation requirements of the Act would be appropriate in the government audit environment. The Act makes it unlawful for a firm to provide audit services to a publicly traded company if the lead audit partner having primary responsibility for the audit or the audit partner responsible for reviewing the audit has performed audit services for the entity in each of the five previous fiscal years.</p> <p style="text-align: right;">Cont'd</p>	GAO	See above
237.	SPIEs	<p>We concluded that these requirements are not necessary in the government environment, although some audit organizations may choose to follow them. For many government audit organizations, law mandates the performance of an audit by the individual who holds a specified office, such as the auditor general or the comptroller general. For instance, in the United States in order to preserve independence and to protect the office from political pressure, the Comptroller General serves a 15-year term, cannot be reappointed, and is subject to removal only by a joint resolution of the U.S. Congress for specified causes.</p> <p style="text-align: right;">Cont'd</p>	GAO	See above
238.	SPIEs	<p>Other safeguards ordinarily found in U.S. public sector audit offices include formal mandates establishing the audit offices' powers and duties; public availability of most government audit reports; the enhanced accountability of most government audit offices; and the required use of U.S. <i>Government Auditing Standards</i>, established specifically to address the unique aspects of government audits, for audits of U.S. federal government entities and for audits of other entities that receive federal funding. In addition, some government entities are required to regularly re-bid their audit contracts. We believe that these safeguards in place in the U.S. government audit arena are sufficient to help audit offices and firms mitigate the self review and self interest threats.</p>	GAO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
239.	SPIEs	<p>The Board is proposing to strengthen the guidance on ESPI. The proposal will extend the listed entity independence provisions to all entities of significant public interest. Such entities are described in the proposed revised Section 290 as listed entities and certain other entities which, because of their business, size or number of employees have a large number and wide range of stakeholders.</p> <p>We support the Board's proposal:</p> <p>(a) To extend all of the listed entity provisions to ESPI.</p> <p>(b) That, depending on the facts and circumstances, regulated financial institutions would normally be ESPI and pension funds, government-agencies, government owned entities and not-for-profit entities may be ESPI</p>	PAOC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
240.	SPIEs	<p>EFAA strongly disagrees that it is appropriate to extend all of the listed entity provisions to entities of significant public interest. We believe that, while well-intentioned, this extension could, in some jurisdictions, have severely detrimental consequences for small and sole practitioners.</p> <p>We believe that the IESBA probably has in mind, when considering an entity of significant public interest, a large non-listed entity, especially those in the financial and similar sectors. It is entirely proper that the listed entity provisions should be extended to such entities; in practice such entities are likely to be audited by larger audit firms used to auditing listed entities in any case.</p> <p>Problems may well arise, however, in situations where national governments define entities of significant public interest much more broadly. These could and do include small companies in the water and waste management industries, and non-profit making entities. It is feasible (particularly in developing countries) that such entities may be audited by small, local audit firms, and even in some cases by sole practitioners. Extending listed entity provisions in such circumstances would be highly disproportionate. EFAA recognizes that the decision to classify such entities as being of significant public interest is for national governments, but given the increasing (and welcome) international acceptance of ISAs and of the Code, we believe that the IESBA should consider providing additional guidance in the Code to try and avoid disproportionate regulation.</p> <p>Disproportionate regulation is not in the public interest. Extending listed entity provisions in the circumstances outlined above (especially a requirement for partner rotation) is likely to lead to a further decline in the number of small audit practitioners, reducing choice and quality for those entities requiring or requesting an audit.</p>	EFAA	<p>See above</p> <p>Matter to be addressed in eth Basis for Conclusions</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
241.	SPIEs	<p>On the question whether pension funds, government agencies, government owned entities and non-for-profit entities may be considered as entities involving public interest, one should note that the CNCC does not support an extensive definition of the scope of public interest entities, although this issue in France as in all EU countries, is not in the hands of the profession and is addressed by legislation.</p> <p>On the question whether it is appropriate to extend all the listed entity provisions to entities involving public interest, we see no objection in principle impeding the provisions of the IFAC Code applicable to listed entity from being extended to entities of significant public interest, although we believe that the concept of significant public interest should be clarified.</p>	CNCC	See above
242.	SPIEs	<p>We believe that it is appropriate to include listed entities in the definition of ESPIs. However we do not believe that the definition the IESBA provides should go beyond listed entities. We are concerned that the public interest is not served by having individual jurisdictions determine what they believe to be an ESPI, based on the examples provided by the IESBA – as this will inevitably lead to such entities being interpreted as “mandatory ESPIs”, rather than providing helpful guidance. The IESBA may forestall confusion by providing some indicative guidance regarding the overall characteristics of an ESPI, which jurisdictions will use in determining what is to be an ESPI in that jurisdiction.</p> <p>Given the range and number of stakeholders in entities of significant public interest, it is appropriate to suggest that a “threats and safeguards” approach be adopted in terms of which firms consider extending the listed entity provisions to entities of significant public interest (ESPIs) on a case by case basis, depending on the facts and circumstances and using the “threats and safeguards” principles. We propose deleting the examples from Para 290.23 at a minimum.</p> <p>Further, we do not agree with the proposal to mandate the application of the listed entity provisions to all ESPIs.</p> <p>We are concerned that the costs associated with partner rotation and cooling off requirements for non-listed ESPIs will outweigh the intended benefits, especially with respect to the audits of small entities</p>	Australia	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
243.	SPIEs	<p>In our view, it is appropriate <u>in theory</u> to extend the additional listed entity requirements to other entities of significant public interest. If (1) an entity is really of significant public interest because of, among other things, the number and range of its stakeholders, and (2) the more restrictive provisions of the Code pertinent to listed entities are in fact appropriate, then those provisions should be applicable to all entities where the public interest is significant, regardless whether the entity is listed. The critical question, though, is what is an entity of significant public interest? Our response to the question posed in the ED presumes that there is agreement on that question.</p> <p>In drafting the new proposal and describing, without defining, what constitutes an entity of significant public interest, the Board seems willing to accept the potentially significant complexity and confusion that will arise as a result of having to apply different definitions when clients and networks operate across borders. No doubt that in many jurisdictions, entities of significant public interest are defined by law or regulations; but where not so defined, member bodies are instructed to develop a definition for their jurisdiction. This approach will lead to a lack of uniformity in addition to very significant compliance challenges.</p> <p style="text-align: right;">Cont'd</p>	DTT	See above
244.	SPIEs	<p>We appreciate the difficulty in developing a definition of entity of significant public interest that would make sense in all countries. We believe it would be desirable nevertheless for the Code to include such a definition rather than leaving the determination to member bodies. We recommend that the Code contain more detailed and expanded guidance on the factors to be considered in determining if an entity is of significant public interest, including:</p> <ul style="list-style-type: none"> • Who are the entity's stakeholders, including what is meant by a "stakeholder"; • The size of the entity (measured in terms such as total assets, total revenue, market capitalization and/or the number of stakeholders); • The degree of reliance placed by the stakeholders on the audited financial statements; and • The potential impact on the stakeholders of an audit failure caused by a lack of auditor independence. 	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
245.	SPIEs	<p>This approach would represent a substantive change from the current Code. Rather than merely describing the types of entities that might be classified as entities of significant public interest, such as financial institutions, pension funds, etc., the Code would detail the characteristics common to entities of significant public interest. In effect, this would result in an articulation of the characteristics analyzed by the Board in reaching its conclusion that these entities generally had such characteristics. Entities with these identified characteristics would be subject to the additional provisions. The burden would fall on engagement teams to analyze each audit client in terms of the detailed characteristics provided in the Code and to document their conclusions. A clear presumption would exist that any audit client satisfying the criteria in the Code would be considered an entity of significant public interest.</p> <p>Cont'd</p>	DTT	See above
246.	SPIEs	<p>If the IESBA were to adopt the approach suggested, we believe there would be a number of benefits. First, with the Code including a definition rather than abdicating to member bodies, greater consistency on a global basis could be achieved. Second, applying the additional and more stringent independence requirements to entities that meet the criteria is more justified, rather than subjecting audit clients to such requirements merely because they happen to be certain types of entities. Third, the complexities arising from having to apply different rules to multi-national audit clients is greatly reduced. Including a definition in the Code also benefits those charged with governance of such audit clients as they assess the auditor's independence and the application of the relevant independence standards.</p> <p>Cont'd</p>	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
247.	SPIEs	<p>Although we generally believe that the more stringent independence requirements are appropriate for entities of significant public interest, that view is based on identifying each entity that would be subject to such provisions as being one that is really of significant public interest. We are concerned that if the ED is adopted as proposed, the scope of entities that are likely to be classified as entities of significant public interest will be too broad in many jurisdictions. For example, there are entities in some countries that clearly do not have the characteristics noted above, but would nevertheless be considered entities of significant public interest under the guidance provided in the ED. We believe one could point to examples in a number of jurisdictions where all of the cited examples of entities of significant public interest contained in the ED (i.e., listed entities, regulated financial institutions, pension funds, government-agencies, government-controlled entities and not-for-profit entities) do not meet the criteria set forth above.</p> <p>Cont'd</p>	DTT	See above
248.	SPIEs	<p>We realize that under the proposal, member bodies can opt for adopting a definition that limits the entities based on the facts and circumstances in their country. However, for the reasons stated above, we do not believe it is desirable to have a plethora of definitions. Moreover, some member bodies may choose to adopt the IFAC Code as drafted, or may be required to do so.</p> <p>Unless the approach described under 1(a) is adopted, which leaves the conclusion as to whether an entity is of significant public interest in the hands of the firm and engagement team (and in some cases, those charged with governance who may oversee auditor independence matters), we strongly recommend that the IESBA not mandate that all of the provisions applicable to listed entities apply to other entities of significant public interest. Because we are concerned that many entities will be subject to these provisions because they fall within the definition of entity of significant public interest while not necessarily evidencing the typical characteristics of such entities, the impact on these entities and smaller firms could be quite significant. This is particularly true with respect to the partner rotation requirements and some of the limitations on non-assurance services. Small companies with more limited resources often use their auditors to provide non-assurance services. The Code recognizes the public policy arguments for greater leniency when it comes to non-listed entities</p> <p>Cont'd</p>	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
249.	SPIEs	In our view, it is not appropriate to pre-judge the types of entities that would be considered entities of significant public interest. It appears that the ED is intentionally drawing a distinction between regulated financial institutions on the one hand and pension funds, government agencies, government-owned entities and not-for-profit entities on the other. Yet the basis for the distinction is unclear. Rather than presume based on unclear criteria that certain entities are more likely to be considered entities of significant public interest than others, we suggest, as noted above, that the characteristics of such entities be described so that engagement teams are able to evaluate any particular entity. Cont'd	DTT	See above
250.	SPIEs	Among the additional requirements applicable to entities of significant public interest is the provision in paragraph 290.24 of the ED that generally requires auditor independence with respect to such entities' related entities. While this may make sense in some instances, it does not in all cases. For example, in some countries, the number of government-owned entities is significant and the auditors of such entities differ. If the related entity rules are applied in such circumstances, it is likely that the entities will have difficulty finding auditors because many firms will be required to be independent of their clients' related entities. This raises a question as to who is responsible for making the judgment whether independence is required of the audit client's related entities. Since member bodies are not directed to include in their definition the rules governing application of related entity concepts, we presume that the engagement team is required to make such a determination. It seems to us that if the Board leaves the definition in the hands of member bodies, then member bodies should be responsible for providing guidance on the related entities that also need to be treated as entities of significant public interest.	DTT	See above
251.	SPIEs	We support the general proposition that the independence provisions for listed entities be extended to Entities of Significant Public Interest (ESPI) but would like to see more clarity in the way ESPIs are defined and identified. Cont'd	E&Y	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
252.	SPIEs	Regarding the categories of entities that ESPI would include under the new guidance, we believe that the Code would benefit from some alignment with the terminology used in the definition of “publicly accountable entities” made by the IASB in its exposure draft of an IFRS for Small and Medium-sized Entities. In particular, the IFRS exposure draft defines a publicly accountable entity as follows: “ <i>An entity has public accountability if: (a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or (b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity</i> ”. These two categories are similar to the first two categories that are “always included” and “generally included” in the Exposure draft definition of an ESPI. On the other hand, regarding other ESPIs, it would be helpful to clarify that it is also acceptable for member bodies to scope out certain small entities, such as small not-for-profit, from their definition of ESPIs Cont’d	E&Y	See above
253.	SPIEs	Paragraph 290.24 clearly states that references to an audit client that is a listed entity include related entities of the client while in the case of non-listed entities of significant public interest, references to audit client will, unless otherwise stated, generally include its related entities. It also states that depending on the nature and structure of the client’s organization, it may not be necessary to apply the enhanced safeguards referred to above to all related entities of a non-listed ESPI. However, we believe that the Exposure draft does not provide sufficient guidance regarding the factors to be considered when determining when not to apply these enhanced safeguards. Further, we believe that it may be appropriate to explicitly include related entities in certain circumstances, but not in others, for example when considering the complexities of related government entities explained in the paragraph below. Considering the variety of situations and the possible complexity of practical implementation, we recommend that IFAC allows experience to be gained by dealing with non-listed ESPIs on a facts and circumstance basis, and after experience has been gained and best practice identified, issue additional interpretive guidance or an update to the Code of Ethics. Cont’d	E&Y	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
254.	SPIEs	<p>Regarding government-agencies and government-controlled entities, it would be useful to have more clarity about how governments (including regional or local governments), ministries, agencies, departments or other companies they control are to be considered in the context of identifying related entities for the purposes of defining the Audit Client. There are a number of practical difficulties that are associated with identifying the related entities of a government-controlled audit client. Firstly, control by a government can be exercised through various structures. For example, it is not unusual in certain jurisdictions to have all government investments being held by one agency or ministry, and the governance and management of such investments directed from another agency. Secondly, materiality measures required in the definition of Related Entity could often be inappropriate or not measurable in this context; in particular, government departments may not publish financial data that is comparable to the financial statements of the audit client. Thirdly, in jurisdictions with a large number of government-controlled entities it can also be onerous to identify other entities controlled by the government. Accordingly, including a government or other entities it controls as related entities may broaden unnecessarily the intended scope of independence requirements and place an excessive burden on the audit firm and the audit client. Paragraph 290.24 already acknowledges that in the audit of a government-controlled entity it may not be necessary to apply the enhanced safeguards to all related entities to maintain independence. We would recommend that the IFAC Code be more specific and state that when a listed or non-listed ESPI audit client has a government or government-controlled related entity, the independence safeguards should only apply to those entities that are directly and actively controlling the audited ESPI, and not to other related government entities that are under common control with the audited ESPI.</p> <p style="text-align: right;">Cont'd</p>	E&Y	See above
255.	SPIEs	<p>We understand the role that Member Bodies should have to determine the types of entities that are of significant public interest in their particular jurisdictions. Pending such determination by Member Bodies, we recommend that the Code clarify that accounting firms working with their clients in each country should, in any case, comply with the provisions of this section and make some interim judgment by applying the principles set out in this Section.</p> <p style="text-align: right;">Cont'd</p>	E&Y	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
256.	SPIEs	Another issue to consider in relation to ESPIs, is when an entity which was not previously considered an ESPI becomes of significant public interest. Unlike the situation of a privately held entity that becomes listed at an identified date, the change of status to ESPI could be progressive. It would be very helpful to provide more flexible transition provisions to allow the accounting firm and the audit client to address all areas with stricter independence requirements.	E&Y	See above
257.	SPIEs	<p>The ED proposes to extend new and existing listed entity independence provisions to all “entities of significant public interest” (ESPI). Rather than specifically defining ESPIs, the IESBA has opted to outline general criteria that might reasonably be expected to characterise an ESPI, while deferring to member bodies to develop detailed definitions (in the absence of an existing local regulatory definition).</p> <p>We recognise the difficulties associated with adopting a single “global” definition but note that the proposed approach might result in disparities in application across the globe, depending on each territory’s facts and circumstances. Certainly the existence of numerous definitions of ESPIs, that will likely differ in scope, creates a risk of misunderstanding on the part of relevant stakeholders – audit networks with global reach that must comply with differing cross-border definitions and differing application to client’s “related entities”, as well as users of audited financial statements who, without uniformity in the definition, will lack a clear understanding of the standards by which accountants maintain their independence in this regard. Further, the proposed approach runs counter to the generally held view that convergence and harmonisation of independence rules/requirements is an important goal that facilitates compliance, enhances understanding on the part of financial statement users, and ultimately best serves the public interest</p> <p style="text-align: right;">Cont’d</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
258.	SPIEs	<p>We also note the very real possibility that for the sake of simplicity member bodies may apply the additional requirements for ESPI to all entities of public interest, whether significant or not, contrary to the intent of the IESBA, leading to disproportionate regulation. We also observe that presently various territories define ESPI differently and there is no assurance that the IESBA's proposal will bring their definitions closer.</p> <p>On the other hand, we recognise that what is of significant public interest will inevitably vary by jurisdiction and we believe that would be appropriate. Therefore, we recommend that greater emphasis be placed on the importance of “significance,” perhaps by additional emphasis on “size” as an important criterion, to limit the extent to which smaller entities are considered to be ESPI.</p> <p>We also recommend that the Board delete the examples (i.e., pension funds, government-agencies, government-controlled entities, and not-for-profit entities) of possible ESPI. The risk in including examples is that they could function as rules that member bodies will feel compelled to follow, or for the sake of simplicity will follow without giving sufficient thought to whether those are the right entities or whether additional entities should be included. Thus, including such examples could result in member bodies exercising less judgment rather than more, which is contrary to the type of behaviour that a principles-based Code should encourage. Further, we are not of a view that the Code should seek to determine, beyond listed and regulated financial institutions, what may be of significant public interest at a local level, nor impose regulation thereon. This is the responsibility of the local jurisdiction. Cont’d</p>	PwC	See above
259.	SPIEs	<p>Finally, to ascertain that the two objectives we have discussed in this section, that of obtaining as much consistency as possible and giving consideration to country-specific circumstances, have been dealt with by countries in a way that fulfils the objectives of the Code, we recommend that the Board conduct a review of application by member bodies, and the implications thereof, in, say, two to three years and then consider whether further guidance is needed.</p>	PwC	To be considered by the IESBA Planning Committee in determining projects and priorities of IESBA

X ref	Par Ref	Comment	Respondent	Proposed Resolution
260.	SPIEs	<p>We believe that it is appropriate for audits of listed entities and those deemed to be entities of significant public interest to be subject to a more demanding standard of ethical behavior as contemplated in the ED. However, we recommend amending the proposed definition of "entities of significant public interest" to specific criteria that clearly indicate direct stakeholder reliance on the financial statements. In order to have a robust principles-based requirement that will be readily understood by the International Federation of Accountants ("IFAC") member bodies in their own deliberations, the wide-range of stakeholders criteria should limit consideration to those who make investing, lending, or other financial decisions based on the audited financial statements. While there are other stakeholders who rely on financial statements, including employees, citizens, suppliers, and others, we believe that IFAC would place an insurmountable implementation burden on its member bodies and professional accountants in practice if the criteria remain all encompassing or loosely defined.</p> <p style="text-align: right;">Cont'd</p>	Grant Thornton	See above
261.	SPIEs	<p>The current discussion in the ED of entities of significant public interest includes various terms that need to be better clarified. The term "significant" has too many ongoing ramifications in every member body's jurisdiction so it needs to be clearly developed with terms that are more precise and understandable. Also the phrase "large number and wide range of stakeholders" as well as "stakeholders" should be defined. The ambiguity and lack of clarity in these terms will lead to inconsistent interpretation and ultimately application of the definition and related requirements throughout international member organizations.</p> <p style="text-align: right;">Cont'd</p>	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
262.	SPIEs	<p>As stated above, Grant Thornton International does not believe interests that are beyond the financial statements should have any influence on the ethical standards that should apply to an audit of financial statements and would like consideration to be given to amending the criteria set forth in Paragraph 290.22 "that, because of their business, size or number of employees, have a large number and wide range of stakeholders. The extent of the public interest in these entities is significant." We do not agree that a large number or wide range of "stakeholders" necessarily means that "the public" has a significant interest in financial reporting by the entity. For example, an employer-sponsored pension fund may have a large membership yet the financial statements will only be of interest to the fund members and prospective fund members who represent a defined sub-set of the public. Similarly the financial statements of a family-owned company with a large workforce will not be applicable to the public at large, so the enhanced safeguards proposed by the Code will not be necessary or appropriate</p> <p style="text-align: right;">Cont'd</p>	Grant Thornton	See above
263.	SPIEs	<p>We suggest the following criteria could be used to identify a reliance on financial statements by the public:</p> <ul style="list-style-type: none"> • The entity receives and invests money from the general public, which has an interest in its security and/or financial return and has a reasonable expectation that the auditor is independent in fact and in appearance. • The entity receives money from the general public and although a financial return is not expected, those paying money have an interest in how it is utilized. <p>While these criteria could include charities and similar non-for-profit entities and government funded bodies/agencies, the intent would again be to direct reliance on the audited financial statements. Unless one of these entities was national in scope, it would be difficult to assume that there would be a wide range or diverse group of stakeholders who have a reasonable expectation that the auditor is independent in fact and in appearance prior to making a charitable donation.</p> <p style="text-align: right;">Cont'd</p>	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
264.	SPIEs	<p>It would be ideal for IFAC 's ethics criteria to be consistent with other existing or proposed standards or regulations. We believe that this will greatly enhance the understanding of the IFAC member bodies in applying these rules. For example, when considering the proposed definition of entities of significant public interest, the Board should reflect on the ongoing initiative of standard setters throughout the world to converge national and global standards. Currently the International Accounting Standards Board's exposure draft titled: <i>IFRS for Small and Medium - Sized Entities</i>, defines an entity as having public accountability if:</p> <ul style="list-style-type: none"> • it has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or • it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity <p style="text-align: right;">Cont'd</p>	Grant Thornton	See above
265.	SPIEs	<p>Grant Thornton International believes that certain requirements proposed in the ED are appropriate; however, we think that greater discussion and consideration by the Board is needed regarding the proposed partner rotation requirements and the proposed definition of "key audit partners". Our comments on the specific requirements for entities of significant public interest and key audit partners are discussed in detail in the "Primary issues" section of our comment letter.</p>	Grant Thornton	See above
266.	SPIEs	<p>We support the extension of the listed entity provisions to entities of significant public interest, provided that sufficient distinguishing criteria are used to prevent smaller and/or insignificant entities being unduly burdened. Less emphasis should be placed on the size of the entity, and more focus should be made on the impact of the entity and who is involved therewith.</p>	SAICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
267.	SPIEs	We have a very significant concern with the Exposure Draft that the independence provisions for listed entities be extended to Entities of Significant Public Interest (ESPIs). This is very difficult to implement in developing countries. We agree with the fact that the definition should be broadened when considering financial institutions, insurance companies and pension funds, given that the characteristics of these entities justify it, but we consider that the implementation in not-for-profit organizations and government agencies would be extremely difficult. In the case of not-for-profit entities, because most of these entities are small and do not have the sophistication to be able to produce quality financial statements without some level of assistance that would otherwise be prohibited for auditors to provide for listed entities. A very significant concern, aside from services, related to partner rotation, where the firms simply don't have the resources in the relevant market to be able to rotate as proposed. In the case of government agencies and government-controlled entities, we detect difficulties of a practical nature due to the different levels of control which tend to exist and the lack of information or lack of objectivity thereof. Even when the scope of 'significant public interest' is defined by each country may lead to lack of uniformity and arbitrary considerations.	FACPE	See above
268.	SPIEs	<p>The Explanatory Memorandum states, "<i>Member bodies may find it useful to consult with those who regulate entities that might be considered to be entities of significant public interest to determine which particular entities should be categorized as such for independence purposes.</i>" We suggest that the language be changed from "may find it useful to consult with those who regulate" to "should consult with those who regulate" in order to avoid potential regulatory nullification.</p> <p>The Explanatory Memorandum also states, "<i>The IESBA view is that because of the significant public interest associated with listed entities, such entities should always be considered to be entities of significant public interest. Therefore, audits of such entities should always be subject to the enhanced safeguards contained in Section 290.</i>" However, the standards proposed in the Exposure Draft have already been considered by regulators. We repeat our suggestion that the IESBA consider a requirement that the member body consult with the regulator prior to adoption of an independence standard in order to avoid potential regulatory nullification.</p>	NASBA	Change in approach to public interest entities eliminates the need to consult with regulators on this matter.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
269.	SPIEs	While we support many of the independence provisions in the proposal, we are concerned that the costs associated with certain aspects of the proposal will far outweigh the intended benefits. In the United States, key federal and state regulators have already considered the specific costs and intended benefits associated with extending enhanced safeguards and restrictions prescribed by the Sarbanes-Oxley Act to non-listed regulated entities that may potentially be considered entities of significant public interest. Specifically, subsequent to the enactment of Sarbanes-Oxley, many federal and state regulators in the United States carefully considered whether auditors of entities under their jurisdictions should be subject to the additional requirements applicable to listed entities, such as partner rotation and cooling-off requirements. Most of those regulators concluded that the threats to independence associated with listed entities are significantly different than those for non-listed entities and the costs associated with the additional restrictions did not outweigh the intended benefits. They therefore determined not to extend the listed entity requirements to such regulated entities. These decisions were made after extensive deliberations and strict cost/benefit considerations	AICPA	Rationale for change to be included in Basis for Conclusions

X ref	Par Ref	Comment	Respondent	Proposed Resolution
270.	SPIEs	<p>We believe it would be appropriate for the IESBA to respect the decisions made by regulators within the United States as well as other jurisdictions and recommend that the IESBA not mandate that all of the listed entity requirements be applied to non-listed entities of significant public interest but rather, allow member bodies, working with their regulators, to determine whether in their jurisdictions such requirements would be appropriate and achieve an appropriate cost/benefit balance. This approach recognizes that there may be a reasonable basis for member bodies to differentiate between listed entities and other entities of significant public interest since the costs/benefits as well as the nature and significance of the threats associated with these entities may differ, for example, due to regulatory oversight of such entities in the member body's jurisdiction. Such an approach would also be consistent with Chapter X, Article 39 of the EU's 8th Directive, which provides that member states may exempt non-listed public interest entities from one or more requirements of that chapter, including the partner rotation and cooling off requirements. Absent this approach, the proposal has the potential to create animosity between regulators and the member bodies who are local independence standards setters. Additionally, it could put member bodies in an awkward position because they could find themselves trying to converge to a rule that applicable regulators are not in favor of.</p> <p>Additional concerns regarding the costs associated with certain of the IESBA's proposal are expressed below and we encourage the IESBA to consider them carefully to ensure it achieves an appropriate balance between the benefits of enhanced safeguards and prohibitions and the costs of those enhancements and prohibitions to entities and the firms that audit¹⁰ them</p>	AICPA	See above

¹⁰ The term "audit" as referred to in this comment letter is intended to include both audit and review engagements as defined in the IFAC Code.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
271.	SPIEs	<p>The examples of entities of significant public interest should be deleted</p> <p>We appreciate the IESBA's desire to provide member bodies with examples of entities that, depending on the facts and circumstances," are presumed to be, or "may be entities of significant public interest. However, we recommend a more principles-based approach to developing guidance in this area. Under such an approach, the Code should provide the objective that users should aim to achieve and should refrain from providing specific examples, because the examples can too easily be viewed as tantamount to rules that apply despite any qualifying language. In this case, the objective is to identify entities that have "a large number and wide range of stakeholders" and as a result, "the extent of public interest in these entities is significant." The examples, on the other hand, have the potential to reduce the extent to which member bodies will give thoughtful consideration to determining which entities should be included in the scope of the definition. Thus, some member bodies might include all of the entities listed in the examples because they will believe it must be the intent of the IESBA that such entities be included, since they were specifically mentioned as examples. Alternatively, some member bodies might view those examples as absolutes, to the exclusion of any other types of entities that in their jurisdictions fit the description. Either way, critical analysis and thoughtful deliberation is lost. Accordingly, rather than stifling such analysis and deliberation, we recommend deleting the specific examples (e.g., pension funds, government-agencies, government-controlled entities and not-for-profit entities) and inserting additional guidance that emphasizes that the public significance of such entities may differ greatly depending on the regulatory structure and business environment in a particular jurisdiction.</p> <p style="text-align: right;">Cont'd</p>	AICPA	See above
272.	SPIEs	<p>If the IESBA decides not to exclude the specific examples, we believe further clarification is needed that makes clear that it is not the intent of the IESBA that the definition of significant public interest entity adopted by member bodies capture small pension funds, small government controlled entities, small government agencies, and small not-for-profit entities, but rather the intent is to capture entities that generally are national in size and scope and thus have a large number and wide range of stakeholders. Many are interpreting the proposal as scoping in smaller entities and because that is not the IESBA's intent, we believe this is an important clarification to make to reduce the extent of confusion over this proposal.</p>	AIPCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
273.	SPIEs	<p>Our concerns flow primarily from the rules-based approach to defining "entities of significant public interest." By providing specific examples, the proposed standard may introduce problems in application. The examples in the Exposure Draft may have the effect of reducing thoughtful consideration as to whether an entity is one of significant public interest just because it is, or is not, mentioned as an example. If the IESBA decides not to exclude the specific examples, we believe further clarification is needed that makes clear that it is not the intent of the IESBA that the definition of significant public interest entity adopted by member bodies capture small entities. For example, banking regulators in the United States have already determined that the size of an entity is relevant to the independence requirements for banking institutions. As a result, independence requirements of listed entities generally apply only to those institutions with assets in excess of \$500 million. We believe the proposed standard should describe the attributes that would cause an entity to be of "significant public interest" rather than list the examples as done in the Exposure Draft.</p>	Wolf	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
274.	SPIEs	<p>With regard to the proposals striking a balance between costs to implement and the benefits of objectivity, we believe that you need to consider the following three significant comments that need attention:</p> <p>(A) The definition of Significant Public Interest Entities should be established by each member body at least one year prior to this revision becoming effective in order for auditors and their audit clients to make changes where appropriate and for your organization to determine any significant diversity that may need to be addressed. We strongly disagree with the inclusion of all financial institutions, all pension funds, all Government entities and all not-for-profit entities in such definition. We do not believe that the number of employees is a real indicator of inclusion in the definition of Significant Public Interest entities, and should not be the sole factor of determining inclusion in such definition. Also, stakeholders as described in the exposure draft should not include lenders and others who have the ability to negotiate terms and information to be provided directly with the entity. We recommend that member bodies be given guidelines for including significant entities falling within the categories of financial institutions, pension funds, government entities and not-for-profit entities to be considered of Significant Public Interest. For example (A) highly developed countries may use the following size tests to determine inclusion or exclusion in the definition:</p> <p>(a) Financial Institutions: Assets > \$ 500,000,000 are to be included;</p> <p>(b) Pension Funds: Participants > 5,000 and Assets >\$100,000.000 are to be included;</p> <p>(c) Government Entities: Assets >\$ 100,000,000 are to be included;</p> <p>(d) Not-for-profit entities: The definition should include (1) National not-for-profit organizations within a country who have chapters or local organizations located in the principal cities of that country; (2) Educational Institutions such as colleges and universities that have enrollment of full and part - time students > 5,000; (3) Other not for profit entities having annual revenue >\$ 100,000,000.</p> <p style="text-align: right;">Cont'd</p>	CoCPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
275.	SPIEs	<p>(B) If the definition of Significant Public Interest Entities is kept at levels approximating those described above we fully support the Rotation of Key Audit Partner (see "other matters"). If the definition includes all financial institutions, all government entities, and all pension funds, then <u>we can not support</u> this rotation since it is unworkable for auditing firms with a limited number of partners and fails to recognize existing safeguards such as the aforementioned pre-issuance concurring review. Many small government entities, pension funds and not-for-profit organizations are currently audited by competent small auditing firms who have placed in operation many safeguards, but will be unable to meet the proposed rotation requirements. We believe these firms should not be compelled to resign from these small clients. We further believe that the client's best interest is not served by being required to be audited by larger firms. We believe that the Board needs to consider the recent history in the United States relating to the imposition of the Sarbanes-Oxley Act. This has resulted in eliminating many small firms from providing needed services to their listed smaller clients and the smaller clients not being able to afford the fees charged by the very large firms or not being considered as an acceptable client to the large firms. This result is an unintended consequence but has caused a severe disruption to smaller clients complying with the provisions of this Act. Several extensions of time to comply with Section 404 (Internal Controls Audit) have been granted but this continues to be a source of concern to the SEC. We hope the IFAC can avoid similar results in the implementation of these new provisions. Cont'd</p>	CoCPA	See above
276.	SPIEs	<p>(C) We believe that unintended consequences will result from requiring the definition of Significant Public Interest Entities to become effective at too low a threshold. This could have the unintended consequence of forcing <u>all</u> smaller accounting firms in a given country to consider resigning from all audit clients since they cannot comply with this new IFAC Standard.</p> <p>The cost of this unintended consequence might be immeasurable, but definitely expensive to the client companies because of the higher fees that would have to be paid to larger firms and the cost of disrupting the continuity of service. In addition, if smaller audit firms discontinue their audit practice and large firms take over these clients; these clients will not receive the same quality of attention from the larger firm.</p>	CoCPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
277.	SPIEs	<p>The public significance of entities may vary greatly depending upon regulatory structures and business environments in differing jurisdictions. Accordingly, we support the AICPA recommendation to replace the specific examples of entities of significant public interest with more principles-based guidance on how such an entity is defined. The specificity of a rules-based approach would encompass entities not intended by the Board (such as entities of smaller size,) and could permit the threat of the creation of structures for the sole purpose of avoidance of the rules</p> <p>The decision to extend listed entity requirements to non-listed regulated entities should be evaluated on a cost/benefit basis. Cost factors and threats to independence may differ in different jurisdictions and based upon differing regulatory structures; therefore, we support the AICPA recommendation to allow member bodies, working with their regulators, to determine whether such requirements would be appropriate in their jurisdictions and achieve an appropriate cost/benefit balance.</p> <p>Partner rotation requirements should <u>not</u> be mandated for non-listed entities. We cannot emphasize strongly enough the disruptive effects to clients, and the resulting decrease in audit quality. By effectively requiring firm rotation for smaller firms, the costs of disruption would be magnified. In addition to the added costs and likely quality reduction resulting from this provision, it would also lead to further constriction in the marketplace of firms eligible to audit public interest entities. We wholeheartedly support the AICPA recommendations to provide for the use of alternative safeguards to partner rotation.</p>	OCPA	See above
278.	SPIEs	<p>Our concerns flow primarily from the rules-based approach to defining "entities of significant public interest" By providing specific examples, such as "government agencies" and "not-for-profit entities," the proposed standard may introduce problems in application. These examples may have the effect of reducing thoughtful consideration as to whether an entity is one of significant public interest just because it is, or is not, mentioned as an example. An entity may still have a large number and wide range of stakeholders and not be included in the list of covered entities. Another problem may arise as practitioners view the list of examples as all-inclusive or applicable to all entities within the categories set forth without regard to size. We believe the proposed standard should describe the attributes that would cause an entity to be of "significant public interest" rather than list the examples as done in the Exposure Draft.</p>	MaCPA2	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
279.	SPIEs	<p>There is support for the provisions for listed entities to be extended to include ‘entities of significant public interest’. All of the listed entity provisions should be applied to all entities of significant public interest – not just listed companies.</p> <p>CGA Alberta membership has voiced concerns about including all Not-for-Profit organizations as entities of significant public interest.</p> <p>Not-for-Profit organizations range in their fiduciary responsibilities. In Alberta we have both the national charity organizations and the small neighborhood sporting leagues. The one size-fits-all approach would result in undue hardship to some of these organizations.</p> <p>There are large numbers of small agencies, Not-for Profit, etc who do not have the in-house resources to deal with their own calculations, preparation of year-end entries and disclosures; these entities should not be unduly burdened with having to retain additional professionals in order to satisfy the independence requirements.</p> <p>Since the IESBA has concluded that member bodies should determine the types of entities that are of significant public interest in their particular jurisdiction there is still a need for some guidance. It should be made very clear that there is no intention to include all Not-for-Profit, government agencies and pension funds.</p>	CGA - Alberta	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
280.	SPIEs	<p>On behalf of our firm, Hogan - Hansen, PC and as the managing partner of the firm, I am submitting our absolute disagreement with and overwhelming concern with the proposed independence proposal with respect to rotation of audit partners on audits of “significant public interest”. Our firm consists of several partners, but each has a specific skill set and expertise. This proposal, if passed, would have a significant adverse effect on our practice and the local governments, not for profit entities and employee benefit plans that we audit since we would not be able to rotate in and out different partners with the expertise to oversee the conduct of these audits. Implementation of this proposal in its current form would have a significant financial impact on our firm, as well.</p> <p>I find it very troubling that rule setting bodies in our profession continue to move closer and closer to removing all judgment from those of us in the profession who are actually doing the work, and moving it to those that make the rules from a theoretical perch somewhere removed from the real world. If there is a problem with independence in this specific situation, fix it with improved peer review or other quality controls and stop assuming that the work of a few practitioners who shouldn’t be in the profession in the first place are indicative of the work being done by the vast majority of us who are professionals, who take the ethics rules very seriously and are doing our best to serve our clients and the public, where applicable.</p>	Hogan Hansen	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
281.	SPIEs	<p>We have been proactive in promoting high ethical standards amongst our members in performing audits. In our opinion, audit independence is very important among all ethical standards. However, there must be separate considerations when applying such standards to auditing of entities that are small, medium and large in size.</p> <p>One of the critical factors for independence determination is whether the entity is of significant public interest. Section 290.22 of the exposure draft indicates that “Entities of significant interest are listed entities and certain other entities that, because of their business, size or number of employees, have a large number and wide range of stakeholders.” We have no objection to the point that listed entities are of significant public interest. We agree the observations and suggestions in the explanatory memorandum that in jurisdictions where entities are governed by local laws and regulations, the determination of significant public interest should be dependent on the requirements of the local laws and regulations. However we consider that determination of whether other entities would have significant public interest could be subject to controversy. Nevertheless, please refer to the attached Appendix on our comments on the term “Significant Public Interest”. Cont’d</p>	SCAA	See above
282.	SPIEs	<p>It is not appropriate. In particular, the International Accounting Standard Board (“IASB”) also concluded that it is “pre-mature” to define some similar concepts at that stage.</p> <p>a. There is no international consensus on whether the entities to be covered by “significant public interest” should be referred to by using this term or another term, say “public accountability”, which is the term being discussed by the IASB. The terms of “significant public interest” and “public accountability” seems to refer to the same concept but the terms are not the same.</p> <ul style="list-style-type: none"> • Should ethical requirements refer to the same term as the one of the accounting standard has proposed? • Should ethical requirements refer to “public accountability” instead of “significant public interest”? <p>Cont’d</p>	SCAA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
283.	SPIEs	<p>Further discussion, clarification and definition of “significant public interest” are required. While the IASB is studying the term “public accountability” under its project on small and medium-sized entities (SMEs), such term should share the similar scope and definition of “significant public interest”. However, the IASB had stated in its IFRS 8 (issued in November 2006) that it was pre-mature to adopt the proposed definition of “public accountability” that is being considered in such separate project. For details, please refer to IFRS 8.BC18 to IFRS 8.BC23. In other words, the IASB with extensive study has even not able to define “public accountability” so far.</p> <ul style="list-style-type: none"> • Is there the same situation for “significant public interest”? • Is it also pre-mature to adopt the proposed definition of “significant public interest”? • Should the IESBA determine and conclude even before the IASB has hesitation to have such conclusion yet? • If the IASB finally adopts the term “public accountability”, in order to achieve consistency, should the IESBA adopt a different term to cover some similar entities? <p style="text-align: right;">Cont’d</p>	SCAA	See above
284.	SPIEs	<p>Instead, while there is no international consensus, “size” as compared to its business, size or no. of employees and range of stakeholders should be considered as the most critical issues in determining the “significant public interests” (if criteria must be set). However, it is not considered and emphasized in the proposal. The term “significant” should refer to “size” precisely.</p>	SCAA	See above
285.	SPIEs	<p>However, having considered the proposals as drafted, our principle concern is that we are determining the independence requirements relating to “Entities of Significant Public Interest” (ESPIs) before we fully understand what is meant by ESPIs. Entities that might be classified as ESPIs can range from entities that are clearly of significant public interest such as listed companies to entities where the public has an interest, such as charities and schools, but the public interest may not be classified as significant</p> <p style="text-align: right;">Cont’d</p>	HKICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
286.	SPIEs	<p>If ESPIs are limited to listed entities and regulated financial institutions such as banks and insurance companies, the proposals as drafted appear acceptable. At the other end of the spectrum, if ESPIs are extended to include all regulated entities such as charities, schools and accounts of owners' corporation of buildings, there are concerns as to whether the proposals as drafted would be in the public interest and provide benefits to the public when compared with the additional costs to such entities.</p> <p>By way of background, all companies incorporated in Hong Kong are subject to a statutory audit and there are currently approximately 600,000 such companies with approximately 1000 being listed companies and the rest primarily private SMEs. Furthermore, approximately 83% of the accounting firms in Hong Kong are sole practitioners with another 13% having only two partners.</p> <p style="text-align: right;">Cont'd</p>	HKICPA	See above
287.	SPIEs	<p>The process in the present Exposure Draft requires that we should consider the independence requirements first without clarifying the application of the proposed definition of ESPIs. The consequence of this is that the HKICPA will need to develop a consultation paper (which will take at least twelve months to complete the due process) to identify those entities that should be classified as ESPIs in Hong Kong. We are of the view that determining independence requirements first may distort the later determination of ESPIs. For example, extensive requirements imposed on ESPIs may encourage misclassification of "real" ESPIs as non-ESPIs.</p> <p style="text-align: right;">Cont'd</p>	HKICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
288.	SPIEs	<p>We understand that the significant modifications to the Code in the proposed Exposure Draft that are expected to affect accountants in Hong Kong include:</p> <ul style="list-style-type: none"> • Introducing a new term - "key audit partner" which is to include lead partners on significant subsidiaries or divisions who are responsible for key decisions or judgements on the financial statements on which the firm will express an opinion; • Extending the partner rotation requirements to all key audit partners on an audit of an ESPI; and • Updating requirements related to the provision of non-assurance services, including setting out additional guidance on the provision of tax services to audit clients. <p>Without a clear understanding of which entities are ESPIs, it is difficult to determine all the practical consequences of the proposals. Concerns have been raised as to the ongoing divergence from a principles-based system towards a more rules-based approach by the impact of forced rotation of key audit partner (which would lead to firm rotation for smaller firms), and also the delineation of tax and audit services, in areas where this may substantially raise the costs to the entity receiving such services.</p> <p style="text-align: right;">Cont'd</p>	HKICPA	See above
289.	SPIEs	<p>We would also, without prejudging the outcome of our consultation paper on what should be an ESPIs, request IESBA to consider carefully the practical business and economic consequences of a more rules-based regime on small businesses and not-for-profit enterprises if a strict definition of ESPIs is to be applied to entities such as charities and schools. We are reluctant to support increases in the costs to such entities unless the benefits can be clearly seen to outweigh the costs.</p>	HKICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
290.	SPIEs	<p>Yes, generally in principle it is appropriate to extend all of the listed entity provisions to regulated financial institutions such as banks and insurance companies. However, we consider that it is premature to comment on extending the listed entity provisions to ESPIs until ESPIs are clearly defined.</p> <p>Whilst we understand that each jurisdiction will decide on what it considers to be an ESPI, we find it difficult and impractical to fully consider the proposals in the Exposure Draft and determine all the practical consequences without an agreed understanding of what is an ESPI. The HKICPA will need to develop a consultation paper (which will take at least twelve months to complete the due process) to identify those entities that should be classified as ESPIs in Hong Kong.</p> <p>Cont'd</p>	HKICPA	Revised definition of public interest entity to be discussed with IAASB
291.	SPIEs	<p>Furthermore, we note that the International Accounting Standards Board (IASB) has recently introduced a term “public accountability” in its Exposure Draft of IFRS for Small and Medium-sized Entities (SMEs). An entity has public accountability if:</p> <ul style="list-style-type: none"> • It has issued debt or equity securities in a public market; or • It holds assets in a fiduciary capacity for a broad group of outsiders, such as bank, insurance company, securities broker/dealer, pension fund, mutual fund, or investment bank. <p>We would strongly recommend that all international standard setters – IESBA, International Auditing and Assurance Standards Board and IASB work closely together and develop a consistent definition of what is an ESPI and what is an entity with public accountability. In the basis of conclusions in IFRS 8 <i>Operating Segments</i>, the IASB indicated that it was premature to adopt the proposed definition of public accountability that is being considered in the exposure draft of IFRS for SMEs.</p> <p>Cont'd</p>	HKICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
292.	SPIEs	<p>Rather than introducing the notion of ESPI at this time, we recommend that the IASB align the “significant public interest” notion with the “public accountability” notion of IASB. Once the appropriate term and its scope have been developed, it can then be promulgated consistently through all the standard-setting literature. It is extremely hard to comment on the term ESPI, and its implications, before there is a common and well-understood term in place.</p> <p>In addition, we would recommend that IESBA makes some positive statements as to which entities are not ESPIs so that regulators can more clearly distinguish ESPIs and other entities. This could be achieved by providing some guiding principles for the development of more specific criteria. Central to this is deriving a suitable “public interest” test to be applied when considering the requirements. We are particularly concerned that the ESPI concept risks embracing many smaller not-for-profit entities and burdening them with inappropriate compliance costs.</p>	HKICPA	See above
293.	SPIEs	<p>Extending requirements for audits of listed entities to audits of all entities of significant public interest is considered to be appropriate. At present, audits of entities considered to be significant public interest in Thailand, except listed entities, are under the supervision of related Thai government agencies, in addition to the requirements as indicated in the Code of Ethics for Thailand’s professional accountants</p> <p>However, in our opinion, a clear definition of “entities of significant public interest” should be more elaborated, and if possible, certain criteria for defining entities of significant public interest should be established.</p>	FAP	See above
294.	SPIEs	<p>We agree with the IESBA’s decision to extend all of the listed entity provisions to entities of significant public interest.</p> <p>We also agree with the IESBA’s view that regulated financial institutions would normally be entities of significant public interest and pension funds, government agencies, government owned entities and not-for-profit entities may be entities of significant public interest. In addition, we fully support the flexibility in the ED for each jurisdiction to determine, based on the facts and circumstances, which entities should be considered to be entities of significant public interest in that particular jurisdiction.</p>	KICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
295.	SPIES	<p>Our first main concern deals with the proposals for Entities of Significant Public Interest (“SPIES”) and, in particular, the definition of SPIES and the application of certain rules, such as partner rotation, to all SPIES.</p> <p>The Concern: It is proposed that all listed entity provisions will apply to all SPIES. The definition of SPIES is left to member bodies, presumably in consultation with local regulators, where SPIES are not otherwise defined by law or regulation. However, the IESBA is of the view that, because of the significant public interest associated with listed entities, all listed entities will always be SPIES.</p> <p style="text-align: right;">Cont’d</p>	CICA	See above
296.	SPIES	<p>In addition, the current Code provides an exception to the partner rotation rule when a firm has only a few people with the necessary experience and knowledge to do the audit. The IESBA believes there are no safeguards that could counter this familiarity threat. Accordingly, the exposure draft requires rotation of key audit partners after seven years on audits of all SPIES.</p> <p>The combination of the above two changes will lead to consequences which we believe are not in the public interest, as follows:</p> <ul style="list-style-type: none"> • Enforced “firm” rotation (not partner rotation) if the existing audit firm does not have the requisite number of partners, with the negative consequences that firm rotation entails; • Increased concentration of audits of SPIES in larger firms; • Lack of availability/choice of audit firms in some markets; • Forcing small entities classified as SPIES to have multiple suppliers of services, which may not be possible or in their best interest. <p style="text-align: right;">Cont’d</p>	CICA	See above
297.	SPIES	<p>We noted that the Exposure Draft does not contain a definition of “public interest” and there is no explanation for the conclusion that all listed entities will be SPIES. We would suggest that “public interest” should not be exclusively defined at the global level. The final determination of what is in the public interest should be made locally having regard to the circumstances of the local capital market and the public whose interest is to be protected. The determination of what is in the public interest is ultimately the responsibility of elected local governments and the local regulators who act on their behalf.</p> <p style="text-align: right;">Cont’d</p>	CICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
298.	SPIEs	<p>We noted that the Exposure Draft does not contain a definition of “public interest” and there is no explanation for the conclusion that all listed entities will be SPIES. We would suggest that “public interest” should not be exclusively defined at the global level. The final determination of what is in the public interest should be made locally having regard to the circumstances of the local capital market and the public whose interest is to be protected. The determination of what is in the public interest is ultimately the responsibility of elected local governments and the local regulators who act on their behalf.</p> <p>There are capital markets in the world, including Canada, where there are many very small listed entities. The Canadian CA profession in consultation with local regulators determined that it would be in the public interest to create a size test to exclude from the “listed entity” category those small listed entities. In doing so, it was noted that:</p> <ol style="list-style-type: none"> 1. While over 90% of the listed entities in Canada are audited by the six largest firms, the balance is comprised largely of small entities that are typically audited by smaller local firms. Those small entities may be located in areas where the larger firms do not have the requisite presence. Further, and most importantly, these small entities do not have the sophistication to be able to produce quality financial statements without some levels of assistance that would otherwise be prohibited for auditors to provide for listed entities. A very significant concern, aside from services, relates to partner rotation, where the firms simply do not have the resources in the relevant market to be able to rotate as proposed. 2. With the smaller listed entities the accounting and auditing issues tend to be less complex with the result that threats to the auditor’s independence will be fewer and less likely to be compromising. 	CICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
299.	SPIEs	<p>Possible Solution: We would request that the IESBA consider the following solution to our concerns although, due to the views of local regulators, the application of the solution may vary by member country.</p> <p>Our solution would be for the IESBA to acknowledge that in defining SPIES in each member country, it is expected or understood that a size test geared to the specific parameters in that territory, and developed in conjunction with local regulators, would be acceptable. Such a size test would apply to all SPIES, not just unlisted SPIES. As noted above, this solution has been found to be viable in Canada.</p> <p>In addition, if a member country did not wish to apply a size test to all SPIES, it should be possible, with the agreement from local regulators, to exclude some of the specific additional restrictions from applying to SPIES. For example, member countries could be given the flexibility to retain the existing rule which provides an exception to the partner rotation rule when an audit firm has only a few people, provided there are appropriate safeguards in place.</p> <p style="text-align: right;">Cont'd</p>	CICA	See above
300.	SPIEs	<p>By acknowledging that some flexibility in the application of the rules to SPIES is expected and acceptable, and by acknowledging that different member countries will need different forms of flexibility (due to the make-up of the local market, the views of local regulators and the unique aspects of unlisted SPIES in the particular country), the provisions applying to SPIES will be effective, will meet the objectives of the IESBA and not have the consequences noted above.</p> <p>As a final comment on SPIES, a concern was brought to our attention that the wording of proposed paragraph 290.23 may not make it absolutely clear that all listed entities will always be considered to be SPIES in those situations where SPIES are defined locally by law or regulation. We would suggest that the wording style in the first sentence of the last full paragraph on page 9 of the Explanatory Memorandum is clearer in this regard.</p>	CICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
301.	SPIEs	Furthermore, we also believe that as regards small listed entities, which are very common in small or developing countries, the additional requirements are not proportional on a cost-benefit basis and a certain minimum of size has to be considered for qualifying as an ESPIs.	FACPE	See above
302.	SPIEs	<p>APESB notes that ED 290/291 proposes to introduce the concept of <i>Entities with Significant Public Interest</i> and to extend the application of the independence provisions to these entities whereas previously it only applied to audits of listed entities.</p> <p>As this definition will capture government and government sector entities there will be country specific laws and regulations mandating who will perform audits of these entities. For example in Australia, most of the government sector audits are performed by the Commonwealth Auditor General or State Auditor Generals.</p> <p>The ED 290/291 does not provide guidance on how this may be applicable in the public sector where in most cases partner rotation may not be possible due to legislative requirements.</p> <p>APESB notes that in the absence of a country specific legislative definition, the IESBA has left it open for each member body to determine the entities that fall within the definition of “Entities with Significant Public Interest”. However, the above issue would be common to most member countries and it may be worthwhile to consider a general exclusion for public sector entities, where there are legislative requirements.</p>	APESB	See above
303.	SPIEs	In particular we support ...recognition that the definition of significant public interest entities should be left to regulators and/or members bodies to define within their particular jurisdictions. We agree that significant public interest entities should always include listed entities. We trust that regulators/member bodies will ensure that significance is to be measured at a national, rather than a local level, to ensure that very small entities are not included.	ICAS	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
304.	SPIEs	Yes, though see our comments under the heading Significant Proposals Identified in the Explanatory Memorandum on whether all of those provisions should apply to ESPIs.	ACCA	See above
305.	SPIEs	<p>We agree with the extension of specific listed entity requirements to other entities of significant public interest (ESPIs). We also agree that it would be inappropriate for the IESBA to provide a detailed definition of what sort of entity should be regarded as an ESPI, to any greater extent than is included in the exposure draft.</p> <p>We are nevertheless concerned about the extent to which related entities may be brought in for non-listed ESPIs. More consistency in the definition of ESPIs is required in order to minimise member body differences. Failing that, dealing with an ESPI that is based in one country with a subsidiary in another country will be a challenge if it is not a ESPI in the parent country and vice versa.</p>	ACCA	See above
306.	SPIEs	We agree with the extension of listed entity requirements to entities of significant public interest (“ESPI”), since there exists a wider range of stakeholders and it is reasonable to assume that threats to independence take on a higher significance. We agree that it would be impractical for this term to be tightly defined as an all-inclusive list and favour a principles-based approach. However, we do not believe that the construction of paragraph 290.23 is helpful. We believe that by including such a list of examples, there is a real danger that this will be interpreted by some bodies and regulators as rules. This could result in the unfortunate side effect of both including entities needlessly and potentially excluding entities that should rightly fall within the definition. This is particularly significant given the number of absolute prohibitions that relate to ESPIs. We recommend that the final sentence of paragraph 290.23 is deleted, leaving paragraphs 290.22 and 290.23 containing a description of attributes demonstrated by a significant public interest entity as the definition. We believe that the member professional accounting bodies are best able, with these described attributes, to establish the appropriate framework to adequately define ESPIs for each jurisdiction	BDO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
307.	SPIEs	<p>Some members of our Board are uncomfortable with the concept that there could be differing levels of independence and feel that one is either independent or one is not. We note that there are three areas where there are differing requirements for these entities:</p> <ul style="list-style-type: none"> ▪ Employment with audit clients <p>In this section, the requirement is that there be a stand-down period before a key audit partner joins a client as a director or officer of an entity of significant public interest or in a position to exert significant influence over the preparation of the entity's accounting records. For other entities, safeguards such as modifying the audit plan or assigning an audit team that is of sufficient experience in relation to the individual who has joined the client or having an independent review are suggested (i.e. no stand-down).</p> <ul style="list-style-type: none"> ▪ Long association of senior personnel <p>Key audit partners are required to be rotated off the audit engagement after seven years in respect of the audit of entities of significant public interest. For other entities, the requirement is for the significance of the threat to be considered and safeguards applied when necessary. One of the safeguards mentioned is rotating the senior personnel off the engagement. The other safeguards are having another person, not a member of the audit team, review the work or having regular independent internal or external quality reviews of the engagement.</p> <ul style="list-style-type: none"> ▪ Provision of certain non-assurance services <p>For certain types of services, there are more stringent requirements in relation to entities of significant public interest. For example, a firm is not permitted to provide accounting and bookkeeping services or prepare financial statements on which the firm will express an opinion.</p> <p>In all of these cases, particularly the preparation of financial statements, it is difficult to see the justification for allowing it for one entity and not another</p> <p style="text-align: right;">Cont'd</p>	ICANZ	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
308.	SPIEs	<p>However, if it is accepted that there should be an extension of some of the provisions, then we would support widening the application beyond listed entities. When the PPB adopted the previous section 290 of the International Code of Ethics, we extended the provisions to apply to “issuers” as defined under New Zealand legislation¹¹. We can also see the merit in including certain public sector entities, but there may be practical difficulties in appropriately defining which.</p> <p><i>Would the following normally be entities of significant public interest?</i></p> <ul style="list-style-type: none"> • <i>Regulated financial institutions</i> Yes • <i>Pension funds</i> Yes • <i>Government agencies</i> Yes • <i>Government owned entities</i> Not all. In New Zealand some government owned entities are extremely small, for example rural schools and it is unlikely that these entities could be said to be of <i>significant</i> public interest. • <i>Not-for-profit entities</i> Not all. Size may be a factor here as the not-for-profit sector is extremely diverse. For example, local sporting or cultural groups may have only a small number of members and small annual income. Again, such entities could not appropriately be described as having <i>significant</i> public interest. 	ICANZ	See above

¹¹ Section 4, Financial Reporting Act 1996 states:

- (1) In this act, issuer means:
 - (a) Every person who has, whether before or after the commencement of this Act, allotted securities pursuant to—
 - (i) An offer for which, or for which but for an exemption granted by the Securities Commission pursuant to section 5 of the Securities Act 1978, an investment statement or a registered prospectus, or both, is or was required under that Act (other than an offer of a unit in a unit trust); or
 - (ii) An offer required to be contained in a prospectus required to be registered under the [Companies Act 1955](#),—
whether or not the securities allotted are securities of the same type as the securities offered:
 - (b) Every manager of a unit trust (within the meaning of section 2 of the Unit Trusts Act 1960) in which securities have been allotted, whether before or after the commencement of this Act, pursuant to an offer of securities to the public within the meaning of the [Securities Act 1978](#):

X ref	Par Ref	Comment	Respondent	Proposed Resolution
309.	SPIEs	(i) It is logical to include the provisions of listed entities to all entities of significant public interest. (ii) All listed entities and their subsidiaries also should be considered as significant public interest entities.	ICAIndia	See above
310.	SPIEs	Yes, it is appropriate to extend all of the listed entity provisions to entities of significant public interest as this ensures that regardless of size, the make up of stakeholders will ultimately be considered when determining the applicability of the code.	ICAP	See above

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- (c) Every person who is a party to a listing agreement with a stock exchange in New Zealand and who has issued securities which are quoted on such an exchange:
[[(d) every insurer to whom Part 10 of the Injury Prevention, Rehabilitation, and Compensation Act 2001 applies.]]
- (2) Every registered bank (within the meaning of section 2(1) of the Reserve Bank of New Zealand Act 1989) that has allotted securities to the public within the meaning of the [Securities Act 1978](#) is an issuer for the purposes of this Act.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
311.	SPIEs	<p>The Institute supports the International Ethics Standards Board for Accountants (IESBA) proposal to extend all of the listed entity provisions to entities of significant public interest. The Institute is of the view that this move will promote and enhance objectivity and independence.</p> <p>However, it should be noted that in many jurisdictions, the government plays an active role in the economy and may have interest in many economic entities, such as state economic development corporations and investment agencies, etc. Where such government owned or controlled entities are regard as entities of significant public interest, the proposed extension of all the listed entities provisions to these entities would be overly restrictive for such entities. The general principle of independence in the IFAC Code of Ethics is sufficient to address any threats to independence in respect of such entities.</p> <p>Therefore, the Institute is of the view that reasonable flexibility should be given to government owned or controlled entities stated above.</p> <p>In most of the jurisdictions, regulated financial institutions are entities of significant public interest whereas other entities like government owned entities and agencies may be entities of significant public interest. The Institute is agreeable that the classification of these entities needs to be on a case to case basis and depending on the local environment of each jurisdiction.</p>	MIA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
312.	SPIEs	<p>We disagree with IESBA's conclusion that it is impracticable to develop a single definition of an entity of significant public interest that would have global application and be suitable in all jurisdictions. One example of an existing definition of comparable term is the recently developed definition of 'public interest entities', which will be applied in the 27 different jurisdictions of the European Union. 2, 3</p> <p>2 The European Commission 's (EC) definition is as follows: "public-interest entities' means entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions as defined in point 1 of Article 1 of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC. Member States may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees."</p> <p>3' Per article 2.13 of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/ 660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC.</p> <p style="text-align: right;">Cont'd</p>	Basel	Matter to be addressed in Basis for Conclusions
313.	SPIEs	<p>A principle difference (ie of interest to banking supervisors) between the EC's definition and the one proposed in paragraphs 290.22 and 290.23 of the exposure draft is related to a regulated bank's status as an entity of significant public interest. The EC's definition always includes regulated banks as an entity of significant public interest; however, the IESBA's draft guidance states that banks will 'normally' be considered as entities of significant public interest. The Committee believes that public interest entities should always include regulated banks even when some of these regulated banks would not have a large and a wide range of stakeholders' (see the EM). The fact that regulated banks accept money from the public and have a pivotal role in the economy (eg payments services and loans) justifies that these organisations should be considered entities of public interest. We strongly recommend that the IESBA take the same approach as the European Union.</p>	Basel	Matter to be addressed in Basis for Conclusions

X ref	Par Ref	Comment	Respondent	Proposed Resolution
314.	SPIEs	<p>We agree that it is appropriate to extend the key audit partner rotation provisions to entities of significant public interest. We also agree that engagement quality control review should be extended to entities of significant public interest. These are quality control measures and can be readily distinguished from the new differential independence provisions that are proposed in the Exposure Draft.</p> <p>We consider that it is inappropriate, as a matter of principle, for the Exposure Draft to establish different independence provisions - particularly in respect of the provision of non-assurance services to audit clients. Instead, we would prefer that the Exposure Draft emphasize that the standards of independence apply equally to all audits.</p> <p>We have also raised our concerns with the differential independence proposals in the Exposure Draft in the covering letter.</p>	CAGNZ	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
315.	SPIEs	<p>We generally support the extension of the ESPI definition to include financial institutions but are concerned that smaller entities, especially not-for-profits, governmental organizations and pension funds, may be unduly burdened. For this reason, we welcome the addition of size criteria to the guidelines for determining whether an entity is ESPI or not. See paragraphs 36-42 above for more details....</p> <p>We generally support the idea of introducing the notion of an ESPI and differentiating many of the requirements according to whether the client is an ESPI or not. While the threats are similar for all entities, their magnitude varies according to the nature of the client. Differentiation enables some degree of tailoring and devising appropriate safeguards and prohibitions to address them. We also concur with the IESBA in not providing specific 'bright-line' criteria for determining what constitutes an ESPI. We agree with IESBA that this is best left to national jurisdictions.</p> <p>The rationale for using a differential approach is based on the fundamental differences between ESPI and other entities. While we agree with a differential approach based on ESPI we have various suggestions. First, we note increased use of the public interest/accountability concept to differentiate entities and corresponding requirements in international standards. We would encourage all international standard setters – IESBA, IAASB and IASB12 – to adopt a common descriptor and supporting criteria for ESPI. There is considerable merit in harmonizing these concepts and their definitions since it should enhance consistency of reporting and assurance treatment for like entities.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	See above

12 In its proposed International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) the IASB is proposing to differentiate on the basis of public accountability, a concept which is presently defined in a similar, but not the same, way as ESPI.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
316.	SPIEs	<p>Second, while we recognize that precise scope definitions are best made at national level so as to ensure compatibility with the local circumstances, we wonder whether the IESBA should make some positive statements as to which entities are <i>not</i> ESPI so that regulators can more clearly distinguish ESPI and other entities. This could be achieved by providing some guiding principles for the development of more specific criteria at national level. Central to this is deriving a suitable “public interest” test to be applied when considering requirements. This test could comprise 4 basic criteria: ensure access to practitioners that have the requisite experience and knowledge, and are independent; preserve audit quality; avoid imposing unnecessary costs to the entities and wider society; and facilitate timely and accurate financial reporting.</p> <p>Third, in addition to, or as part of, providing a definition of a non-ESPI, the existing qualitative criteria for determining ESPI could be supplemented with some principle-based quantitative criteria. We interpret the ESPI principle in its broadest sense including the wider economic impact through, for example, the employment supported by the entity and the transaction with customers, rather than just the financial impact on capital market participants. The principle-based quantitative criteria could include a combination of size criteria based on, say, profit, assets and turnover, perhaps related to GDP per capita and/or other developmental indices, as well as employee numbers. Nevertheless, it is important that the Code only includes high level principles and that individual jurisdictions develop the detailed criteria.</p> <p style="text-align: right;">Cont’d</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
317.	SPIEs	<p>Such guidance for principle-based quantitative criteria should be designed so as to ensure that larger unlisted entities are captured within the scope of ESPI as well as ensure more consistent application of the public interest/accountability principle from country to country. The guidance could also be used to give certain jurisdictions, in particular, developing and emerging economies with large numbers of smaller listed entities, the flexibility to exclude smaller listed entities with few outside investors from the ESPI net, subject, perhaps, to fulfilling certain conditions, such as obtaining approval to do so from those charged with governance of the entity. One could differentiate listed entities on the basis of whether the entity is listed on a secondary or over the counter market rather than using size criteria.</p> <p>Fourth, we suggest the concept of differentiating on the basis of ESPI be applied more widely and consistently throughout so that there is differential treatment across more areas, especially in the provision of many non-assurance services, as explained below. In effect, this would amount to a “think small first” approach with certain basic requirements applicable to all circumstances and the application of additional provisions to ESPI. This should result in a favorable cost-benefit for clients of all sizes.</p> <p style="text-align: right;">Cont’d</p>	SMP/DNC	See above
318.	SPIEs	<p>Finally, we are concerned that the ESPI concept risks embracing many smaller not-for-profit entities and burdening them with unnecessary compliance costs. Non-governmental organizations (NGOs) as a large group of not-for-profit entities can be regarded as being of significant public interest, though this is more in terms of ensuring accountability to the general public than accountability to financial stakeholders. Many NGOs, especially smaller ones and/or those in developing nations, are run on extremely low overheads either by necessity in order to survive and/or by design so as to maximize public benefits. These organizations will face great difficulty paying for the increased cost of services likely to result from the proposed new rules. A more difficult environment for NGOs is clearly not in the public interest. Hence, size criteria could exempt smaller NGOs from the ESPI net. Alternatively, not-for-profit entities could be explicitly excluded from the definition. Similar arguments could be employed to exempt small charities, small pension funds and small government organizations from the ESPI.</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
319.	SPIEs	<p>Finally, we note that in respect of ESPI a number of approaches seem to be taken for different parts of S290 including outright prohibition, prohibition if material, prohibition if material and subjective, and the same provisions as for other entities. This raises many questions including whether there should be a general or category-by-category approach and whether there should be differential approaches to different sizes and types of client. We suggest consideration be given to weighing up the case for different approaches against the implications this has for understandability and clarity to the end user. A more consistent approach, while having some theoretical flaws, may ultimately deliver larger benefits</p>	SMP/DNC	See above
320.	SPIEs	<p>As securities regulators, our primary focus is on auditor independence as it relates to listed companies. We are pleased to see that listed companies are explicitly included in the category of “public interest entities” and we agree that where a country has a law or regulation that defines public interest entities, the auditor should use that definition in applying the Code.</p> <p>Given that entities of significant public interest may have a large impact on the economy and society in which they function, it does seem reasonable that the audits of such entities should meet a similar standard for auditor independence as listed entities.</p> <p>While we do not have direct involvement in the application of the Code to entities of significant public interest that are not listed companies, we will pass on our experience in reading the ED. This experience was that understanding what was intended in the Code’s discussion of PIEs was not easy. In some cases the coverage seemed to be inconsistent. For example, the definition of “entity of significant public interest” differs between paragraphs 290.22 and 290.23. Paragraph 290.22 provides a useful general principle. Paragraph 290.23 elaborates on the effect of law and regulation, also discusses that IFAC member bodies should determine PIEs if applicable law and regulation do not provide a definition, but then goes on to give examples of entities that would “always” or “normally” or “may” be PIEs. One wonders if it might be more appropriate to make only a principle-oriented distinction between PIEs and non-PIEs.</p>	IOSCO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
321.	Cost benefit	<p>We at CGA-Canada are unsure on what basis the IESBA has formed its view that benefits of the proposals are proportionate to the costs (i.e., have studies been conducted which quantify and support this assertion?). We are also not clear what “proportionate to the costs” means. To be clear, we believe that, in almost all cases, the benefits should be equal to or exceed the costs.</p> <p>Anecdotal information indicates, that, in Canada at least, as a result of the substantial changes in auditing standards, including new independence rules that apply to such engagements, the fees for typical annual audits of general purpose financial statements have risen by 15% to 40% over the past two years. CGA-Canada agrees that global events, from the increasing sophistication of global financial markets and financial instruments, to the massive corporate scandals over the past several years, have required clearer and better accounting and auditing standards and stronger ethical rules.</p> <p>Nevertheless, small and medium entities correctly ask where the benefit may be found for them and their financial statement users. SMEs largely do not participate, except perhaps neither peripherally in global financial markets, nor do they use the range of sophisticated financial instruments that public companies often use. Cont’d</p>	CGA	Matter to be considered by the impact assessment initiative and also by the IESBA as it reviews the proposed changes to the independence ED

X ref	Par Ref	Comment	Respondent	Proposed Resolution
322.	Cost benefit	<p>It is our view that the international accounting profession has not responded adequately to this question. Where are the models of cost and benefit regarding accounting and auditing standards and ethics rule changes? Surely a profession that exists in large measure to quantify financial benefits and costs is capable of developing such models. How can we excuse ourselves on the basis that development of such models may be difficult while imposing ever more difficult rules on SMEs and their auditors?</p> <p>In the interim, at the level of the individual small and medium entity, there is little doubt that including them by over zealous or careless application of the concept of “entities with significant public interest” would significantly increase cost with little or no demonstrable benefit that we can see, and little or no outcry that we are aware of from users of the financial statements of such entities over how the independence of the auditors of such entities is currently governed.</p>	CGA	See above
323.	Cost benefit	<p>The Memorandum notes that the benefits of the proposals in the ED are considered to be proportionate to the costs. We are pleased to see that this matter has been considered: all regulation should be subject to cost-benefit considerations. We believe that as a result of measures already taken, public confidence in auditing has improved since the failures in the U.S. a few years ago. An example of this is a recent survey by the International Corporate Governance Network¹³ in which nearly two thirds of respondents rated the quality of financial reporting as having improved since the financial scandals of recent years, three quarters were at least somewhat satisfied with the benefit they received from independent audit and over ninety five percent were at least somewhat satisfied that auditors focus on high quality audits. We do not see evidence of a need for further restrictions on service provision and partner/client relationships, from which it follows that any benefit from these provisions is unproven. The Memorandum accepts that there will be costs so we are not convinced that the proposals do strike the appropriate balance. It would therefore be helpful if the IESBA could set out the evidence that suggests the need for further restrictions. There is also a need to recognise that further independence restriction on auditors is a factor behind any perception that there is a lack of auditor choice. We comment also on this in paragraph 15 below.</p>	ICAEW	See above

¹³ Survey of Opinion on Financial Reporting & Auditing by International Corporate Governance Network & Global Public Policy Committee, March 2007

X ref	Par Ref	Comment	Respondent	Proposed Resolution
324.	Cost benefit	No, NIVRA disagrees. See above “General comments”. To summarise: NIVRA is not at all convinced that stricter rules concerning SMEs are in the public interest; with regard to SMEs, NIVRA is not at all convinced that the costs offset the benefits.	NIVRA	See above
325.	Cost benefit	Although we agree with the general principle that cost and management time, are arguments that should be taken into account when establishing less restrictive requirements in specific circumstances, we should be careful and consider that objectivity is the main principle. Auditor should spend all time and resources necessary to carry out an objective and high quality work without restrictions.	ICJCE	See above
326.	Cost benefit	It cannot clearly be said that they are, particularly for small listed entities, which are considered to be as of equal public interest as larger listed entities. This is a significant sector, the impact on which should not be ignored. For example, in the UK alone, there are for example over 600 companies listed on the main London and Alternative Investment markets, with a market capitalisation of less than £10m. See paragraphs 10 and 14 above.	ICAEW	See above
327.	Cost benefit	No. See our comments under items 1.1 and 2.5 above.	FEE	See above
328.	Cost benefit	No (see our comments under ‘General Comments’ and ‘Language and clarity’). As mentioned earlier, we fully agree with the IESBA’s primary objective set out in the Explanatory Memorandum but we do not believe this has been achieved. The independence provisions of the Code should seek to strike an appropriate balance between strengthening public perception of the integrity and objectivity of an audit, while still enabling auditors to carry out their work efficiently and not inhibiting commercial activity i.e. they need to be proportionate. As currently drafted, section 290 simply burdens audit firms, in particular small audit firms, and their clients. We, therefore, do not believe that they serve the public interest and do not protect the public.	ACCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
329.	Cost benefit	<p>While we appreciate the need to revise standards and guidance to address recent audit failures, we believe that consideration should also be given to the risk of overregulation as well as the cost versus benefit derived from such regulation. The revisions to section 290 and 291 place more onerous requirements on auditors, and whereas this is good for regulation, it may have a negative impact on the accountancy profession. Examples of increased regulation are in the areas of taxation, the provision of other services and the extension of independence requirements for audits to review engagements. We do, however, support the objectives of the revisions, provided that consideration is given to the aforementioned comments. We believe that standard-setters and regulators should apply their minds to these considerations to ensure that there is a balance between costs and benefits.</p> <p>We do not believe that the proposals strike a balance between the benefits and the costs in all cases, particularly the proposals in relation to key audit partner rotation and the provision of certain taxation services. The increase in costs to comply with these proposals will ultimately be borne by the entities to which the audit services are provided and their stakeholders, and the benefits will not be readily noticeable. Also refer to point 1 under our overall comments above</p>	IRBA	See above
330.	Cost benefit	On balance, and from a UK context, probably “yes”. However, in countries where there are a large number of small listed companies then the answer is almost certainly “no”.	ICAS	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
331.	Cost benefit	<p>We believe that extension of the requirements that are currently applicable only to listed entities to all entities that ultimately are deemed to be entities of significant public interest, will be detrimental to the public interest if small firms and firms in developing nations are reluctant to provide services to these entities due to the cost of entry. As time passes, these requirements, especially partner rotation, will become a barrier for entry to the profession for the smaller entrepreneurial accountant and firms.</p> <p>In order to properly implement the Code as currently proposed, Grant Thornton International would need to expand existing global monitoring systems and significantly modify existing international independence policies and procedures. We support making investments aimed at increasing audit quality, however we would expect this provision to significantly increase the barriers to entry to the market with minimal public benefit.</p> <p>Grant Thornton International believes that there are areas in the Code needing further revisions, such as the tax services area, however, if the draft Code is finalized in its current form this will lead the profession down a road that is lacking clarity which will result in inconsistent application of the Code. Implementation of the proposed Code will also be costly and, in some areas, we believe that it will undermine quality-driven practices currently found in firms today.</p>	Grant Thornton	See above
332.	Cost benefit	(i) Independence being most important factor cost should not be taken as constraint	ICAIIndia	See above
333.	Cost benefit	Generally, we agree that the proposals strike the appropriate balance between the differing perspectives of stakeholders. However, as indicated in our response to Question 1, we have suggested additional guidance within the proposed standard in relation to public sector auditing as some aspects of the proposed standard would be very difficult to implement in some jurisdictions due to legislative and regulatory requirements (ie. client acceptance and partner rotation).	ACAG	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
334.	Cost benefit	We recognize that the Board intends to evaluate the relative benefits derived from their proposal to enhance the issue of independence without a corresponding unjustifiable cost. We conclude that the Board has not adequately addressed the issue of increased costs in the exposure draft and recommend that the Board evaluate and, to the extent possible, quantify the resultant costs and benefits to be realized as the result of the proposal before they proceed to implementation of their new standards.	CACPA	See above
335.	Cost benefit	We believe that IESBA should encourage the standard setters in each country to conduct a cost benefit analysis before introducing the changes in this Code which impact upon companies other than listed companies. This is of particular importance in arriving at a definition of SPIEs to ensure that an unjustifiable burden is not being imposed on such entities without any comparable benefit.	CARB	See above
336.	Cost benefit	Apart from our comments and proposals mentioned above, we are positive to the proposed exposure draft and generally consent to the appropriateness of the proposed tightening. We are, however, not able to draw up an adequate cost-benefit analysis of the proposed tightening.	FSR	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
337.	Cost benefit	<p>We believe that the IESBA has generally achieved an appropriate balance, in particular given our understanding of stakeholders' expectations of where the line should be drawn. We have noted a number of concerns above with respect to the non-audit service provisions and also draw attention to the more detailed comments which follow.</p> <p>The strengthening of provisions for entities of significant public interest will in particular give rise to additional cost, especially for smaller entities that are more likely to have used their auditors in the past to provide certain services that would no longer be permissible under the Exposure Draft. For example, audit clients that are entities of significant public interest may need to employ a second accounting firm to prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing the accounting entries in the financial statements.</p> <p>The strengthening of independence provisions may also impact corporate behaviour, for example the willingness to take independent advice from another accounting firm or to take actions which might require it to employ another accounting firm to provide advice. For example, where the tax authorities make it known that they have rejected the arguments on a particular issue and are referring the matter for determination in a formal proceeding, the audit firm may no longer be able to represent its client if it is unable to put appropriate safeguards in place, and never before a public tribunal or court.</p>	KPMG	See above
338.	Cost benefit	While supporting the need for a Code of Ethics of universal application, we have raised concerns above regarding certain consequences affecting the smaller firms, particularly from a cost perspective.	SAICA	See above
339.	Cost benefit	We do agree that the IESBA must ensure that there is an appropriate balance between the benefits of the proposals and the cost of complying. Without having seen a cost/benefit analysis it is difficult to conclude whether this balance has been achieved. We are concerned, however, that the proposals may, contrary to the public interest, impede the ability of some small entities to produce quality financial statements at a reasonable cost	CICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
340.	Cost benefit	<p>We believe that the costs of the proposals related to partner rotation, cooling off and partner compensation outweigh the benefits for non-listed entities of significant public interest</p> <p>We believe that in some jurisdictions, the costs associated with certain enhanced safeguards will far outweigh the intended benefits if applied to all non-listed entities of significant public interest. For example, in the United States, we do not believe the potential benefits of the partner rotation and cooling-off requirements for audits of non-listed entities of significant public interest outweigh the related costs. In fact, we believe the extension of a partner rotation requirement to non-listed entities of significant public interest would likely diminish audit quality in the United States. Accordingly, we recommend that the IESBA allow member bodies, working with the appropriate regulators, to evaluate the costs and benefits associated with partner rotation and cooling-off and determine whether they should be applied to non-listed entities of significant public interest in their jurisdiction or, whether alternative safeguards should be implemented instead.</p> <p>We also believe the IESBA has not achieved an appropriate cost/benefit balance with respect to the significant costs to small entities of significant public interest and the firms that audit them with respect to the partner rotation requirement. Please see our response to no. 2 above.</p> <p>In addition, we believe the prohibition relating to key audit partners being compensated for nonassurance services is impractical and carries significant costs to clients of small accounting firms that outweigh the benefits of such a requirement. Please see our response below under “<i>Other Comments Not Specifically Requested by IESBA.</i>”</p>	AICPA	See above
341.	Cost benefit	<p>The proposed revisions introduce a number of economic costs that we believe in some cases exceed the benefits to be realized in added credibility to financial reporting. We again urge that member bodies be permitted to work with their regulators in determining the cost/benefit impact within their jurisdictions.</p>	OCPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
342.	Cost benefit	For reasons outlined above and in reply to your request for specific response (“Requests for Specific Comments”, #2, ED page 19), NO ; it is <u>not</u> appropriate to eliminate the flexibility for small audit firms to apply alternative safeguards to partner rotation. The alternate safeguards outlined in the AICPA’s Code of Professional Conduct (ET §100.01 “Conceptual Framework for AICPA Independence Standards” and ET §101 “Independence”), in <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, and in <i>Code of Ethics for Professional Accountants</i> are sufficient.	KyCPA	See above
343.	Cost benefit	We are concerned that overly restrictive guidelines may impose significant cost burdens that outweigh anticipated or perceived benefits. This applies to all stakeholders: larger firms, smaller firms, clients, and the general public. As an example, for the larger firms, there is the cost of partner rotation. For smaller firms and sole practitioners, there is the dilemma of being unable to rotate partners, as well as the prohibition against performing many accounting and tax services. For the clients of those smaller firms, there is the loss of expected services currently allowable under existing standards. Under a narrow interpretation of the proposed standard, a not-for-profit entity providing services to, say, pre-school children in a neighborhood will have to retain one firm to perform non-assurance bookkeeping services and another firm to audit or review its financial statements. We believe this places an undue economic burden on such entities. Once again, as urged by the PEEC, we recommend that you give each member jurisdiction the opportunity to deliberate and determine the guidelines that are most beneficial to that jurisdiction.	MaCPA2	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
344.	Cost benefit	<p>Based on our experience with the implementation of the APB Ethical Standards we would expect there to be cost increases caused by the following:</p> <ul style="list-style-type: none"> • Greater clarity in the December ED on the prohibition of auditors taking management responsibilities will mean that where non-audit services are provided, practitioners will need to provide clear documentation of what procedures they have undertaken in order to ensure that an appropriate member of management has been designated to make all significant judgments and decisions connected with the service. In the case of some smaller entities, professional accountants may be closely involved with preparing accounting records throughout the year in addition to preparing tax returns and financial statements at the year end. Identifying all the significant judgments and decisions taken in connection with such a service as and when they arise may be challenging. Additional costs may be incurred as a result of: <ul style="list-style-type: none"> ○ increased documentation and communication with the client entity; and ○ some firms may no longer provide such a service alongside an audit or review engagement, meaning the client entity will engage two separate firms to undertake the work. • A significant change has been made in the December ED as to the nature of acceptable safeguards. While we support the approach taken in not recognising firm-wide policies and procedures, discussion with those charged with governance and client systems and procedures as potential safeguards, this may introduce additional costs. These costs may be particularly high where non-assurance services such as accounting and taxation services are provided to audit clients but safeguards, such as having an additional professional accountant review the work undertaken, or using personnel who are not members of the audit team for the non-assurance service, are not already used. This is most likely to be the case on audits of SMEs. • The requirement for audit clients that are entities of significant public interest to employ a second accounting firm to prepare tax calculations of current and deferred tax liabilities (or assets) for preparing the accounting entries in the financial statements will add to the costs for such entities. <p style="text-align: right;">Cont'd</p>	APB	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
345.	Cost benefit	<ul style="list-style-type: none"> Where the tax authorities make it known that they have rejected the arguments on a particular material issue and are referring the matter for determination in a formal proceeding, such as before a tax tribunal, the audit firm will no longer be able to represent their client. There will be costs associated with employing an independent tax adviser. This may also lead to some smaller audit clients deciding not to take cases before a tax tribunal, or not to have an audit if an exemption is available. <p>Despite the possible cost increases and other impacts set out above, the APB agrees that the proposals generally strike an appropriate balance between the differing perspectives of stakeholders given the objective of increasing confidence in IFAC's international standards. However, given that our experience indicates that the majority of the cost increases will be incurred on smaller entity audits, where there may be a lower level of public interest, it may be worthwhile for the IESBA to focus more directly on this as noted in paragraph 2.8 of Appendix 2 to this letter.</p>	APB	See above
346.	Cost benefit	<p>One further area which requires consideration is the cost/benefit equation relating to SMEs. We have referred to this in response to your "balance" question in Appendix 3. We do believe that an "audit is an audit" and it is not easy to advance lesser provisions for SMEs and still maintain that the quality of the resulting opinion is as high. However, this is an area we have found very difficult, particularly with respect to the provision of non-audit services to SMEs. We found it necessary to give the smallest SMEs certain reliefs from provisions in the ESs.</p>	APB	See above
347.	Cost benefit	<p>As highlighted by specific comments elsewhere within this comment letter, we do have some concerns over the cost benefit equation of these proposals. In particular, the extension of absolute prohibitions (including KAP rotation) to ESPIs, as well as the inclusion of review engagements, may have significant costs implication for both audit firms and clients</p>	BDO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
348.	Cost benefit	<p>We agree that it is very difficult if not impossible to measure the costs or the benefits of implementing the proposed changes. Most of the proposals we believe should ultimately enhance audit quality. However, we believe there could be significant costs associated with the proposals relating to entities of significant public interest, as noted above. Consequently, we are of the view that the benefits of the proposal that member bodies define public interest entities and the required application of the listed entity provisions to such other entities of significant public interest do not outweigh and are not proportionate to the costs.</p>	DTT	See above
349.	Cost benefit	<p>The Board requested specific comments regarding the additional costs that may be imposed on stakeholders as a result of implementing the new provisions, and whether the benefits of the proposal are proportionate to the costs, thereby striking an appropriate balance between the differing perspectives of stakeholders. We believe this is an important issue and one that the Board should address in the 'basis for conclusions' that accompanies the final Code in a manner that will be convincing to its constituents.</p> <p>There are some key areas in the proposal for which cost/benefit considerations by the Board are in order. They include the provisions on partner rotation, cooling off periods, and entities of significant public interest. By their nature, independence requirements will, in some cases, reduce the efficient use of resources. We noted earlier in this letter one particular area where we think that costs for guarding against independence risks in the proposed manner versus the value of the reduction of the risks should be reconsidered, and that is in the area of partner rotation. See our comments above under 2.7.</p> <p>As part of the Board's consideration of whether the costs of key areas of its proposals are proportionate to the objective of promoting the professional accountants' independence, we recommend the Board also consider whether wider regulatory considerations should be taken into account. Indeed, given the growing interest worldwide in so called "better regulation," it would be expected that the Board will take into account such wider considerations. It may well be that this is a matter that should be referred to the Public Interest Oversight Board of IFAC with a view to ascertaining whether it considers that a regulatory impact assessment of some kind should be part of the due process of IFAC's PIACs, at least in the case of independence.</p> <p style="text-align: right;">Cont'd</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
350.	Cost benefit	<p>We recognise the challenges in undertaking a detailed quantified assessment of costs and benefits of a proposed Code that will be of global scope and that our recommendation for an assessment by the PIOB of whether regulatory impact assessments should be part of the Board's due process would also take time to implement. Accordingly, the Board may need to assess whether it can give sufficient consideration to cost benefit issues and the regulatory impact of its proposals in a timeframe and manner that would be less demanding on its resources. An alternative the Board should consider is to address cost benefit issues only in respect of certain selected features of the Code, such as those we described above, that is, the proposed partner rotation and cooling off requirements and the extension of listed entity provisions to entities of significant public interest.</p> <p>In that regard, the Board may determine that pragmatism dictates that the "listed entity" rules should not be mandatory for an audit of other ESPIs, either in whole or in part. Alternatively, the Board should consider adopting guidance similar to that contained in Chapter X, Article 39 of the EU's 8th Directive, which provides that member states may exempt non-listed public interest entities from one or more of the requirements of that chapter, including the partner rotation and cooling off requirements. In that way, the member bodies can determine whether such requirements can pass a cost/benefit test in their jurisdictions, and they can work with their regulatory constituencies in making that determination</p>	PwC	See above
351.	Cost benefit	We believe that the responses in this letter incorporate most of the aspects in this question: the definition of ESPI, partner rotation and tax services.	ICPAI	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
352.	Cost benefit	<p>CGA Alberta along with its membership cannot concur with the observation that the benefits of the new proposal are proportionate to the costs. Whenever there is a change to regulation the cost is absorbed by the both the preparer of the engagement and the user. We are unsure on what basis the IESBA has formed its view that benefits of the proposals are proportionate to the costs.</p> <p>SMEs largely do not participate in global financial markets nor use the range of sophisticated financial instruments that those regulated through the securities commission often use. Small and medium sized entities correctly ask where the benefit may be found for them and their financial statement users.</p> <p>The international accounting profession has not responded adequately to the demand for evidence to support the cost/benefit model and the proliferation of accounting and auditing standards and ethics rule changes. We cannot excuse ourselves for this lack of due diligence on the basis that development of such models may be difficult while continuing to impose more stringent rules on both the profession and SMEs.</p>	CGA - Alberta	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
353.	Cost benefit	<p>The introduction of detailed independence rules does not of itself enhance audit quality in the sense that it leads to a better audit; rather, it enhances the perception of independence and the perception of objectivity. The benefits of this are difficult to measure and in most areas covered by the proposals are at best marginal. We are unable to assess, but suspect that the implementation costs could be significant in some matters, such as extending the definition of Entities of Significant Public Interest (ESPIs); and transition arrangements in relation to longer term contracts as is commonly the case in respect of information technology related engagements.</p> <p>Any changes to a regulatory regime will have a cost – both to the practitioner and to the client. The cost will be in terms of changes to internal policies and guidance, communications and training, updates to methodologies, and like, as well as the cost of independence specialists providing interpretations and explanations. Clients will also experience similar costs. We therefore support changes to existing standards where the case is proven that a significant threat to independence exists and current mandatory safeguards fail to adequately mitigate the threats to the auditor's independence. In the absence of such evidence, we do not support changes.</p> <p>We strongly encourage the IESBA to ensure it achieves an appropriate balance in considering the benefits of enhanced safeguards and prohibitions against the costs to entities and the firms that audit them.</p> <p>The public interest is not best served by any conceptual framework or stringent requirements that curtail entry into the accounting profession or businesses, limit the free trade or commerce of accountants, or are contradictory to the requirements of the legally specified regulatory body designated to oversee an accountant's independence.</p>	Australia	See above
354.	Cost benefit	Yes, we agree that the benefits of the proposals are proportionate to the costs and therefore the proposals strike the appropriate balance between the differing perspectives of stakeholders.	ICAP	See above
355.	Cost benefit	In consideration of assurance engagement clients' trust in audit firms, we consider the costs that may be incurred by the strengthening of the regulations are justifiable.	JICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
356.	Cost Benefit	<p>Generally, there is agreement that for entities such as listed companies and regulated financial institutions such as banks and insurance companies, the public interest benefits of the proposals outweigh the costs borne by the entity.</p> <p>However, for SMEs, stakeholders would generally be worse off because of the disproportionate costs imposed on the entity are significantly greater than benefits received by users of their reports. We are especially concerned about the potential costs imposed on charities, schools and other not-for-profit entities that are already heavily dependent on the support of their service providers.</p>	HKICPA	See above
357.	Cost Benefit	Our answer to this question is also twofold. With regards to listed entities and entities that are of genuine “significant public interest”, the costs might be justified by the benefits enjoyed by the stakeholders. For other entities, particularly SMEs, the stakeholders might be worse off because of the disproportionate costs imposed on the entity as a result of the requirements.	SCAA	See above
358.	Cost Benefit	We agree that the proposals contained in the exposure draft serve to enhance the objectivity of those performing assurance engagements, thereby enhancing audit quality and strengthening public confidence in the accountancy profession. We are of the view that the Code should be drafted in a conceptual framework approach rather than in a prescriptive manner to facilitate ease of application by all jurisdictions	ICPAS	See above
359.	Cost Benefit	The Institute is of the view that the additional costs to stakeholder arising from IESBA’s move to strengthen the independence provisions are acceptable in view of the significant benefits which may arise from enhancing both the perceived and actual objectivity of those performing assurance engagements.	MIA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
360.	Cost Benefit	<p>We believe it is not the auditor's role to assess the cost/benefit ratio of measures designed to strengthen audit independence.</p> <p>However, we do not believe that such measures will generate real extra costs for the client. Services no longer able to be provided by the auditor will be provided by other professionals at a cost which will not necessarily be higher than before. Furthermore, there are sometimes greater benefits for the client in having recourse to other experts in certain areas. Nevertheless, additional compliance costs to audit firms will be entailing notably in the case of network firm.</p>	Mazars	See above
361.	Cost Benefit	<p>The CNCC believes that it will no doubt be necessary to contemplate such a cost and benefits approach but for the time being, at this early stage, it seems very difficult to provide a clear picture of the impact of these new provisions.</p>	CNCC	See above
362.	Cost Benefit	<p>Extra reasons for the above argument are the higher costs as a result of the introduction of a few absolute prohibitions, in particular with respect to the interaction with non-assurance services. The public will have to bear these extra costs. Extra costs must be justified in relation to the public interest that is served by the implementation of tighter rules. Stricter rules for ESPIs may be desirable. In this respect, extra costs are justified. NIVRA is, however, not in the least convinced of the importance of stricter rules with respect to SMEs (see previous bullet point). Also, extra costs are problematic for SMEs. On top of this is that fact that it is doubtful whether prohibiting the concurrence of audit with non-assurance services does indeed improve the quality of an audit. It can be argued that the knowledge of the client acquired during the performance of non-assurance services can contribute to the quality of an audit; this is in the public interest.</p>	NIVRA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
363.	Cost Benefit	We fully support of the objective of strengthening the independence provisions of the Code to enhance both the perceived and actual objectivity of those performing assurance engagements, thereby enhancing audit quality. However, we continue to be concerned that the exorbitant requirements of the independence provision may excessively limit the scope of the business of professional accountants in public practice and therefore eventually threaten the subsistence of accountant profession. In this regard, we sincerely hope that our comments will be of use to the IESBA as it moves to finalize the Code.	KICPA	See above
364.	Cost Benefit	<p>We have assumed that the reference to benefits is primarily with regard to the fact that the providers of assurance engagements can also provide certain non-assurance services to clients in certain circumstances. Implicitly non-assurance work provides benefits to the client but at the same time potentially threatens the independence of the assurance provider in the eyes of the users of assurance reports. We therefore question whether those benefits typically accrue to the users of assurance reports.</p> <p>The concerns that we have raised in this submission support our view that the balance to be struck between the differing stakeholders is not appropriate. We have some fundamental concerns with the application of the conceptual approach. This has translated into guidance that does not establish appropriate standards of independence - particularly with respect to "independence in appearance".</p>	CAGNZ	See above
365.	Cost Benefit	It is important that standards setters ensure that their standards are relevant, reflect reality and consider an adequate balance between costs and benefits. Taking into account the greater sophistication and requirements included in the Exposure Draft and that such draft accepts that there will be costs, we are not convinced that the proposals do strike the proportionate balance. This is likely to apply particularly to the audits of small listed entities or small entities of significant public interest.	FACPE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
366.	Cost Benefit	<p>We broadly agree and understand the merit of the IESBA's efforts to clarify and strengthen the Code, as well as ensure its consistent application. We do, however, disagree in some specific cases, most notably the definition of ESPI, the extended definition of key audit partners, partner rotation and taxation services. In many of these cases we suspect the result is a disadvantageous cost-benefit outcome. There is a need for evidence to support some of the more controversial changes.</p> <p>As noted above one of the pressing concerns for SMEs is over-regulation. Over-regulation threatens the vitality and growth of the sector and, in turn, fails to serve the public interest. It seems that this over-burdensome regulation stems largely from drafting regulation to suit larger entities, which is subsequently retrofitted to smaller ones. The inevitable result is that the compliance costs exceed the benefits.</p> <p>Cost-benefit from a public interest perspective is the primary rationale underlying our comments. We suggest it be elevated to the overarching constraint or criteria when determining the form and content of all regulation governing the work and behavior of professional accountants such that a requirement is only introduced when the benefits, which we take to be the fulfillment of the information needs of the users of financial statements exceed the costs, that is the cost of preparing, disseminating and providing assurance on the financial statements.</p> <p>Differences in the distribution and size of benefits and costs between entities of significant public interest (ESPI) and other entities, perhaps established through regulatory impact assessments, provides the justification for having differential rules, albeit embodied in the same Code and conforming to the same conceptual underpinnings. In effect a pragmatic rationale, cost-benefit, rather than a conceptual reason, should form the basis for differential rules. While we recognize that the IESBA has embraced a differential approach, cost-benefit could justify it being applied more widely and consistently throughout Section 290-291 and be used to differentiate, in a few specific instances, rules applying to larger and smaller practices in the same way there is differentiation between ESPI and non-ESPI.</p> <p>Outlined in this submission are a number of suggestions that we believe will result in fair, relevant and understandable guidance that delivers a favorable cost-benefit outcome for the vast majority of engagements.</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
367.	Cost Benefit	We cannot comment on the costs of implementing these proposals, however, as investor confidence in financial reporting is fundamental for efficient and effective capital markets, an appropriate Code on independence and ethics is an essential element in a high quality set of global auditing standards.	IOSCO	See above
368.	Small business	<p>In our opinion a consistent approach should be applied to all audit clients, irrespective of whether the client is large or small or whether the client is an entity of significant public interest or otherwise.</p> <p>We have expressed concern over the proposals in the Exposure Draft to extend differential provisions to entities of significant public interest in our response to question 1 above. Management of small audit clients may benefit from the ability of firms to conduct more extensive non-assurance services provided for in the Exposure Draft. However the more liberal provisions, that apply to clients who are not entities of significant public interest, do increase the threat to independence from the perspective of users of assurance reports of small entities - particularly in respect of the appearance; of independence.</p>	CAGNZ	Minority comment – majority of respondents support the distinction between public interest entities and other entities
369.	Small business	We couldn't find any of these in the Exposure Draft and feel that this is appropriate. The size of the entity subject to audit or review should not affect how the auditor or reviewer views independence or raise any special considerations when considering possible threats to independence.	ICANZ	General comment
370.	Small business	The considerations regarding small size entities have been dealt with appropriately.	ICAP	General comment
371.	Small business	For small entities that are not regarded as entities of significant public interest, we think that the new dispositions have not serious consequences on the audit of those.	Mazars	General comment
372.	Small business	We believe that no special consideration in the audit of small entities is required to be included in the proposed standard	ACAG	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
373.	Small business	There seems to be an implicit assumption in this question that a small entity is not an entity of significant public interest. This illustrates the difficulty of classifying entities, since it is conceivable under the ED that small entities might be defined as entities of significant public interest by a particular member body. If we assume this question was directed at entities that are clearly not entities of significant public interest, then we generally are of the view that such entities have been dealt with appropriately. However, as we have noted elsewhere in this response, we believe that particular provisions of the ED go farther than is necessary to protect the public interest.	DTT	General comment
374.	Small business	In the case of providing services other than assurance engagements in the audit of smaller business firms, often no effective safeguards exist with regard to them. In such a case, the auditor plays a leading role in helping the client in the proper preparation of financial statements; therefore, it would be necessary to make provisions with due consideration to auditors' guidance.	JICPA	Minority comment
375.	Small business	It will be appropriate if more elaboration is available regarding the definition of small entities and how the provisions in the IFAC Code of Ethics may be applied to the audit such small entities.	MIA	Minority comment
376.	Small business	IESBA should ensure, by increased and clearer guidance materials on the application of the concept of "entities with significant public interest," that SMEs and smaller not-for-profit organizations are not included in the category "entities of significant public interest."	CGA	Changes to definition of public interest entity address this point
377.	Small business	Clear and concise guidance materials should accompany the final draft of s.290 and s.291 especially as they relate to the entities with significant public interest," ensuring that SMEs and smaller not-for-profit organizations are not captured within the definition.	CGA - Alberta	Changes to definition of public interest entity address this point
378.	Small business	The Institute of Certified Public Accountants in Israel supports the development of a detailed implementation guidance for SMPs.	ICPAI	Project on implementation support proposed in the Strategic Plan

X ref	Par Ref	Comment	Respondent	Proposed Resolution
379.	Small business	Although we have no specific comments on this exposure draft we do believe that the IESBA should look at the structure of the sections on independence and possibly consider separating section 290 into those parts which apply to all audits and those which apply only to the audits of listed/significant public interest entities. This could be achieved by concentrating on the key fundamental principles which would apply to audits of all entities and then following this with the additional requirements which apply only to the audit of listed/special public interest entities.	ICAS	Minority comment
380.	Small business	Applying the proposed changes to all size firms and to all entities alike is not a logical approach. Guidelines required for the audit of very small pension plans of three (3) participants in the same manner as those with thousands of participants, does not further the profession. Clients will begin to find methods to negate the use of CPAs and look for other means to meet their needs.	GSH	Change to definition of public interest entities should address some of this concern
381.	Small business	The current draft seems not having appropriate considerations on application in audit of small entities. For example, in Hong Kong, all the limited companies (no matter they are small or large) are required for statutory audit. Most proposed requirements seem not considering the practical difficulties encountered by those small entities.	SCAA	IESBA is of the view that all listed entities should be entities of public interest irrespective of size
382.	Small business	I urge you NOT to adopt the proposed standards. If the standards are adopted, it will limit the ability of small and medium size firms to perform audits. I feel these standards will be disastrous to our profession.	Lorenzi	Change to definition of public interest entities should address some of this concern

X ref	Par Ref	Comment	Respondent	Proposed Resolution
383.	Small business	<p>In FSR's opinion the auditor in big as well as in small companies shall always be independent in relation to the company whose financial statements are audited or reviewed and the auditor also has to be independent in relation to the management of the company.</p> <p>However, the problem of self-review threats is of lesser importance in small companies.</p> <p>It will often be in public interest and in the interest of users of financial statements that the auditor who is an objective and qualified person takes part in the preparation of financial statements. This does not diminish the responsibility of the auditor who still has to make sure that the financial statements give a true and fair view.</p> <p>The interest of the public and the users of financial statements in the qualified participation of the auditor in the accounting process for small companies will often have more weight than the desire someone will have that the auditor must not be auditing the financial statement that he or she has by himself or herself assisted in preparing.</p> <p>In this connection we would like to add that when talking about small companies we primarily deal with owner managed businesses, typically with up to 50 employees.</p> <p>We suggest that the requirements of the Code differentiate in relation to the self-review problem for small companies of the above mentioned reasons.</p>	FSR	The ED proposed no change to the bookkeeping provisions for entities that are not of significant public interest. Minority comment
384.	Small business	<p>Within the South African context, small firms are often responsible for the audit of certain public interest entities, particularly government agencies and aid organisations. This may bring these small firms in conflict with some of the proposed independence requirements.</p>	IRBA	Change to definition of public interest entities should address some of this concern

X ref	Par Ref	Comment	Respondent	Proposed Resolution
385.	Small business	<p>The aforementioned scandals occurred at large companies. NIVRA believes that, if the majority of the member bodies want a tightening of the current independence rules, these changes should be limited to the audits of large companies. NIVRA is not at all convinced of the usefulness or the need for stricter rules relating to the audits of small and medium-sized entities (SMEs). After all, the public interest is not served, at least less so; the expectations related to the independence are, in the case of audits of SMEs, less high than in the case of audits of large companies and furthermore there is no demand for stricter rules. The intensity of the proposed changes is, conversely, large for SMEs, while no rational motive for the change in the rules for audits of SMEs has been forthcoming. In view of the above, NIVRA argues for a lighter regime (safeguard approach) for audits of SMEs, for example in accordance with section 291.</p> <p>No, see “General comments”. To summarise: to a certain extent, the revised guidance leads to rule-based regulations; this possibly not in the interest of SMEs and leads to higher costs, which are particularly troublesome for SMEs.</p>	NIVRA	Change to definition of public interest entities should address some of this concern
386.	Small business	As regards the audits of small entities that are not ESPIs, the requirements have not significantly changed from those in existing section 290. Our only significant new concern in this area therefore relates to the extension of the audit requirements to ‘reviews’, where we believe that a number of assurance engagements intended to offer a light-touch review to entities not needing audits, which do not have a significant public interest perspective and which should be addressed by section 291, may inadvertently become subject to the more detailed requirements of section 290. This is commented on further in paragraphs 17 and 18 below.	ICAEW	No change proposed – IESBA is of view that Section 290 should address audit and review engagements
387.	Small business	We draw attention to our observations in item 1.1 above.	FEE	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
388.	Small business	Due to the potential impact that proposed changes to the Code may have on small practitioners, especially sole practitioners, EFAA calls on the IESBA to ensure that the views of this large and important stakeholder group are properly taken into account. EFAA represents the views of this group from a European perspective, and is able to contribute to the IESBA's decision-making process through its Consultative Advisory Group (CAG). Small and sole practitioners form the basis of the profession in many developed and developing nations worldwide, however, and the IESBA should try to ensure, as far as possible, that they are properly consulted with regard to any proposed changes to the Code that may have a significant impact on their work.	EFAA	General comment
389.	Small business	<p>The apparent focus on matters that may seldom be encountered by smaller firms discourages reference to the Code of Ethics in seeking solutions to ethical dilemmas, and the latest proposed revisions also appear to exclude these same firms from certain engagements due to the restrictive nature of the safeguards (see comments below)....</p> <p>Thirdly, these prescriptive rules may tend to make the process of complying with the Code of Ethics expensive in certain instances, and may also operate as an absolute bar to particularly the smaller firms. Although these consequences may have been unintended, they exist and should be revisited by the IESBA.</p> <p>One way of dealing with this may be by some means of differentiation of applicability between large firm and small firm engagements. The downside of this proposal, of course, is that the complexity of the Code of Ethics is increased (of which we stated earlier) as well as the problem of no longer having a Code of Ethics of universal application.</p>	SAICA	Project on Implementation support for small and medium size practitioners has been proposed
390.	Small business	We do not believe that it is appropriate to eliminate the flexibility for small firms to apply alternate safeguards to partner rotation. The reasons for our view are set out in our comments on SPIES above. Canada has addressed the partner rotation issue through its entity size test. However, if the circumstances in a member country are such that, following consultation with local regulators, it is determined to be in the public interest for small firms to use additional safeguards instead of partner rotation, the profession should be allowed to do so.	CICA	See discussion on partner rotation

X ref	Par Ref	Comment	Respondent	Proposed Resolution
391.	Small business	We believe further consideration with respect to the significant costs associated with partner rotation as it relates to small entities of significant public interest and the small firms that audit them is warranted. In addition, we do not believe the proposed requirements relating to compensation are appropriate for small firms. Please see our responses in nos. 1 and 2 above and under “ <i>Compensation and Evaluation Policies</i> ” (below) for specific details	AICPA	See discussion on partner rotation and compensation
392.	Small business	We believe that further consideration needs to be given to evaluating the impact of some of the requirements in the December ED on the audit of smaller entities. We describe in Appendix 3 a number of aspects of the December ED which are likely to add significantly to costs on such audits. We believe it would be worthwhile for the IESBA to focus more directly on smaller entity audits while retaining the approach that ‘an audit is an audit’. In particular, additional guidance could be included in the IFAC Code on the significance of the threats associated with services commonly provided to smaller entities, such as that which is given in paragraph 290.193 on ‘off the shelf’ accounting packages.	APB	Text of Appendix 3 included in cut and paste
393.	Small business	<p>We do not believe audit of small entities have been adequately dealt with. For the independence provisions to be useful, they need to be user-friendly and easy to apply in practice. The IESBA needs to think ‘small first’; an approach which ACCA wholeheartedly supports.</p> <p>We believe the proposed standard will have a particularly damaging impact on small businesses (both audit firms and clients). Any system of regulation of the auditing profession must be proportionate. The need for auditors to be independent needs to be balanced with the needs of the client.</p> <p>Many businesses rely on their accountants as a ‘one-stop’ source of advice. As a result, the proposed standard will unnecessarily prevent clients from using a known and trusted adviser who knows their business needs. The consequence of these restrictions will be that the cost of audit and other professional services will be unnecessarily higher for small entities.</p> <p style="text-align: right;">Cont’d</p>	ACCA	<p>Proposed change to definition of public interest entities should address some of this concern.</p> <p>The ED did not propose many changes to the requirements for entities that are not of significant public interest.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
394.	Small business	<p>A particular safeguard may provide substantial benefit at a relatively modest cost when applied to listed entities but the converse will be true when the same safeguard is applied to owner-managed entities. It make no sense, therefore, to impose standards which are designed for listed and other public interest entities on smaller companies.</p> <p>We believe a fuller analysis of the threats and the adequacy of the safeguards is required, taking into account the public interest. The IESBA has not provided any market-based factual evidence or a regulatory impact assessment to support its proposals. We believe the IESBA should carry out research into the effects of the proposed changes before embarking on them</p>	ACCA	See above
395.	Small business	<p>Most SMPs will audit SMEs that are not entities of significant public interest, but are often family-owned entities. The IESBA needs to bear in mind that these entities have specific demands and expectations as to how a professional accountant can benefit their business. In addition to audit services the entities themselves perceive synergies, since their auditor has a thorough knowledge of the business and its environment (refer to ISA 315) which is invaluable in certain other non-audit services as and when these become necessary, and vice versa. As we have noted above in both our general and detailed comments, a number of the proposals are excessively stringent and the approach adopted by the Board may not be warranted in relation to SME auditors</p>	SMP	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
396.	Small business	<p>Finally, we would like to stress that in many cases (and this is one of them) the issue of rules of positive law follows the establishment of a specific market situation, which demands the issue of rules. The rules follow the market, or a need strongly expressed by the market. To this regard, the Code offers the answer of law to the strong pressure made by regulators, after the trust in the role of audit and financial information has experienced a deep crisis. Markets need reliability and consequently more stringent rules (than the Code) are written in order to facilitate the adoption by national lawmakers. Nevertheless, it seems to us that the crisis and demand for reliability does not refer to SMPs, but to big firms and complex structures. It is therefore to be cleared if the proposed rules are the fruit of an in-depth economic analysis of the market and what is finally their possible effect on SMPs. A further test, intended to ascertain the need for and proportionality of the provisions, should apply to the single rules, to the specific limitations on independence and particularly to the provision of additional services (tax advice and legal services, which are not mentioned in the Code). All rules which are provided today in the EU and in the single State Members are subject to this review, in order to ensure the safeguard of important values such as competition, the removal of legal barriers which are not justified by proved needs for the safeguards of the public interest. Considering that all national legislations are subject to this test, we would like to point out that it should all the more be applied to the "international standard setter", which guarantees competition at an international level.</p>	CNDC CNRPC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
397.	Small business	<p>While we are generally satisfied with the way the IESBA has set about developing the proposals in the ED, we feel that more effort could have been made to more systematically and rigorously research and consult during its development. We need evidence-based solutions to determine the appropriate measures to enhance auditor independence in a cost effective way. Hence, we would have preferred to see a more systematic consultation exercise based on international multi-jurisdictional primary research into how best to serve the public interest through the revision of the Code, and in particular, the wider cost and benefits from a public interest perspective of the various proposals. In the absence of such evidence we are not convinced of the merit of many of the proposals. Some proposals impact our constituents severely and yet there is little if any evidence to justify them.</p> <p>We suggest, therefore, that the IESBA fill this void by undertaking some tests of some of the proposals, especially those that have the most impact on SMP/SME. It is crucial that the research effort be as comprehensive and thorough as possible. We would be happy to assist the IESBA in this effort.</p>	SMP/DNC	See above
398.	Small business	<p>While we endorse the notion of having one globally applicable Code we recognize the difficulty of deriving provisions suitable for application across a range of engagements and by firms ranging from sole practitioners through to the Big Four. We are concerned, however, that the proposals are geared more towards providing an optimal solution for larger firms and engagements. This focus has resulted in provisions that in some cases result in an impractical and/or disadvantageous cost-benefit outcome for SMEs especially those in developing and emerging nations.</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
399.	Small business	<p>Our main concern is that collectively the proposals risk undermining the viability of many SME assurance engagements and the SMPs that provide them, reduce choice of service provider available to SMEs, and impair the quality of service, while doing little to improve auditor independence or public confidence.</p> <p>For example, the introduction of absolute prohibitions, even in circumstances when acceptable safeguards could be applied, will increase the cost to SMEs of obtaining professional services where these could otherwise be provided most effectively by their auditors. These additional costs do not appear to have been properly considered and there is little evidence they will be offset by enhanced independence and/or public confidence. There are a number of matters that need to be considered when proposing additional prohibitions which require consideration of public policy issues, particularly for SMEs. For example, in SME audits the additional information acquired when providing other services enhances audit quality. In some locations there may be little or no alternative professional service provider to the auditor, so the choice is that either the auditor provides the service or no-one does.</p>	SMP/DNC	See above
400.	Developing nations	<p>We would like to draw the IESBA's attention to the fact that many developing nations do not have the standard-setting resources and processes that are available to more developed nations. To better address the needs of the developing nations, we would encourage the IESBA to provide additional examples and interpretations, drawing from practical feedback and identification of best practices once the new Code has been implemented. To that purpose, we would also welcome the IESBA establish a program of special dialog with the developing nations to better understand their needs in interpreting and applying the revised Code, in particular in relation to the definition of ESPIs and auditor's rotation.</p>	CGA	Project on Implementation support for small and medium size practitioners has been proposed

X ref	Par Ref	Comment	Respondent	Proposed Resolution
401.	Developin g nations	In addition, we have concerns that international membership organizations will have difficulty in meeting the requirements of the Forum of Firms, which requires compliance with IFAC standards. Many organizations operating in developing nations, with membership primarily of small firms with small audit clients, will not be able to confirm that they and their membership have adopted and implemented in substantial conformity with the Code as proposed because the proposed revisions to the Code will add complexity and require procedures that will be difficult to implement. For example, the proposed requirements for review engagements of entities of significant public interest, (partner rotation, cooling off period, etc.) would be an extremely difficult and in some case insurmountable barrier to overcome. The Board should consider a transition period or an IFAC initiative in which organizations in developing nations have the ability to transition their adoption of the Code on a more gradual timeframe.	Grant Thornton	Change to definition of public interest entities should address some of this concern.
402.	Developin g nations	<p>The comments noted in relation to small entities above also apply to developing nations especially as in many countries there is no audit exemption so all entities, irrespective of size, are required to be audited. In our view section 290 disregards the basic principle that regulation should be proportionate and will damage smaller businesses that make up the bulk of many economies.</p> <p>In our view, the proposed standards simply burden audit firms and in particular small audit firms. This in turn impacts on their clients. The proposed standards will mean that clients will not receive pro-active advice, face additional costs, be unable to seek advice from a known and trusted advisor who understands their business and needs, and limit choice.</p>	ACCA	Change to definition of public interest entities should address some of this concern.
403.	Developin g nations	The proposals are necessary, practical and may be applied in all environments.	ICAP	Supportive comment
404.	Developin g nations	Firms in developing nations are likely to consider it an additional burden to carry out such requirements as infrastructure building and maintenance of engagement partner rotations.	JICPA	Change to definition of public interest entities should address some of this concern.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
405.	Developin g nations	We have not identified any foreseeable difficulties in applying the provisions in a developing nation environment, except that in some developing countries, rotation could be a particular problem due to the lack of skilled personnel in those countries.	DTT	Rotation discussed below
406.	Developin g nations	Not applicable from an Australian perspective.	ACAG	General comment
407.	Developin g nations	From our experience with some of the smaller nations in the South Pacific region the Exposure Draft will present significant application challenges. Family ties are pervasive within many of the government and commercial institutions in smaller South Pacific nations and it is likely that the requirements of the Exposure Draft will present challenges to auditors and their firms.	CAGNZ	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
408.	Developing nations	<p>Much of the foregoing applies to developing nations and for that reason, the letter is a joint submission of the SMP Committee and DNC. It is, however, worth making some additional specific points with regard to the application of the Code in developing and, to an extent, transition economy countries. These points are not so much ones of principle, that question whether or not the proposals contained in the ED ought to be made, but rather points of practical application that stress the difficulties likely to be faced in ensuring compliance in developing countries.</p> <p>First, many developing countries share strong traditions of kinship and brotherhood and these can have a direct and material influence on what is perceived to be the “right” and the “wrong” ways in which to seek to exert influence. In extreme cases, this could lead to almost total ignorance to the fact that a situation, viewed through the eyes of, say, a western European country, was one in which some ethical boundary had been crossed. If people don't see that they are doing wrong, then they will not even feel any need to consider their behavior from an ethical perspective.</p> <p>Secondly, given these cultural differences, and the associated sensitivities, we feel that it is important in a developing nations’ context, to review proposals like those in this ED to ensure that they are not likely to be perceived as an attempt to inject “foreign” values into a country. We appreciate that there are difficulties on both sides. On the one hand we must never tolerate behavior that is unacceptable simply because it is a cultural tradition. On the other hand, we must always have regard to the cultural differences that do exist, and allow, therefore, for some flexibility in interpretation and application. It may be that these concerns are more theoretical than practical in most situations, but we believe they are worth noting. We would also stress that we are not trying to imply some form of “politically correct” review, but rather that standards setters are asked to remind themselves from time to time of the scope of their pronouncements.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
409.	Developin g nations	<p>Thirdly, many developing nations are small, agrarian and sparsely populated, and consequently, there are fewer opportunities in the marketplace to support, for example, the rotation of auditors that may be both possible and desirable in larger, more developed countries. This can make it more difficult in practice to apply ethical standards, often in the very countries where they might be of most benefit.</p> <p>Finally, documents like the proposed ED are typically highly technical and so difficult to read and to interpret. In most developed western countries there is now a well established tradition of technocrats who have experience and expertise in reading and interpreting technical pronouncements as well as offering guidance and advice on how they should be applied so as to ease the task of implementation. The same depth of technical human capital does not exist in many developing countries and, therefore, a key element of the institutional infrastructure necessary to ensure the effective implementation of the Code is missing or incomplete. Similarly, where it is necessary to seek judicial interpretation of the provisions of pronouncements like the Code, this will prove much more difficult to do in developing than in developed countries. The absence of professional bodies for accountants and auditors in many developing countries is also an issue in this context, an issue that the DNC is acutely aware of</p>	SMP/DNC	General comment
410.	Translatio n	We do not have any specific observations on translation issues but draw attention to the need to ensure sufficient time is allowed for translation, referred to in item 2.8 above.	FEE	General comment
411.	Translatio n	Different terms are frequently used in the Code to convey similar concepts. Unless they are further defined or explained to clarify the nuances that are attached to them, we would suggest avoiding as much as possible the use of different terms that convey similar concepts. For instance, translations may not always convey all the intended nuances of terms and expressions such as: <i>material, significant, insignificant, immaterial, clearly insignificant, clearly immaterial, materially different, material to the financial statements, material effect on the financial statements, trivial and inconsequential.</i>	E&Y	Considered in redrafting Sections 290 & 291
412.	Translatio n	We have not identified any potential translation issues.	DTT	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
413.	Translation	No issues on translation with respect to the exposure draft.	ACAG	General comment
414.	Translation	The Institute does not foresee any translation issues.	MIA	General comment
415.	3	<p>The IFAC Code will be applied globally in a wide variety of circumstances. Accordingly, we believe it is vitally important that the purpose and context of the examples be stressed, as well as the link between independence and the principle of objectivity. Therefore, we propose that paragraph 290.3 be moved to the beginning of section 290 and that paragraphs 290.8 and 290.100 (neither of which mention principles) be expanded to remind the user of the key aspects of the conceptual framework approach and how the examples derive from them.</p> <p>Similarly, in regard to section 291, paragraph 291.3 should be moved to the beginning of the section and paragraphs 291.8 and 291.100 expanded.</p>	ACCA	<p>Paragraph 290.3 moved up to front of section.</p> <p>290.6 modified to provide linkage to conceptual framework. Similar changes made to 291.</p>
416.	4	In section 290.4, it should state more clearly that in some situations there are no safeguards and the auditor cannot undertake the audit.	CEBS	290.4 last sentence made more prominent
417.	5	We concur with the decision not to specify which individual should be responsible for all the requisite actions. Given the wide range of circumstances prevailing, it would be difficult to include such specificity in the Code sensibly and in any case it will generally be self-evident.	ICAEW	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
418.	5	<p>We believe that in order to achieve consistent application of the ethical standards, it is essential that it is clear to whom they apply. We do not believe that the guidance included in paragraph 290.5 of the December ED (that firms should have policies and procedures to assign responsibility for identifying and evaluating threats to independence and applying appropriate safeguards to eliminate any threats or reduce them to an acceptable level) is adequate as a basis for incorporating the ethical requirements as an effective part of an audit regulatory framework. In particular we think that the central role of the engagement partner needs to be clearly established within the IFAC Code.</p> <p>While assignment of responsibilities for all requirements and prohibitions within the December ED is likely to be too time consuming to accomplish as part of the current revision timetable, it may be possible to amend the wording of paragraphs 290.9 and 291.9 to specify that the responsibility for the identification of threats to independence lies with the audit/assurance team (and other professional staff within the firm where relevant), and that the responsibility for the evaluation of the significance of these threats and the application of appropriate safeguards lies with the engagement partner.</p> <p>We also believe that audit firms should appoint an individual with seniority, relevant experience and authority within the firm as an ‘ethics partner’ who has responsibility for the adequacy of the firm’s policies and procedures and providing guidance to individual engagement partners. This was an important part of our approach to changing mindsets within firms and raising standards. We see a role for such a person in establishing consistent responses within the firm to similar situations and in stiffening an engagement partner’s (or firm’s) resolve when difficult judgements need to be made. Even if the IESBA decides not to establish a requirement to this effect, an acknowledgement in the guidance material of the likely benefits of appointing an ethics partner would be a step forward.</p>	APB	<p>IESBA debated whether Sections 290 and 291 should specify who is responsible for a particular action. IESBA concluded that with a global code and the wide variety of circumstances faced it was not practical to define who is responsible for a particular action.</p> <p>First sentence of 290.5 deleted. 2nd sentence re-written to state that ISQC1 requires firms to have policies and procedures to provide reasonable assurance that independence has been maintained and that the engagement partner is required to form a conclusion on compliance with independence requirements that apply to the audit engagement (ISA 220.12)</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
419.	7	<p>While we accept that the auditor should be independent of mind on <i>all</i> audits, we do not believe the auditor always needs to be independent in appearance. Rather the ‘specific facts and circumstances’ surrounding a particular engagement have to be considered. Large listed entities typically have a large number of shareholders, most, if not all, of whom are not able to get a clear picture of the role and independence, or otherwise, of the auditor on a specific engagement. This contrasts with SMEs, including smaller listed entities, where the shareholders, fewer in number and often more closely connected to the company, often have direct access to the auditor so as to establish their independence for example, during the annual general meeting.</p> <p>Consequently, for ESPI with a large, diverse and ‘remote’ shareholder base there is a need for greater safeguards to ensure independence in appearance than in a SME where there is more transparency. In addition, in the case of SMEs and SMPs, the identification of threats is more effectively done in a more direct way without recourse to formal reporting systems. The business environment and threats differ in nature and relative importance, so the safeguards need to be tailored to fit.</p>	SMP/DNC	IESBA is of the view that independence in appearance is always necessary.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
420.	9	<p><i>Paragraph 290.9 states</i></p> <p><i>“In deciding whether to accept or continue an engagement, or whether a particular individual should be a member of the audit team, a firm should, therefore, evaluate the relevant circumstances and the threats to independence, and consider the availability of appropriate safeguards to eliminate the threat or reduce it to an acceptable level. The evaluation should be supported by information obtained before accepting the engagement and information that comes to the attention of the audit team during the engagement.</i></p> <p>In Australia, most public sector entities are required by legislation to be audited by the Auditor-General (or equivalent) of the respective jurisdiction. Consequently, the Auditor-General has no choice whether or not to accept or continue an audit engagement where they are required by legislation to conduct the audit. As a result, we recommend that the following paragraph be included to follow paragraph 290.9 within the standard to address this situation.</p> <p><i>‘In some countries, the firm/auditor is appointed by law or regulation and required to conduct the audit of significant public interest entities (particularly government agencies and government owned entities). Where the firm/auditor is required by law or regulation to accept or continue an engagement the firm/auditor should evaluate the relevant circumstances and threats to independence and consider the availability of appropriate safeguards to eliminate the independence threat or reduce it to an acceptable level.’</i></p>	ACAG	Matter will be considered by the project addressing guidance for Accountants in Governments
421.	10-21	We note that comments are not sought on the paragraphs dealing with network firms. These paragraphs provide an example of material that could be eliminated from a section if the independence section of the Code were to split in a different manner to that proposed (see our comments under the heading Split of section 290).	ACCA	See comments under Split of Section

X ref	Par Ref	Comment	Respondent	Proposed Resolution
422.	10-21	The guidance in paragraphs 290.10 to 290.21 of the December ED suggests that difficult judgments need to be made as to whether a firm is, or is not, part of a network. While we acknowledge that this judgment may be difficult in some cases, in all cases partners within the relevant firms should know whether they are part of a network, and this should be transparent to users. We believe the IFAC Code needs to go further in mandating the communication within relevant firms of any management decision as to which firms are within a network and that this should also be communicated externally.	APB	<p>Paragraph 290.12 states that the judgment should be consistently applied across the network. How the matter is communicated is an implementation issue.</p> <p>External communication should not be driven by a Code of Ethics.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
423.	10-21	<p>The definition of networks and network firms seems very broad, and some of our members are concerned that it may be too broad, necessitating independence requirements where there is believed to be no issue of fact or appearance to investors that could undermine objectivity. Paragraph 290.11 says that whether a larger structure creates a network depends on the facts and circumstances – yet, the definition of “network” in the Code is very specific and leaves little room for consideration of facts and circumstances.</p> <p>Based on the general presumption in paragraph 290.11, it would seem that a structure might not be a “network” if its purpose is only to facilitate the referral of work. But it is not clear whether a collection of firms would be part of a network if in addition to facilitating the referral of work, the firms utilize a name or logo for the larger referral and information sharing organization but do not co-operate in performing audits, do not share a quality control system, and do not share individual firm profits. Paragraph 290.18 makes reference to situations where firms do not use a common brand name in signing audit opinions but include a reference to a common referral association in stationery or promotional literature; however paragraph 290.18 does not provide guidance on the issues that such a firm might consider in order to determine whether it and the other entities in the organization would likely be viewed as a common firm by investors and regulators and thereby constitute a network for independence purposes.</p> <p>There is also an interaction between the Ethics Code and ISAs in the matter of network firm definition. Where auditors follow the auditing guidance in the extant International Standard on Auditing 600, “Using the Work of Another Auditor”, there could be circumstances and evidence whereby the firm affiliation under the network definition in that ISA would capture associations of firms where association-wide independence from all of each other's clients would not be needed.</p>	IOSCO	<p>Comment was not requested on the paragraphs on network firms. These paragraphs were considered as part of the due process in finalizing the previous exposure draft.</p> <p>Points will considered if network firm material is revised.</p>
424.	10-21	<p>While IESBA is not seeking comment on the definition, we are concerned at the lack of implementation guidance on how it ought to be applied in practice, especially by SMP networks. We fear that SMPs will be under the mistaken impression that their ‘arrangement’ with other practices firms falls within the new network firm definition when in fact, it does not. We suggest, therefore, assisting SMPs in their assessment as to whether a network exists by providing implementation guidance on how to apply the criteria for determining the existence of a network in particular, that pertaining to ‘all facts and circumstances available’.</p>	SMP/DNC	<p>Project on Implementation support for small and medium size practitioners has been proposed</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
425.	11	290.11 Last paragraph reads . “ Alternatively, a larger structure might be such that is aimed at cooperation and the firms share a common brand name, a common system...” ,”or significant professional resources and consequently is considered to be a network.”	Constantine	General comment
426.	12	The December ED does not include standards or guidance to facilitate the flow of information to make independence decisions. Paragraph 290.12 for example, requires the firm to evaluate the circumstances and the threats to independence but there are no requirements on partners or staff to submit relevant information to enable this evaluation to be made. This problem applies to the whole document but is especially acute in relation to the sections dealing with financial interests and non-assurance services. We believe this is especially important as ‘firm’ includes network firms for the purpose of Section 290, and structures need to be established for firms to gather relevant information in a practical manner.	APB	Paragraph 290.12 states that the judgment should be consistently applied across the network. How the matter is communicated is an implementation issue. Project on Implementation support for small and medium size practitioners has been proposed
427.	12	It would be helpful to have more guidance on how to apply the code regarding communication on who is part of the network and the information that partners and other members of staff need to provide to the network firms such that the code can be applied consistently at all levels of the network.	CEBS	Project on Implementation support for small and medium size practitioners has been proposed
428.	12	The Code clearly states the principle that all members of a network must be independent of the network’s audit clients, which implies a network organization capable of preventing any risk of conflict of interest and of identifying all non-audit services rendered, or liable to be rendered, by a member of the network to any audit client of the network. This constraint is all the more onerous that it applies to related entities of listed or non-listed entities of significant public interest. It would be useful for the Code to underline the requirement for networks to implement procedures and information systems enabling them to cope effectively with such problems of independence within the context of related entities.	Mazars	Project on Implementation support for small and medium size practitioners has been proposed

X ref	Par Ref	Comment	Respondent	Proposed Resolution
429.	18	<p>290.18 reads Even though a firm does not belong to a network and does not use a common brand name as part of its firm name, it may give the appearance that it belongs to a network if it makes reference in its stationery or promotional materials to being a member of an association of firms.”...</p> <p>Facts: It may happen that a name is common to several entities just for instance when its origin is common (same founder for instance) despite over years and generations not link of whatever nature subsists except a name. It could be also that the companies names are well spread in use (Smith...).</p> <p>Comments: We understand that a “brand name” is not a name. Nevertheless, if other criteria are not met, subject or not to the firms disclosing that they are independent firms, or are linked to separate networks, we would like a new wording to be elaborated saying that the use of a common name is not by itself a sufficient criteria to constitute a network as opposed to using a common brand name.</p>	Constantine	Comment was not requested on the paragraphs on network firms. This paragraph was considered as part of the due process in finalizing the previous exposure draft.
430.	22	We recommend that the 3 rd sentence be deleted as it appears to add nothing to the previous sentence – “The extent is significant.”	KPMG	Sentence deleted
431.	Related entities 24	It should be clarified who it is intended should make the decision as to whether, for non-listed ESPIs, related entities should be included: the audit firm (preferably) or the regulator?	ICAEW	Under the new definition of public interest entity. For listed entities all related entities would be included. For other entities designated by a regulator, related entities would be included to the extent the regulator had designated them. If the regulator was silent the firm would determine which related entities are included.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
432.	24	<p>Without jumping too fast to conclusions about the relevance of a distinction between significant public interest entities and non- significant public interest entities, regarding ethical issues, the CNCC wishes to provide the following comments.</p> <p>The CNCC suggests that more clarity should be provided regarding the scope and what is meant in the various sections of the draft, regarding the notion of “audit clients”, and particularly, whether or not it includes the related entities for each provision of the Code. As it stands, the Code is difficult to read, and we believe that significant improvements could be brought in this respect.</p>	CNCC	See comment above
433.	24	<p>§ 290.24 states that in the case of non-listed entities of significant public interest, references to audit client will, unless otherwise stated, generally include its related entities and that, in certain circumstances, depending on the nature and structure of the client’s organization, it may not be necessary to apply the enhanced safeguards described to all related entities to maintain independence from the audit client. The draft states that this might be the case, for example, in the audit of a government-controlled entity. We suggest that more examples should be provided of situations in which the Code’s independence rules might not need to apply to related entities of entities of significant public interest.</p>	Mazars	See comment above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
434.	24-25	<p>Paragraphs 290.24 and 290.25 extend the application of independence requirements in relation to “an audit client” to any “related entity” of “entities of significant public interests.”</p> <p>Some requirements of the Code potentially have very wide application. The following are examples:</p> <ul style="list-style-type: none"> • family relationships between members of the group audit team and directors or officers of a subsidiary, even if the subsidiary is not material to the group financial statements and their audit; • a member of the group audit team joins a related entity • a former key audit partner joins a related entity of an audit client as a director or officer. <p>In the last situation, it would appear that the audit firm would be required to resign from the group audit.</p> <p>In the light of the above, we suggest that the Board take this opportunity to revisit its independence requirements as they relate to related entities and specifically identified, for example by using the phrase "the audit client and its related entities" where necessary within the body of the text of section 290 in the Code.</p> <p style="text-align: right;">Cont'd</p>	Grant Thornton	IESBA is of the view that the definition of a related entity is appropriate. This is a minority comment.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
435.	24-25	<p>The U.S. Securities and Exchange Commission’s “affiliate of an audit client” definition has similar requirements. Historically it has been challenging to continuously monitor the affiliates of an audit client in these engagements, especially when independence is applied to all of the firms in a network. In the U.S., the “affiliate” definition is particularly difficult to implement for venture capital or private equity firms acquiring a majority of interests in an operating client that is a “listed entity” and applying the SEC’s independence rules to other operating entities that the venture capital or private equity firms also control or where these entities have significant influence.</p> <p>There could be similar ramifications for the application of the revised Code, as a result of the proposed requirements. For large transnational corporations that are rapidly expanding into new markets, it is extremely difficult for accountants to monitor each related entity and the activities of their network firms. We believe there should be some tie to the financial statements of the audit client and the entity that can influence the audit client. We do not believe that the independence requirements should be applied, for example, to a brother-sister entity where the accountant is not the auditor of the parent entity.</p> <p style="text-align: right;">Cont’d</p>	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
436.	24-25	<p>In addition, the guidance should cross-reference certain terms to international accounting standards so that there will be consistency in their application. For example:</p> <ul style="list-style-type: none"> • What constitutes direct or indirect control? Does direct or indirect control occur when an entity has over 50% voting control, has the ability to appoint management, has over 50% of the board seats, or through a voting block/control group? • How does an accountant measure the materiality of an entity's investment in an audit client when he or she may not know the purchase price of the voting interest bought on the open market? Is this a current market computation that needs to occur at different points in time? How would one determine whether an investment made by an investor in an entity of significant public interest was material if one or both are not publicly traded or listed entities? <p>The definition of related entity includes a listing of various criteria. Criterion (b), "an entity with a direct financial interest in the client if that such entity has significant influence over the client and the interest in the client is material to such entity," is difficult to implement because there is no definition for "significant influence over the client" referenced. An accountant would be required to make a judgment as to materiality of a non-client.</p>	Grant Thornton	Matters may be considered as part of a future project depending upon comments received on Strategic Plan exposure draft
437.	25	<p>It would be helpful to include more guidance as to relevant factors in evaluating the firm's independence in such a context. For example, we imagine there would in general be a heightened threat to independence when the audit client is material to another entity that has a controlling interest in the audit client (a situation which is currently specifically addressed in paragraph 290.105 so far as financial interests only are concerned).</p>	KPMG	<p>Under the new definition of public interest entity. For listed entities all related entities would be included. For other entities designated by a regulator, related entities would be included to the extent the regulator had designated them. If the regulator was silent the firm would determine which related entities are included.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
438.	26	We believe that auditors should be required to inform those charged with governance regarding any relationships or other matters that might, in the audit firm's opinion, bear on independence. This would encourage a dialogue between these parties and an appreciation of the issues by those charged with governance.	Basel	Proposed ISA 260.15 requires such a communication for audit clients that are listed entities. Matter may be addressed as part of future project of IESBA depending upon comments received on Strategic Plan
439.	26	We believe it should be required that the auditors inform those charged with governance regarding any relationships or other matters that might, in the audit firm's opinion, bear on independence. This would encourage a dialogue and an appreciation of the issues involved. This would also be in line with the requirements of article 42 1.c) of the 8 th Directive on Statutory Audits.	CEBS	See above
440.	26	We agree with the approach taken in respect of communications with those charged with governance	ICAEW	Supportive comment
441.	26	We do not agree with the comment that communication with those charged with governance "can be particularly helpful with respect to intimidation and familiarity threats". In situations where intimidation or familiarity poses a threat to independence that is other than clearly insignificant, the source of the threat is likely to be an individual who is in a position of influence within the audited entity and is likely to be viewed as amongst those charged with governance of the entity.	Grant Thornton	Minority comment – no change proposed
442.	27	We agree with the enhanced discussion on documentation in section 290.27 of the proposed Code. Although we acknowledge that documentation is not an indicator of independence, it is undoubtedly a key aspect for the credibility and effectiveness of the threats and safeguards approach.	ICAS	Supportive comment
443.	27	We agree with the enhanced discussion on this subject: documentation is not an indicator of independence but is of importance in maintaining the credibility of the threats and safeguards approach.	ICAEW	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
444.	27	We agree with the enhanced discussion on this subject in 290.27. Documentation is not an indicator of independence but is a key aspect for the credibility and effectiveness of the threats and safeguards approach.	FEE	Supportive comment
445.	27	We agree with the enhanced discussion on this subject at paragraph 290.27. While documentation is not an indicator of independence, it is a key aspect for the credibility and effectiveness of the principles-based approach.	FEE	Supportive comment
446.	27	When the threats to independence are not clearly insignificant, this section requires a firm to document the threats identified and the safeguards applied to eliminate them or reduce them to an acceptable level. Although this requirement in itself is not new, this will be a new development as far as tax services are concerned as these are currently generally not seen to create threats to independence. Bearing in mind the number of small engagements which an accounting firm may undertake, for instance in relation to tax compliance services, the documentation requirement will potentially be very onerous. Accordingly, it would be useful that the Code explicitly mention that this documentation requirement could be satisfied based upon the nature of the threat. For example, (1) a recurring specific threat related to identified services and applicable safeguards could be documented once in a policy document or (2) other situations presenting significant and unique threats to independence would be documented on a case-by-case basis.	E&Y	Clarification of documentation requirement to be addressed by Drafting TF
447.	27	While decision to accept or continue the audit engagement should be documented, the same should be disclosed in the audit or review report so that the intended user be made aware of the threats and the safeguards applied	ICAIIndia	Minority comment – no change proposed
448.	27	We appreciate the clarification in paragraph 290.27 (and 291.27 of section 291) that documentation “is not, in itself, a determinant of whether a firm is independent.” However, we believe that documentation standards do not belong in section 290 or 291 of the Code. Documentation requirements are covered in ISQC 1. Moreover, if appropriate in sections 290 and 291, then arguably, documentation requirements should be included in every other section of the Code. Thus, we suggest that these paragraphs be deleted.	DTT	Minority comment – no change proposed

X ref	Par Ref	Comment	Respondent	Proposed Resolution
449.	28	In relation to paragraph 290.28 we believe that the auditor is required to be “independent” from the date of his appointment to the date of his resignation/termination.	ICAS	Independence is required from when the firm starts to perform audit services and not from the date of the engagement. There are no threats to independence until the firm starts to perform audit services.
450.	28-29	There is a slight inconsistency between these paragraphs (as indeed there is in the current section 290). 290.29 advocates a threats and safeguards approach to whether independence was required prior to appointment but during the period covered by the financial statements. 290.28 absolutely requires independence during the period covered by the financial statements. It should be clarified if 290.29 is intended to overrule 290.28 in the circumstances it refers to.	ICAEW	Minority comment – no change proposed
451.	30	In the circumstances outlined in this paragraph it is our opinion that the threat to independence cannot be mitigated by safeguards and that the only option open to the auditor is to not accept the audit engagement	CAGNZ	Minority comment – no change proposed

X ref	Par Ref	Comment	Respondent	Proposed Resolution
452.	30	<p>We do not believe that the first sentence of paragraph 290.30 is supported by the details in paragraphs 290.100 to 290. 514. It is the outcome, rather than the timing, of a non-assurance service that presents a threat to the independence of the audit: if that threat cannot be safeguarded when the non-audit service is provided during the period of the audit engagement, we doubt that the risk can be mitigated by safeguards where the service was provided "before the commencement of professional services in connection with the audit". For example, where a firm is requested to perform a valuation that falls within the scope of paragraph 290.171 the same ethical considerations should apply, regardless of whether the service is provided before or during the period of the audit engagement. In circumstances where a firm has provided a service before an audit appointment that presents a risk that cannot be mitigated, the firm does not retain or accept the audit appointment.</p> <p>We note that the wording of paragraph 290.218 (which corresponds to paragraph 290.212 of the current Code) now omits the qualifying phrase "was agreed to, or contemplated, during an assurance engagement". It is our understanding that under the ED an independence threat can be mitigated by consideration to any threats to independence arising from the service if an agreement to provide a non-audit service on a contingent fee basis is entered into before an assurance engagement is agreed. If the omission was a conscious decision, it is inconsistent with the changed paragraph 290.30. We recommend including the omitted wording in paragraph 290.218 of the ED.</p>	Grant Thornton	<p>Reference to obtaining the client's acknowledgment of responsibility removed and paragraph expanded to state that the engagement should not be accepted unless there are available safeguards to address the threat.</p> <p>Comments will be considered by IT2</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
453.	100	<p>The enforceability of the independence requirements in the December ED is weakened by the wording of a number of paragraphs. In particular, a number of changes could be made to paragraphs 290.100 and 291.100:</p> <ul style="list-style-type: none"> The description of specific circumstances and relationships as ‘examples’ is not helpful as it may imply that the material does not contain important requirements or prohibitions. The word ‘examples’ could simply be replaced by ‘paragraphs’. The wording is unclear as to whether the safeguards outlined in paragraphs 200.12 to 200.15 can be used to reduce the threats associated with the specific circumstances set out in sections 290 and 291. This uncertainty is exacerbated by introducing specific safeguards in subsequent paragraphs as a list of <u>possible</u> safeguards, rather than an indication of the <u>type</u> of safeguards that would be appropriate. Many of the examples describe situations where there is clearly a threat to auditor independence. The word ‘may’ is used in many of the examples. This gives an unhelpful impression about the threats and safeguards approach lacking rigour as in most cases a threat (actual or perceived) <u>will</u> be created by the circumstances described. In these cases the guidance should use the present tense or words that indicate the likelihood of a threat to independence in appearance. For example, in paragraph 290.121 ‘... a commercial relationship or common financial interest <u>creates (or would probably be perceived to create) self-interest or intimidation threats</u>’. 	APB	<p>To be addressed by Drafting TF as applies to more that Sections 290 and 291</p> <p>No change proposed</p> <p>No change proposed – construction is to indicate circumstances that may create a threat and require the application of safeguards. In some cases the Code indicates that the threat created can only be reduced by the application of specified safeguards. In other cases it indicates that the threat created is so significant no safeguards could address the threat.</p>
454.	Financial interests	NIVRA agrees	NIVRA	Supportive comment
455.	Financial interests	We agree with the proposals under the above headings.	ACCA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
456.	Financial interests	<p>We support the aim of the Code in respect of financial interests. However, we are concerned that a regulation as stringent as that proposed will have significant practical implications that cannot lead to an improvement in the quality of audits, whilst imposing considerable costs on audit firms and networks. Our concern is perhaps best illustrated by citing the following example: A child may hold a token share in a company for artistic or other nonfinancial reasons. However, because there is no provision in Sections 290.103, 290.105 nor 290.107 of the Code for financial interests that are <i>clearly trivial</i> to be excluded, a parent of such a child would be precluded from serving on the audit team of the company, or entities in which it has a controlling interest or from being partners in the office in which the engagement partner auditing the company practices, unless they were to dispose of the holding. This in turn means that audit firms and networks have to capture data on <i>all</i> direct financial interests of their audit staff and immediate family members on an international scale, irrespective of the significance of individual interests. This, on the large scale needed in many networks in particular, can be an extremely costly procedure. Certainly, in the above example there would be neither an actual nor a perceived (in appearance) threat to auditor independence.</p> <p>We recommend that the Board consider whether the section dealing with financial interest is overly stringent and, if so, whether to introduce a clause referring to clearly trivial interests. Such a measure would be in line with the objective of Section 290 of the Code, which states in Section 290.4b that the conceptual approach involves evaluation as to whether threats are clearly insignificant.</p>	IDW	No change proposed – such requirements are necessary to address independence in appearance. Matter to be discussed in Basis for Conclusions
457.	Financial interests	Under financial interests, section 290.110 appears to have little hope of concrete enforcement. According to the ED, “...when the immediate family member has or obtains the right to dispose of the financial interest or, in the case of a stock option, the right to exercise the option, the financial interest should be disposed of or forfeited as soon as practicable. “Practicable” does not include selling at a loss if it can be avoided by holding the asset to some other date. In our view, ethical rules requiring those not involved in the profession to take action are ‘ultra vires’. All we can hope to do is govern our own behaviour.	CGA - Canada	No change proposed – matter can be governed by taking the individual off the audit team

X ref	Par Ref	Comment	Respondent	Proposed Resolution
458.	Financial interests	101 to 115 – We welcome the reduction in length and complexity that has been afforded by the split of the independence section. We note that, this apart, the financial interests requirements have not been subject to significant change but note in paragraphs 27 to 29 below a number of matters that should be reconsidered.	ICAEW	General comment
459.	Financial interests	Firstly, we believe that the restriction on holding financial interests applicable to controlling entities should be extended to subsidiaries of <i>all</i> audit clients. Currently, the restrictions on financial interests apply to the audit client and all its related entities, including controlling entities and subsidiaries, for ESPIs, but only apply to the audit client and its controlling entities for non-ESPIs. Consequently, it would be possible for a member of the engagement team to have a financial interest in a subsidiary of a non-ESPI audit client when the subsidiary is audited by another firm. We do not believe that the fact that the subsidiary is audited by another firm would be a sufficient safeguard to eliminate the self-interest threat that is created by such financial interests.	E&Y	Change made
460.	Financial interests	<p>Secondly, Section 290.103 clearly prohibits a member of the audit team, an immediate family member, or a firm, to have a direct financial interest or a material indirect financial interest in the audit client. Section 290.105 establishes a similar prohibition for a financial interest in a controlling entity, but without making a distinction on the type of interest held – direct or indirect. Accordingly, an immaterial indirect financial interest in the controlling entity would appear to be prohibited. This is inconsistent with Section 290.103 where an immaterial indirect interest in the audit client is permitted.</p> <p>Thirdly, while the proposed changes would extend the restrictions on financial interests to the controlling entities of <i>all</i> audit clients, the requirements regarding other areas of independence extend to controlling entities only for ESPIs. The rationale for this is not clear. We believe it would be more appropriate to expand the definition for audit clients that are not ESPIs to include, at a minimum, a controlling entity if the client is material to that entity.</p>	E&Y	<p>Paragraph 290.105 to be amended to refer to “a direct financial interest or a material indirect financial interest”</p> <p>No change proposed – threats and safeguards approach is appropriate for non ESPIs</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
461.	103-104	The requirements re close family members are based on knowledge of any interest but interest of immediate family are deemed to be known. Although knowledge is more likely for immediate than close family members, in the twenty first century, we are not sure that deemed knowledge is a tenable proposition. At most this should be a rebuttable presumption.	ICAEW	Minority comment – no change proposed
462.	105	In the case of an entity that has a controlling interest in the audit client, and that client is material to the entity, we agree that a clear definition be given to the restriction of the person or firm's financial interest in that client. The reason is that if the client is not material to the entity, we consider that the absence of a clear definition will have only a small effect on the benefit of maintaining its independence gained at the cost of complying with the restriction.	JICPA	Supportive comment
463.	105	The partner of the firm who is not a part of the audit or review team is not covered and the same should also be covered in the said clause.	ICAIIndia	Paragraph 107 addresses partner in the same office from having a direct or material indirect financial interest.
464.	105	A self interest threat arises when an audit client whose financial performance and position is significant to the financial performance and position of a parent entity in which a member of the audit team has a financial interest. We believe that paragraph 290.105 should not just apply in relation to "controlling interests" but should apply equally in situations where a "parent" entity has an interest in an audit client that is accounted for on an equity accounting basis <u>and</u> that is material to the parent entity.	Grant Thornton	Minority comment – addresses through requirement to consider if you have reason to believe a treat may be created
465.	105	Sections 290.105 talks about a member of the audit team, his or her immediate family member or a firm having a financial interest in an entity that has a controlling interest in the audit client, and <i>the client is material to the entity</i> creating a self-interest threat. It is not clear why the client has to be material to the controlling entity. From a user's perspective, they may not be aware of the relative significance of the client's financial position to the parent – they would just see that the auditor has an interest in the parent company of the entity they are interested in and so this could potentially lead to a loss of independence in appearance.	ICANZ	No change proposed – if the client is not material to the parent the threat is not such that a prohibition is required.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
466.	105	The condition that the client is material to the entity seems irrelevant as the threat to independence arises because of the existence of a financial interest in an entity that has a controlling interest in the audit client. This creates an unacceptable threat to independence in appearance	CAGNZ	See above
467.	106	It would be helpful if paragraph 290.106 identified the source(s) of the self interest threat together with the factors that (if present) might eliminate or reduce a threat in practice. Examples might be the nature of the financial impact of the plan on the employer and the nature and degree of the influence that it has over the investment activities of the retirement benefit plan. In some situations the trustees (rather than the employer) control the investment activities and the employer has no financial commitment beyond the payment of contributions at a rate set out in the scheme documentation: we do not believe that a self interest threat arises in these circumstances.	Grant Thornton	Minority comment – no change proposed
468.	106	If the firm's retirement benefit plan has a direct or material indirect financial interest in an audit client the only options would appear to be either remove the financial interest or withdraw from the audit. To permit the continuance of any financial interest creates an unacceptable threat to independence in appearance.	CAGNZ	Minority comment – no change proposed
469.	107	<p>The Institute welcomes IESBA initiative to strengthen the provisions dealing with Financial Interest.</p> <p>However, the proposed change which indicates that when an immediate family member of (a) a partner in the office in which the engagement partner practices in connection with the audit or (b) a partner or a managerial employee who provides non-audit services to the audit client receives a financial interest in the audit client as a result of his or her employment rights, the interest should be disposed of or forfeited as soon as practicable once the individual had the right to dispose of the financial interest, or in the case of a stock option the right to exercise the option, is overly broad. In cases of large firms, with numerous partners, the application of this provision would be onerous.</p>	MIA	<p>The ED is not proposing a change from the existing Code.</p> <p>Minority comment – no change proposed</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
470.	107-109	In terms of significant threats to independence, it is unlikely that an immaterial direct holding would subvert audit judgement. However, we accept, as do most if not all independence codes, that even immaterial direct holdings in an audit client by the firm or a member of the audit team, should be prohibited on perception grounds. When it comes to holdings by other partners in the office in which the engagement partner practices, or by other partners and managerial employees who provide non-audit services to the client, or by the immediate families of any of these people, we wonder whether this goes too far. Individuals who can directly influence the audit are, after all, already included within the definition of the audit team so the degree of threat posed by these other people is much reduced. We believe that at most, a restriction of the prohibition to material interest would be sufficient.	ICAEW	The ED is not proposing a change from the existing Code. Minority comment – no change proposed
471.	107	Paragraph 290.107 sets a seemingly demanding requirement in relation to partners (and their immediate family members) in the same ‘office’ as the engagement partner. The definition of an ‘office’ however is, understandably, far from specific. Membership of more than one ‘office’ is likely to be a very common situation in the larger firms e.g. a partner working in the financial services section of a firm and located in a specific city. Paragraph 290.108 provides guidance on this but the conclusion that ‘judgment should be used to determine in which office the partner practices in connection with that engagement’ is weak. Questions that thereby arise include: ‘Who’s judgment is it?’ ‘How is it communicated to the other partners in the office?’ ‘What information flows need to be put in place?’ We believe that the guidance in paragraph 290.108 needs to be reconsidered. A persuasive argument can be developed that the requirement in paragraph 290.107 should apply to <u>both</u> ‘offices’.	APB	No change proposed – it is necessary to apply judgment to determine the office in which the partner practices.
472.	109	The term "managerial employees" that is used in paragraph 290.109 should be defined.	Grant Thornton	Minority comment – no change proposed
473.	109	In our opinion the following wording in the first sentence should be removed "who provide non-audit services to the audit client, except those whose involvement is clearly insignificant". The inclusion of this wording creates an unacceptable threat to independence in appearance	CAGNZ	Minority comment – no change proposed

X ref	Par Ref	Comment	Respondent	Proposed Resolution
474.	110	With regard to the financial interest obtained from an audit client under employment rights, we agree that certain named persons are permitted to acquire such interests and that such interests should be disposed of as soon as practicable when the rights of employment cease to exist. The reason is that the permission is based on employment rights and the loss of such rights naturally require such persons to dispose of the interest.	JICPA	Supportive comment
475.	111-112	<p>We are aware are that the guidance in paragraphs 290.111 and 290.112 of the ED are similar to the guidance in the current Code, paragraphs 290.121 and 290.109, respectively, and the ED does not make substantial changes to that guidance. However, we would like to take this opportunity to mention the following observations</p> <ul style="list-style-type: none"> Paragraph 290.111 attempts to cover a range of situations in which a firm, the audit team or their immediate family members have a financial interest in common with an audit client, its directors, officers or controlling owners. The tests that are to be applied to determine whether a threat to independence exists that cannot be safeguarded only consider materiality to the participants <u>and</u> the scope for the audit client to exercise significant influence over the investee entity. We are surprised that: <ul style="list-style-type: none"> a material common interest (for example, one held by the firm or a partner together with a material interest held by a director of the audit client) is not viewed as creating a common interest that should be avoided a firm or partner could have an immaterial interest yet because the audit client has a material interest and is able to exercise significant influence the immaterial interest would be considered to present an independence risk that could not be mitigated by safeguards. Although the term "significant influence" has a well established meaning in a corporate context (for example in the context of paragraph 290.111), this is not the case for its use in paragraph 290.112. In our experience, the fourth criterion is normally the one that determines whether a self interest threat exists in practice so we recommend that a definition of the term should be given. 	Grant Thornton	<p>Reference to directors and officers deleted. This matter is addressed through the provisions on close business relationships.</p> <p>Minority comment</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
476.	111	We do not consider that disposing of a sufficient amount of the interest so that the remaining interest is no longer material is an appropriate response to this situation. This creates an unacceptable threat to independence in appearance. In our view all of the interest should be disposed of.	CAGNZ	Minority comment – no change proposed
477.	112	We do not consider the mitigations proposed in this paragraph are sufficient to reduce the threat to independence in appearance to an acceptable level	CAGNZ	Minority comment – no change proposed
478.	113	In a number of places in the draft, the first being paragraph 290.113, reference is made to "any known financial interests" of various parties outside the audit team. Members of the audit team cannot be expected to be aware of such interests unless their firm has put in place arrangements for the capture and communication of relevant information. If the expectation is that firms will gather and maintain information about financial interests for this purpose then the Code should say so explicitly.	Grant Thornton	Minority comment – no change proposed
479.	114	Refer to our comments relating to paragraph 290.111.	CAGNZ	Minority comment – no change proposed
480.	114	The final comment "Pending the disposal of the financial interest, consideration should be given to whether any safeguards are necessary" should surely apply to all of the scenarios envisaged, not just item (c).	ICAEW	Minority comment – no change proposed. There is a different level of threat caused in the circumstances discussed in (c).

X ref	Par Ref	Comment	Respondent	Proposed Resolution
481.	114	<p>Paragraph 290.114 of the ED proposes the following:</p> <p>“290.114 If a firm or a partner or employee of the firm or his or her immediate family member, receives a direct financial interest or a material indirect financial interest in an audit client, for example by way of an inheritance, gift or, as result of a merger, and such interest would not be permitted to be held under this section, then</p> <p>.....</p> <p>(b) If the interest is received by a member of the audit team, or his or her immediate family member, the individual should immediately dispose of the financial interest, or dispose of a sufficient amount of an indirect financial interest so that the remaining interest is no longer material, or the individual should be removed from the team ...”</p> <p>The Board may wish to reconsider the practicability of a requirement to "immediately" dispose of a financial interest set out in paragraph 290.114(b) above. In practice, given some of the exceptional situations in which the interests may have been obtained originally, there may also be circumstances which render immediate disposal of the interests not possible and beyond the control of the persons involved. In our view, the Board could consider a more balanced and practical approach, such as requiring disposal within a certain grace period.</p>	PAOC	No change proposed. If the individual has received the financial interest it should be disposed of immediately or the individual should be removed from the team.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
482.	114	<p>We are concerned about the practicability of a requirement to "immediately" dispose of a financial interest covered by 290.114(b). In our view, this requirement would impose an unnecessarily onerous burden in many situations because the normal process of disposing of an interest typically does not result in an immediate disposition but takes time (e.g., due to difficulties in obtaining documentation) to complete, even if the process itself is begun immediately. Immediate disposal also may be precluded by unforeseen or uncontrollable circumstances. In circumstances involving a key member of the engagement team who cannot adequately be replaced, particularly where an impending statutory deadline looms, such a requirement could have an adverse effect on audit quality, or result in penalties being imposed on the audit client because of delays in completing the audit. In either case the public interest would not be best served by removing the key member from the team pending disposition of the financial interest.</p> <p>We propose that a more reasonable stance would be to require disposal at the earliest practical date once the individual has the legal right to do so, but establish an end date by which such disposal must occur (e.g., a grace period of no more than 30 days). Only in the event that this deadline is not met would removal from the team, or withdrawal by the firm, be required. This approach would provide an appropriate strengthening of the current Code position, but do so in a manner that strikes an even-handed balance that reflects every day practicalities, while at the same time harmonising the Code with positions consistent with that of other standard-setters and regulators. The implications for 290.114(c) would need to be considered.</p>	PwC	See above
483.	114-115	<p>We agree that holding financial interest in an audit client may create a self-interest threat and we support the fact that certain holders of the financial interest have been clearly distinguished. However, in examining the specific provisions in sections 290.114 and 290.115 in respect of the disposal of the financial interest, we recommend that use of the term 'immediately' be avoided and suggest that the term 'as soon as is reasonably possible' be used. It is our view that an objective test be used to determine what 'reasonable' would entail with the understanding that the specific circumstances which might have prevented immediate disposal of the financial interest, will be taken into account.</p>	IRBA	See above
484.	¶116-117	<p>There is an unnecessary and erroneous sub-title between these two paragraphs.</p>	ICAEW	Removed in subsequent draft

X ref	Par Ref	Comment	Respondent	Proposed Resolution
485.	Loans	We agree with the proposals under the above headings.	ACCA	Supportive comment
486.	117	<p>We consider the first sentence should be expanded to include the underlined wording as follows: "If a loan to a firm <u>from an audit client that is a bank or a similar institution</u> is made under normal ..."</p> <p>We also consider that the presence of such a loan creates an unacceptable threat to independence in appearance.</p>	CAGNZ	<p>Change accepted</p> <p>No change – threats and safeguards approach is appropriate</p>
487.	117	Under loans and guarantees, section 290.117, the second last line, reference is made to a network firm that is not involved in the audit. Why does this reference a network firm? Could it not be any professional colleague?	CGA - Canada	No change – safeguard is stronger if individual is not from the firm or a network that is involved in the audit or that received the loan
488.	119	We would regard an immaterial loan or guarantee to an audit client in this situation as creating an unacceptable threat to independence in appearance	CAGNZ	No change – threats and safeguards approach is appropriate
489.	120	This situation ignores independence in appearance. Accordingly we would regard an immaterial loan or guarantee from an audit client in this situation as creating an unacceptable threat to independence in appearance	CAGNZ	No change – threats and safeguards approach is appropriate
490.	120	It should be proposed that loan/ guarantee even on normal market rate should not be taken from clients, which are other than banks. Thus, instead of providing for taking safeguard measures, Section should provide that loans should not be taken at all from a client other than banks on normal market conditions.	ICAIIndia	No change proposed – matter is prohibited unless it is immaterial in which cases safeguards should be considered.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
491.	Close business relationship	We agree with the proposals under the above headings.	ACCA	Supportive comment
492.	121-123	<p>These paragraphs do not consider the independence implications of other partners and managerial employees having a close business relationship with an audit client. Such relationships need to be assessed to address threats to independence in ' appearance.</p> <p>We also question whether the presence of immaterial financial interests is acceptable when considering threats to independence in appearance</p>	CAGNZ	No change – threats and safeguards approach is appropriate
493.	121	The EC Recommendation on Independence and the Statutory Audit Directive refer to the need for owners of audit firms not to interfere in the audits and for auditors not to audit those who own the firm. Although not specifically addressed in Section 290, the close business relationship provisions could be considered to address these matters. It would be helpful to include ownership of a significant proportion of the audit firm in the list of examples of the types of relationship that may pose a threat, in 290.121.	FEE	Matter may be considered as a future project depending upon comments received on Strategic Plan exposure draft
494.	121	We recognise that the ED does not propose significant changes in this area, but we wish to record a concern about the appropriateness of the existing guidance on this subject. That guidance (in paragraphs 290.121 through .123 of the ED) prohibits a close business relationship "unless any financial interest is immaterial and the relationship is clearly insignificant." The term "clearly insignificant" is defined as "both trivial and inconsequential." However, there is no allowance for the implementation of safeguards if the relationship is not clearly insignificant and accordingly we believe that this has set an inappropriate threshold for prohibiting such relationships. Further, in the context of Section 291, it may well be that the business relationship has no relevance to the non-audit assurance relationship and no threats arise (or could readily be safeguarded). We urge the Board to review its position on this and revise the Code either as part of its current re-deliberations of the Code or future re-deliberations	PwC	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
495.	122	Paragraph 290.122 includes wording difficult to understand; giving examples will make it more understandable	JICPA	Minority comment – no change
496.	122	It is not clear why paragraph 290.122 is needed since its content appears to be covered by paragraph 290.111. If it is necessary to retain paragraph 290.122 then the term "closely held entity" should be defined.	Grant Thornton	No change – paragraph is needed because there is a business relationship when there is a co-investment
497.	123	If there exist relationship from client in respect of Purchases of Goods, apart from the arms length criterion, there should not be any extended credit period. Thus payment to suppliers (client) also needs to be made in time.	ICAIIndia	Minority comment – no change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
498.	123	<p>We do not believe that the magnitude of purchase transactions alone gives rise to a self interest threat for an audit firm. Instead, we believe that the risk arises from a possible dependence of the firm on the supplier (for example because of the specialist or local nature of the supply need) or because the firm is contractually tied to the client as supplier (for example, because there would be onerous penalties if the firm were to terminate the contract). Either situation could create the perception that the firm would not be robust in relation to aspects of the audit of the financial statements that may undermine the audited entity's ability to remain in business. We therefore recommend that paragraph 290.123 should be reworded as follows:</p> <p>“The purchase of goods and services from an audit client by a member of the audit team, or his or her immediate family member, would not normally create a threat to independence if the transaction is in the normal course of business and at arm's length. Subject to the following, similar considerations apply to purchases by the firm.</p> <p>A significant dependence of a firm's business on an audit client for the supply of goods or services (for example because the particular goods or services are not readily available from other providers) or if the firm is committed contractually to the client on a basis that would incur significant costs or penalties if terminated will normally give rise to self interest and intimidation threats that could not be mitigated by any safeguards. These risks exist even if the transactions are in the normal course of business and at arm's length. “</p>	Grant Thornton	No change – paragraph addresses threats and safeguards
499.	Family and Personal Relationships	We agree with the proposals under the above headings.	ACCA	Supportive comment
500.	126-127	It is desirable that the existing internal consulting rules concerning any problems about independence (as provided for at the end of Paragraphs 137 and 138 of the current Code) be continued.	JICPA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
501.	129	We suggest deleting the second paragraph. It seems to imply an obligation on partners and employees of the firm across its network to identify all such relationships. We believe the principle in the first paragraph and the examples factors provide sufficient guidance.	KPMG	First sentence of second paragraph deleted.
502.	Employment	We agree with the proposals in this regard.	IRBA	Supportive comment
503.	Employment	We support the changes proposed to this guidance, particularly the adding of the firm's Senior or Managing Partner to those subject to the cooling-off period. In Canada, the engagement team is subject to the cooling-off period requirement	CICA	Supportive comment
504.	Employment	<ul style="list-style-type: none"> Cooling-off period before joining the audited entity. Article 42.3 of the 2006 Directive foresees that in case of public interest entities, the statutory auditor, or the key audit partner, cannot join the audited entity before a cooling-off period of two years. The question is treated differently in paragraphs 290.135 and 290.136. First, IESBA text refers to a period of 12 months. Second, whereas the IESBA text does not cover statutory auditors it extends the rule also to Senior or Managing Partners. This matter is important due to common practice in the audit industry and we encourage therefore further analysis, leading at least to an alignment of your text with that in the 2006 Directive 	EC	<p>No change – in practice period of 12 months is likely to be longer.</p> <p>Changing requirement to a flat two years would make the restriction more stringent than the SEC.</p>
505.	Employment	290.135 – We are not entirely sure how this definition of the cooling off period would work. We believe it would be simpler to apply this section if the cooling off period was two years from the date of the appointment of the key audit partner to the client. This would also be in line with the EU Directive 2006/43/EC, article 42.	CEBS	<p>No change – in practice period of 12 months is likely to be longer.</p> <p>Changing requirement to a flat two years would make the restriction more stringent than the SEC.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
506.	Employment	The cooling off period recognises the continuing influence that a former key audit partner could have if they were to join an audit client in a senior position. We believe that these provisions should not be limited to audit clients that are entities of significant public interest, as the threats are very real and are not just a matter of perception. As a minimum, we suggest that guidance should be added to the end of paragraph 290.132 to the effect that the firm should consider whether it should continue with the audit engagement, particularly when the individual joining the audit client held a senior position within the firm.	APB	No change – cooling off period only to apply to entities of public interest. Guidance strengthened to state that in non SPIE situations if threats are not reduced to an acceptable level the firm cannot continue as auditor
507.	Employment	<p>Employment with audit client – We believe that more discussion is needed on the Board’s conclusion that appropriate safeguards such as severing ongoing financial relationships and termination of association with the accounting firm, cannot sufficiently mitigate any significant threat when a entity of significant public interest employs a key audit partner.</p> <p>We disagree with the proposed conclusion that a one-year cooling off period is warranted. In the event that the Board adopts the employment provisions, we disagree with the proposed conclusion that such period would apply to the accounting firm’s former chief executive partner as the partner is longer in a position of dominance once leaving the accounting firm.</p>	Grant Thornton	Minority comment – no change. Cooling-off period is needed to address threat to independence
508.	Employment	In addition, these parallel sections (290.132 and 291.127) are differentiated with respect to the safeguards suggested with regard to “remaining threats” near the end of each section. The first two suggested safeguards in 291.127 do not appear in 290.132. We see no clear reason why these should be inconsistent. In our view, the first is excessively detailed and should be removed from 291.127, and the second (which we believe subsumes the first suggested safeguard) should be added to 290.132.	CGA - Canada	No change -. Intent is to have a stronger position for audit clients

X ref	Par Ref	Comment	Respondent	Proposed Resolution
509.	Employment	<p>We believe the reasons why safeguards cannot sufficiently mitigate any familiarity, self-interest, or intimidation threats if a key audit partner or the firm's senior or managing partner joins an audit client that is a significant public interest entity need to be explained. In particular, we would like to understand what is inherent in such an entity that means that the threat cannot be mitigated by appropriate safeguards, such as those described in paragraph 290.132.</p> <p>If these threats are so severe that they cannot be mitigated by normal safeguards, it is also difficult to understand how the passage of time based on only a 12-month "cooling off" period can alleviate such threats.</p> <p>As noted above, it is unclear whether the requirement applies to "other audit partners" in different network firms that may join an audit client as a director or officer of a subsidiary. Is there linkage with an affiliate of the significant public interest entity? Does the subsidiary have to be "significant"?</p> <p>We do not understand why there should be a perceived severe intimidation threat when a Senior Partner or Managing Partner joins an audit client. Whilst members of the audit team would have viewed the individual as their superior when that person was with the firm, once the individual has joined the client they will no longer be in a position of dominance over members of the audit team.</p> <p>In several industries, such as the banking, financial services, and insurance industries, many individuals are officers of an entity that would be considered "entities of significant public interest" as defined in the ED. Many of these positions have no financial reporting oversight, are not in accounting positions, or do not interface with the audit engagement teams. These entities normally have more "officers" than one would see in a manufacturing or other similar commercial enterprise. Therefore, we believe that the proscription for "a director or an officer of the entity" is too broad, particularly if the financial relationship has been effectively severed with the accounting firm.</p> <p style="text-align: right;">Cont'd</p>	Grant Thornton	<p>No change – IESBA is of the view that a cooling off period is necessary.</p> <p>Matter to be emphasised in Basis for Conclusions</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
510.	Employment	In addition, we have the following comments on this section: In a number of places in the draft, reference is made either to "another professional accountant" (the first instance being paragraph 290.129) or "an additional professional accountant" (the first instance being paragraph 290.130). It is not clear whether the individual in each case is intended to be a partner (or other senior individual of the audit firm) or a third party.	Grant Thornton	Change– all section reviewed for consistency in this matter
511.	131	There is a similar potential confusion with the phrase “financial statements on which the firm will express an opinion” as used in, for example, 290.131, which could be interpreted, in the case of ESPIs, to refer to the group level only or to the group and any affiliate levels. The intent should be clarified.	FEE	Change made
512.	131	There is a similar potential confusion with the phrase ‘financial statements on which the firm will express an opinion’ as used in, for example, paragraph 290.131, which could be interpreted, in the case of ESPIs, to refer to the group level only or to the group and any affiliate levels. The intent should be clarified.	ACCA	See above
513.	135	For consistency and clarity the sub-title in front of this paragraph should read “Audit Clients <u>that are Entities</u> of Significant Public Interest”.	ICAEW	Change made
514.	135	We agree that IFAC’s Code of Ethics should establish a mandatory “cooling-off” period before a key audit partner joins a former audit client that is an entity of significant public interest, or the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent) joins such an audit client.	FAP	Supportive comment
515.	135	Paragraph 290.135(a) should be clarified in that the ‘cooling off’ provisions are intended to apply to partners joining the client in a position to influence the accounting records or financial statements <i>at the group level</i> . Accordingly, paragraph 290.135(b) should be amended to clarify that the appointment as director and officer applies only to such positions within the parent company.	ACCA	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
516.	135	We support extending the existing employment prohibitions and cooling-off requirements applicable to the lead audit partner and reviewing partner of listed entities to all ESPIs. We also support extending the existing employment prohibitions and cooling-off requirements applicable to other key audit partners or Managing Partners in addition to the lead audit partner and reviewing partner. However, the following situation should be subject to an exception: we do not believe that the Code should extend employment prohibitions and cooling off requirements for other key audit partners and Managing Partners to related entities that are audited by another firm. More specifically, we believe that in most situations a self-interest, familiarity or intimidation threat would not arise where a key audit partner or Managing Partner of the audit firm joins an entity which is under common control with the client (a “sister entity”) when the sister entity is audited by another firm. Such situations may be more likely to happen with the extension of these rules to ESPIs that are government-controlled entities, which frequently have many related entities. We would recommend applying the conceptual framework of threats and safeguards to these situations, and not the prescriptive approach of the Exposure Draft.	E&Y	Change made
517.	135	<p>Proposal for additional rules for ESPIs entailing the introduction of a cooling-off period for key audit partners and senior and managing partners of the firm, that transfer to an ESPI in a) a position to exert significant influence over the preparation of the entity’s accounting records or its financial statements or b) the position of director or an officer of the entity: NIVRA agrees.</p> <p>NIVRA believes a cooling-off period of at least 12 months is too short to guarantee the independence of the accounting firm. After such a short period, an auditor may after all still be confronted with decisions concerning activities that he was personally involved in. NIVRA proposes, in line with the EU Statutory Audit Directive, to prescribe a cooling-off period of at least two years.</p>	NIVRA	<p>Supportive comment</p> <p>No change – one year cooling off period is sufficient. In practice it is likely to be more than one year</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
518.	135	<p>Similar to partner rotation, a “cooling-off” requirement for key audit partners before they can join an audit client carries significant costs. For example, limiting the ability of an entity of significant public interest to hire the most qualified person could reduce the quality of financial reporting. Many entities often look to their auditors as potential candidates to fill internal accounting and financial positions when in need of qualified individuals who have accounting and financial expertise, since the members of the audit engagement team are quite familiar with the entity’s financial reporting requirements and accounting policies and procedures. An entity can therefore significantly benefit from such individuals’ expertise and existing knowledge of the entity’s business and operations. Entities also benefit from hiring individuals they have grown to know and in whom they have developed confidence as a result of the audit relationship. To the extent that entities are having difficulty locating qualified and willing board members and senior management staff, the cooling-off provision would only exacerbate these challenges. We do not believe that it is in the public interest to force a non-listed entity of significant public interest to choose between the right person for the job or its accounting firm, especially if both are right for the respective assignment and there are effective ways to safeguard against the potential threats to independence. The proposed cooling-off requirement, if extended to non-listed entities of significant public interest, would prohibit such entities from employing on a timely basis a key audit partner — who may be the most qualified individual to perform the job.</p> <p>Cont’d</p>	AICPA	No change – change to definition of entity of significant public interest will likely address much of this concern
519.	135	<p>The U.S. SEC also recognized that there were costs associated with a cooling-off requirement. For example, in its February 2003, <i>Strengthening the Commission’s Requirements Regarding Auditor Independence</i>, the SEC noted that “[c]osts might occur, however, from the company being required to delay the hiring, or not being able to hire, the individual that it believes is the most qualified person to perform a “financial reporting oversight role” at the company. This may add to recruitment costs or result in less efficient operations.”</p>	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
520.	135	<p>We recommend the IESBA provide alternative safeguards for non-listed entities of significant public interest in lieu of a cooling-off requirement. For example, when a key audit partner becomes employed by a non-listed entity of significant public interest, we recommend the IESBA require that the partner completely disassociate from the firm and require the following safeguards to be implemented:</p> <ul style="list-style-type: none"> • The ongoing audit engagement partner should consider the modifying the engagement procedures to adjust for the risk that, by virtue of the former key audit partner's prior knowledge of the audit plan, audit effectiveness could be reduced. • The firm should assess whether existing audit engagement team members have the appropriate experience and stature to effectively deal with the former key audit partner and his or her work, when that person will have significant interaction with the audit engagement team. • The subsequent audit engagement should be reviewed to determine whether the engagement team members maintained the appropriate level of skepticism when evaluating the representations and work of the former key audit partner, when the person joins the client as a director, officer or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements within one year of disassociating from the firm and has significant interaction with the audit engagement team. (This review should be performed by a professional with appropriate stature, expertise, and objectivity and should be tailored based on the position that the key audit partner holds at the client, the position he or she held at the firm, the nature of the services he or she provided to the client, and other relevant facts and circumstances.) 	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
521.	135	<p>Similar to partner rotation, a “cooling-off” requirement for “key audit partners” before they can join an audit client, carries significant costs. For example, limiting the ability of an ESPI to hire the most qualified person could reduce the quality of financial reporting. The Australian Corporations Act 2001 currently contains a more restrictive requirement of a two year “cooling-off” period before any partner who has been engaged in the audit of an entity can join the audit client as an officer.</p> <p>We do not believe that it is in the public interest to force a non-listed ESPI to choose between the right person for the job or its audit firm, especially if both are right for the job and there are effective ways to safeguard against the potential threats to independence.</p> <p>We encourage the IESBA to consider safeguards for non-listed ESPIs, other than a cooling-off requirement. For example, the IESBA could require that, when a key audit partner becomes employed by an ESPI, the partner must completely disassociate from the firm and the following safeguards be implemented:</p> <ul style="list-style-type: none"> ○ The ongoing audit engagement partner should consider the necessity of modifying the engagement procedures to adjust for the risk that, by virtue of the former partner’s prior knowledge of the audit plan, audit effectiveness could be reduced ○ The firm should assess whether existing audit engagement team members have the appropriate experience and stature to effectively deal with the former partner and his or her work, when that person will have significant interaction with the audit engagement team. 	Australia	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
522.	135	The ‘cooling off’ provisions could be interpreted as being meant to apply to network firms as well as firms (this is implied by paragraph 2 but is not absolutely clear as ‘firm’ is not mentioned in 290.135). Taking into account the definition of ‘audit client’, which includes related entities where the client is an ESPI, this could result in this paragraph having a very wide scope and therefore difficult to apply or enforce. Any key audit partner, in any network firm, joining any related entity of the main client, appears to be within the scope of this provision. Given that the ‘cooling off’ requirement only relates to the audit of ESPIs, the threat must be primarily to the perception of independence. We believe the most significant threat is in respect of positions which influence the results of the top group entity, not the subsidiaries. We do not therefore believe that it is necessary for the prohibition to apply automatically to related entities (though clearly any potential threat should be considered and any necessary safeguards applied). If this is what is meant it would be helpful to clarify. Similar comments apply to 290.136.	ICAEW	Change made with respect to the position. If a key audit partner is from a network firm rotation is appropriate – no change made
523.	135	We are of the view that the fundamental factor in this issue is the partner, therefore, the cooling off period should be a period of not less than 12 months (covering the statements for the financial year), and should pertain to the partner, accompanying partner, professional partner, a key audit partner.	ICPAI	No change – IESBA is of view that cooling off period should apply to all key partners and the CEO
524.	135	We believe that it should be clarified in 290.135(a) that the ‘cooling off’ provisions are only applicable in respect of partners joining the client in a position to influence the accounting records or financial statements at the group level.	ICAS	Change made
525.	135	It should be clarified in 290.135(a) that what are generally known as ‘cooling off’ provisions are only applicable in respect of partners joining the client in a position to influence the accounting records or financial statements <i>at the group level</i> . It follows that 290.135(b) should be changed to clarify that the appointment as director and officer applies only to such positions with the parent company.	FEE	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
526.	135	<p>We note an inconsistency regarding the ‘cooling off’ period with respect to audit partner rotation as outlined in paragraph 290.147 (ie. 2 years) and the ‘cooling off’ period with respect to audit client employing recently retired audit partners as outlined in paragraph 290.135 (ie. 12 months).</p> <p>We believe the self interest and familiarity threats to independence are similar in both situations and suggest the above mentioned ‘cooling off’ periods should be consistent (ie. 2 years).</p> <p>In Australia, S 324CI of the <i>Corporations Act 2001</i> prohibits a retiring audit partner from being employed by a previous audit client (audited body) within two years of their retirement/ departure date. This requirement is also reflected within the Australian equivalent standard APES 110 – Code of Ethics For Professional Accountants (S 290.144).</p>	ACAG	No change – “one year” cooling off period is likely to be longer than one year in practice.
527.	135	<p>We also propose that the cooling-off period applying to rotation of key audit partners be clearly described for “two audited accounting periods” rather than two years. The terms “financial/fiscal year” could also be used in order to avoid all ambiguity.</p>	Mazars	No change – “one year” cooling off period is likely to be longer than one year in practice.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
528.	135	<p>We have similar reservations to those outlined above for partner rotation. We are especially concerned that the proposed restrictions may prevent small not-for-profit entities from getting access to the advice of experienced people at reasonable cost. We strongly encourage the IESBA to consider safeguards for non-listed entities of significant public interest, other than a cooling-off requirement.</p> <p>For example, the Code could require that, when a key audit partner becomes employed by an ESPI, the partner must completely disassociate with the firm and the following safeguards be implemented: the ongoing audit engagement partner should consider the need to modify the engagement procedures to adjust for the risk that audit effectiveness could be impaired by the former partner's prior knowledge of the audit plan; the firm should assess whether existing audit engagement team members have the appropriate experience and standing to effectively deal with the former partner and their work, when that person will have significant interaction with the audit engagement team; and the subsequent audit engagement should be reviewed to determine whether the engagement team members maintained the appropriate level of skepticism when evaluating the representations and work of the former partner, when the person joins the client in as a director, officer or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements within one year of disassociating from the firm, and has significant interaction with the audit engagement team.</p>	SMP/DNC	No change – definition of entity of significant public interest has been narrowed
529.	136	We question why the twelve month period should not also apply to an audit client that is not an entity of significant public interest	CAGNZ	No change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
530.	136	<p>I generally agree with the proposed requirement that would prohibit key audit partners from accepting certain types of employment or a board position with an audit client for at least one complete audit cycle. I also agree that the rule should similarly apply to the firm's chief executive officer (e.g., firm managing partner). However, in terms of this requirement, I have difficulty distinguishing this executive from others in a firm's top management (for example, the head of the firm's audit practice). I understand that the IESBA deliberated on this point and agreed not to extend the mandatory provision to other members of a firm's management. I believe that a statement, which would remind the reader to consider threats that may arise when other members of the firm's management assume key positions with an audit client, is essential. For example, the language shown in italics below would provide such a reminder.</p> <p>290.136 An intimidation threat will be created if the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent) joins an audit client of the firm that is an entity of significant public interest (a) in a position to exert significant influence over the preparation of the entity's accounting records or its financial statements or (b) as a director or an officer of the entity. No safeguards could eliminate these threats or reduce them to an acceptable level unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm. <i>Such threat may also arise if other members of senior management of the firm join an audit client that is an entity of significant public interest in a position described in (a) or (b) above.</i></p>	AC	Minority comment
531.	137	<p>We also have a concern about the phraseology in 290.137: "is not considered unacceptable if..." First, this seems to imply a carve-out from the normal requirement for threats and safeguards, whereas it is a carve-out only from the absolute prohibition. In addition, "is not considered unacceptable" sits uneasily in a principles-based threats and safeguards framework which places the onus on the professional accountant to assess the threats and safeguards. The paragraph should be rephrased as a requirement to apply safeguards including at least those items specified.</p>	FEE	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
532.	137	We are also concerned about the phrase ‘... is not considered unacceptable if...’ at paragraph 290.137. This appears to be a carve-out from the normal requirement for assessing threats and safeguards, whereas it is a carve-out only from the absolute prohibition. Similarly, the phrase sits uneasily in a principles-based approach, which places the onus on the professional accountant to assess the threats and safeguards. The paragraph should be rephrased as a requirement to apply safeguards, including at least, those items specified	ACCA	No change – minority comment
533.	137	Paragraph 290.137 is the only place in the draft Code in which it is stated that threats to independence "are not considered to be unacceptable if..." We suggest that the terminology used elsewhere in the Code should be adopted, namely "the threats to independence are insignificant if...."	Grant Thornton	No change – minority comment
534.	Temp staff	We agree with the proposals under the above headings.	ACCA	Supportive comment
535.	Temp staff	NIVRA agrees	NIVRA	Supportive comment
536.	Temp staff	We support the proposed revision and would like to reiterate that temporary staff employed in such a capacity and effectively seconded to the audit client must not be involved in management decisions. We do, however, believe that the term ‘management decisions’ are too wide, and recommend that such decisions should be limited to those that have an impact on the audit.	IRBA	No change – firm personnel should not perform any management functions for an audit client
537.	138	We consider that the activities of the loaned staff should be supervised by a member of management in accordance with the criteria specified in paragraph 290.160. This reduces the risk of the staff member (and the firm by association) from making any significant judgment or decision on behalf of management.	CAGNZ	Changed – the client should be responsible for directing and supervising the activities of loaned staff
538.	138	The first bullet would be clearer if the words ‘if performed directly by the audit firm’ were added.	ICAEW	No change – it might imply that the activities were acceptable if performed indirectly

X ref	Par Ref	Comment	Respondent	Proposed Resolution
539.	138	We would recommend amending the second bullet point to read “... for any function or activity <u>on the audit</u> that they performed during their temporary staff assignment.”.	KPMG	Changed
540.	138	We support the proposed change and recommend further strengthening of the provisions. In particular, for all audit clients, we recommend that loaned staff are prohibited from forming part of the engagement team until a suitable time period has elapsed, such as 12 months, thereby significantly reducing any threat of independence from familiarity or self-review.	E&Y	No change – this would be stricter than the position with non-audit services
541.	138	We do not think the proposed changes go far enough. It is not appropriate for loaned staff to be a member of the audit team responsible for any periods subject to audit when they were on loan to an entity.	ICANZ	No change – this would be stricter than the position with non-audit services
542.	Recent service	We agree with the proposals under the above headings.	ACCA	Supportive comment
543.	Director or officer	We agree with the proposals under the above headings.	ACCA	Supportive comment
544.	142	Given the existence of such roles as shadow directors and the increase in individuals with director equivalent status it may be advisable to extend the current definition also to capture such individuals, by adding the phrase ‘director equivalent’.	KPMG	Change made – “or acting in an equivalent capacity” added to the definition
545.	144	This section refers to ‘maintaining statutory returns’ as a routine and administrative service whilst section 290.159 refers to ‘monitoring’ of dates for filing of statutory returns in the context of the discussion on management functions in general. The use of the term ‘maintaining’ is ambiguous and may imply a management role. It is recommended that the wording of this section be aligned to that included in section 290.159	KPMG	No change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
546.	145	This section needs to be expanded to indicate what is meant by ‘routine administrative services’ and ‘all relevant decisions’. Presumably the latter is intended to mean “all significant decisions”?	KPMG	Minority comment
547.	144-145	We consider that the situations set out in these paragraphs threaten independence in appearance and the guidance should be reassessed with this in mind.	CAGNZ	No change
548.	Partner rotation	<p>Yes, the PPB agrees that independence should not be dependent on the size of the firm providing the service.</p> <p>We do have a further issue with the rotation requirement, however. At present paragraph 290.147 prohibits the rotated partner from participating <i>in the audit</i> of the client. We believe that there should be a prohibition from the rotated partner having any involvement in the client. The ability of a former key audit partner to maintain continuous involvement with an entity during the “cooling-off” period is not consistent with trying to reduce the familiarity risk.</p>	ICANZ	<p>Discussed by IESBA at June 2007 meeting agreed that limited flexibility would be permitted for firms with only a few people with the necessary knowledge and experience to serve as key audit partner if independent regulator in that jurisdiction had provided an exemption from partner rotation for such firm is alternative safeguards were applied.</p> <p>Also agreed that Task Force would consider whether flexibility can be provided in the Code in the absence of such a regulator exemption. Decision will depend on whether sufficiently robust safeguards can be identified by the IESBA.</p>
549.	Partner rotation	We are of the view that it is appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation, in relation to the audit of entities of significant public interest.	ICPAS	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
550.	Partner rotation	It is appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. The risks identified in the Exposure Draft are commonly encountered by reporting accountants, irrespective of a firm's size.	MIA	See above
551.	Partner rotation	We support the elimination on the flexibility for small firms to apply alternative safeguards to partner rotation.	KICPA	See above
552.	Partner rotation	Proposal to require internal rotation for <i>all</i> key audit partners and prescribe the individual responsible for the engagement quality control review: NIVRA agrees	NIVRA	See above
553.	Partner rotation	We were unable to produce alternative safeguards for audits of significant public interest entities and therefore believe that the flexibility for small firms to apply alternative safeguards to partner rotation to be inappropriate.	IRBA	See above
554.	Partner rotation	Proposal to no longer permit small accounting firms to provide alternative guarantees: NIVRA agrees. This is also in line with article 42(2) of the EU Statutory Audit Directive. It is appropriate, because it is in the public interest. See item 2.5 above	NIVRA	See above
555.	Partner rotation	The elimination of this flexibility altogether may have an adverse impact in Australian regional or rural areas where the supply of auditors may be limited. A preferred approach would be to have a general rule and then have specific exemptions which cater for flexibility in certain exceptional circumstances.	APESB	See above
556.	Partner rotation	We consent to the proposed amendment by which small audit firms shall no longer have the possibility to initiate alternative security measures where partner rotation has not been feasible in practice within the audit firm. It is not easy to find a reasonable explanation to maintain this existing special rule.	FSR	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
557.	Partner Rotation	It is difficult to identify alternative safeguards that would be appropriate in the context of significant public interest entities. However, we would be concerned if at some future date this requirement was applied to all audit clients regardless of their size or nature.	ICAS	See above
558.	Partner rotation	We generally support the Board's stance on partner rotation, particularly in maintaining a seven year rotation period for the partners of listed companies. In this respect, we are concerned that the current 5 year rule in the UK is a serious threat to audit quality, particularly in specialised sectors of the economy.	ICAS	See above
559.	Partner rotation	<p>The basic principal behind rotation is to strike an appropriate balance between requiring the necessary fresh look and the need for continuity of key individuals.</p> <p>Since the principle remains the same regardless of the size of the firm and the very fact that if any safeguard for non-rotation could be possible, it would be more available to larger firms, the flexibility in case of small firms does not seem appropriate and should be eliminated</p>	ICAP	See above
560.	Partner rotation	<p>We acknowledge IESBA's view that if there is insufficient depth within the firm to rotate the required partners, audit quality is likely to be adversely affected. However, as matters relating to small firms are not applicable for ACAG members, we have not provided a response to this specific question.</p> <p>As mentioned previously, flexibility regarding key partner rotation is required in relation to auditing public sector entities where the engagement partner is appointed by legislation and whose term may exceed the maximum term of seven years as outlined in paragraph 290.147.</p>	ACAG	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
561.	Partner Rotation	<p>Although CGA-Canada is sympathetic to the removal of the flexibility for small firms to apply alternative safeguards to partner rotation in the case of entities of significant public interest, we are concerned with longer-run implications.</p> <p>It is definitely not in the public interest that smaller firms be restricted to the point that they are not economically viable and cannot develop as competitors for larger firms. Many larger firms are turning away smaller audit clients as it is not worth the firm's investment to maintain the accounts. This certainly cannot be in the public's best interest and efforts must be made to maintain this area of practice, especially for those SMPs who have an interest in servicing them. Further, there is no doubt in our minds that smaller audit clients would agree with us on a cost-benefit basis. Contd</p>	CGA	See above
562.	Partner Rotation	<p>We believe that a specific safeguard requiring the use of a quality control reviewer independent of both the client and the audit firm would, in our view, reduce the familiarity threat to an acceptable level. However, it should be emphasized that in the absence of another acceptable alternative for the SMP, this should, at a minimum, be the permissible course of action. It should be noted that it is our view that it is unlikely that the increased cost associated with such a safeguard would exceed the benefit gained by the safeguard.</p> <p>There is a concern expressed in the ED in the Explanatory Memorandum under <i>Association of Senior Personnel (Including Partner Rotation)</i> "...that if there was insufficient depth within the firm to rotate the required partners audit quality might be affected." However, existing assurance standards require in all cases that firms not accept engagements for which they do not have adequate knowledge or resources and this standard is normally enforceable by disciplinary procedures if violated.</p> <p>If, after considering comments on the ED, IESBA decides to proceed with the removal of flexibility for smaller firms, we recommend that this change be taken into account regarding guidance on where the line should be drawn with respect to entities with and without significant public interest.</p> <p>We agree with the continuation of the seven years on and two years off rule when partner rotation applies.</p>	CGA - Canada	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
563.	Partner rotation	<p>We are concerned with the longer run implications of removing the flexibility of smaller firms to apply safeguards to partner rotation in cases where the entity is deemed to be an 'entity of significant interest'.</p> <p>There has been a shift in the amount of audit work that the smaller firm is able to provide. Many larger firms are turning away the smaller audit client and only a small percentage of our membership is picking these clients up. The removal of the flexibility for small firms to apply alternative safeguards to partner rotation does not appear to be in the best interest of the public or the economy. The smaller audit client is in need for auditors and would not appreciate having to change auditors when it is not by their choice.</p> <p>If, after considering comments on the Exposure Draft, IESBA decides to proceed with the removal of flexibility for smaller firms, we recommend that this change be taken into account regarding guidance on where the line should be drawn with respect to entities with and without significant public interest and consideration to the extension of time for the partner rotation.</p>	CGA - Alberta	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
564.	Partner rotation	<p>As previously noted, we do not believe it is appropriate to extend all of the listed entity provisions to entities of significant public interest and believe the IESBA should allow member bodies, working with the appropriate regulators in their jurisdiction, to determine whether such requirements would be appropriate and achieve an appropriate cost/benefit balance.</p> <p>Specifically, we are most concerned that the costs associated with the partner rotation and cooling off requirements for non-listed entities of significant public interest will far outweigh the intended benefits, especially with respect to the audits of smaller entities of significant public interest.</p> <p>If the IESBA mandates that all listed entity requirements be applied to non-listed entities of significant public interest, we are concerned that the only way member bodies will be able to deal with the costs associated with the partner rotation and cooling-off requirements is by excluding certain entities from their definitions of significant public interest entities, resulting in fewer non-listed entities being captured under the definition. We would find this approach less desirable because we believe the required safeguards should not drive the determination of which entities should or should not be considered entities of significant public interest and believe it is important for the final guidance on significant public interest entities to be applied in a way that will promote a thorough and unencumbered analysis and determination of which entities are significant public interest entities</p> <p style="text-align: right;">Cont'd</p>	AICPA	See above
565.	Partner rotation	<p>If the IESBA concludes that it will not allow member bodies working with their regulators to evaluate and determine the appropriateness of requiring partner rotation and cooling-off periods for non-listed entities of significant public interest, we recommend that the final standard not extend these enhanced safeguards to non-listed entities of significant public interest and, instead, allow for alternative safeguards that can serve to mitigate the threats to independence that those requirements would be aimed at achieving, especially with respect to the audits of smaller entities, as further discussed below.</p> <p>In the United States, we believe the costs associated with the partner rotation and cooling-off requirements as they relate to non-listed entities of significant public interest would far outweigh the benefits. We describe some of those costs below.</p> <p style="text-align: right;">Cont'd</p>	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
566.	Partner rotation	<p>Partner rotation carries significant costs to all size firms, especially smaller firms, and the entities such firms audit. We do not believe the potential benefits of a “fresh look” outweigh those costs.</p> <p>In our view, any requirement to rotate partners that would apply with respect to non-listed entities of significant public interest should meet four basic criteria:</p> <ul style="list-style-type: none"> • it must not interfere with a firm's ability to assign partners to audit engagements who have the requisite experience and knowledge and are independent; • it should not reduce audit quality; • it should not impose unnecessary costs to the entities and society; and • it should not impede timely financial reporting. <p style="text-align: right;">Cont'd</p>	AICPA	See above
567.	Partner rotation	<p>We acknowledge the potential benefits of a “fresh set of eyes” in mitigating the familiarity threat, yet the benefit of a “fresh set of eyes” must be weighed against the loss of continuity and institutional knowledge that a recurring partner brings to an audit engagement. We believe that it is crucial that partners assigned to audit engagements be highly competent, knowledgeable, and experienced with respect to the client's business and industry, in addition to being a good accountant and auditor. Any requirement that would interfere with this, without any overriding benefit, would be detrimental to the well-being of the auditing profession and thus to the business community as a whole. When experience, knowledge, and skill are not appropriately matched to an audit engagement, audit quality and the confidence of stakeholders in the audited financial statements suffer.</p> <p style="text-align: right;">Cont'd</p>	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
568.	Partner rotation	<p>Many entities of significant public interest operate in unique and complex industries. In addition, many business activities are the result of unique local and national economies. All of these components require a myriad of highly-skilled auditors, many of whom specialize in a single industry or the accounting treatment of a specific type of transaction. The disadvantages of a requirement that unduly restricts the continued availability of partners on such engagements are significant. To remove partners from engagements who understand the significant public interest entity's business and the industry and environment it operates in, particularly when the firm does not have a comparable replacement, would be detrimental to the client, those who rely on the client's financial statements, and the financial markets as a whole. If a firm does not have the depth of experience and knowledge in its partner ranks, inappropriate over-reliance will be placed on less qualified partners and lower level staff. And, of course, not every accounting firm will have a sufficient number of partners who possess similar skills and industry expertise to achieve rotation. For many firms, partner rotation will therefore require firm rotation as a practical matter because alternative partners with the relevant competencies will not always be available in the local offices. Knowledge of the client, its business, industry, and the environment it operates in is essential to audit quality. Without this, audit quality will decrease. It is clearly in the public interest to keep the most qualified partner on the job. Cont'd</p>	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
569.	Partner rotation	<p>We strongly recommend that the IESBA provide for the use of alternative safeguards, which we believe would achieve the same objective as partner rotation for firms that audit entities of significant public interest. Specifically, we recommend that in cases where the key audit partner has been involved with the engagement for an extended period of time, generally seven consecutive years, the potential threat to the firm's independence should be discussed with those charged with governance of the client. During the discussion, the firm and the client should consider the appropriateness of implementing additional safeguards to eliminate or reduce the threat to an acceptable level. Such safeguards might include:</p> <ul style="list-style-type: none"> • An additional professional accountant who was not a member of the assurance team (including individuals from outside the firm) to do a pre-issuance review of the work done by the senior personnel or otherwise advise as necessary; • An enhanced quality review of the engagement that focuses on the overall quality of the audit and, in particular, the independence and competence of the key audit partner in question on the audit engagement team. <p>We believe that discussion between the firm and those charged with governance of the potential threats to independence and consideration of the need to implement additional safeguards (as described above) is a reasonable and effective approach to address the familiarity threat with respect to audits of non-listed entities of significant public interest.</p> <p>Refer to our response to no. 2 below for a further discussion of the adverse impact a partner rotation requirement would have on firms that do not have enough partners to accomplish partner rotation and on the entities they audit.</p> <p style="text-align: right;">Cont'd</p>	AICPA	See above
570.	Partner rotation	<p>We do not believe the potential benefits of a "fresh look" through partner rotation outweigh the costs to clients and the firms that audit them of eliminating the current exception to partner rotation "when a firm has only a few people with the necessary knowledge and experience to serve . . ." We recommend that the IESBA reconsider the elimination of the provision that allows firms to apply alternative safeguards.</p> <p style="text-align: right;">Cont'd</p>	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
571.	Partner rotation	<p>For firms that do not have enough partners to rotate, a partner rotation requirement is tantamount to a firm rotation requirement. Audit firm rotation has significant costs that far outweigh the potential benefits, as government agencies (including the Securities and Exchange Commission (SEC) and Government Accountability Office (GAO)), private organizations and members of academia in the United States previously have concluded. Those costs include:</p> <ul style="list-style-type: none"> • <i>Increase in audit failures.</i> Studies by the Public Oversight Board, Commission on Auditor's Responsibilities, and the National Commission on Fraudulent Financial Reporting found that audit failures are three times more likely in the first two years of an audit. Thus, there is a positive correlation between auditor tenure and auditor competence. • <i>Increased start-up costs.</i> Changing auditors results in more frequent start-up costs, both for the auditor and the client. • <i>Increase difficulties in timely reporting.</i> Mandatory rotation makes timely reporting more difficult because audit firms need to meet a very short "learning curve" to perform a rigorous audit. In addition, the client may be unable to take advantage of various market opportunities due to the fact that it could not obtain an audit on a timely basis. Firm rotation would also result in clients having to spend a considerable amount of time and effort interviewing new audit firms to determine whether they could meet the client's needs, and training new auditors every seven years, which would take valuable time away from the client's core business activity. This seems especially disturbing if a member body concludes that government agencies, government-controlled entities, and not-for-profit organizations should be considered entities of significant public interest, since a portion of tax dollars, donations, and grants would need to be used to fund the search for and training of new auditors. <p style="text-align: right;">Cont'd</p>	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
572.	Partner rotation	<ul style="list-style-type: none"> • <i>Loss of “institutional knowledge.”</i> Over successive audits, audit firms increase institutional knowledge, including, for example, their knowledge of the client’s accounting and internal control systems and a greater understanding of the industry in which the client operates. These benefits would be greatly diminished by mandatory rotation. • <i>Opportunity to disguise voluntary rotations.</i> Companies may use mandatory rotation as a means to disguise problems in the relationship between the company and its auditor, thus avoiding the negative marketplace reaction that often accompanies a voluntary change in auditors. • <i>Reduced incentives to improve efficiency and audit quality.</i> Mandatory rotations fail to fully reward firms that achieve greater efficiency and audit quality, because rotation reduces potential demand. Auditors that are less efficient and provide lesser quality services are nevertheless likely to survive because there will constantly be companies looking for new auditors. Conversely, the incentive for each firm to increase its market share and profits would be reduced by the loss of clients after the maximum allowed duration. <p style="text-align: right;">Cont’d</p>	AICPA	See above
573.	Partner rotation	<p>The November 2003 GAO “<i>Required Study on the Potential Effects of Mandatory Audit Firm Rotation</i>” found evidence that changing audit firms could increase the risk of an audit failure in the early years of an audit due to the new auditor’s lack of understanding of the client’s business. Another study published in 2003 by several academics¹⁴ found that higher earnings quality (which they believed was a barometer of audit quality) is associated with longer auditor tenure. Their results showed that long-term, continuing auditors were more likely to “place greater restraints on extreme management decisions in financial reporting.”</p> <p style="text-align: right;">Cont’d</p>	AICPA	See above

¹⁴ Myers, James N., Myers, Linda A. and Omer, Dr. Thomas C., “Exploring the Term of the Auditor-Client Relationship and the Quality of Earnings: A Case for Mandatory Auditor Rotation?” Accounting Review, 2003.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
574.	Partner rotation	<p>The U.S. SEC has successfully exempted firms that have fewer than ten partners and five SEC clients from its partner rotation requirements. This exemption was provided for a number of reasons:</p> <ul style="list-style-type: none"> • First, to eliminate the costs that outweigh the benefits associated with audit firm rotation, as described above; • Second, to avoid the hardship that would otherwise be experienced by small businesses that are considering public funding or are at a stage where they do not need the services of a large, multi-national or regional public accounting firm; and • Third, to preserve the quality of financial reporting for businesses that cannot afford to hire a multi-national or regional public accounting firm or that are located in remote locations. <p>Cont'd</p>	AICPA	See above
575.	Partner rotation	<p>The SEC recognized that there were significant costs associated with partner rotation for small firms and the entities they audit. For example, the SEC noted that requiring partner rotation “<i>would have imposed marketing and client-specific learning costs on the accounting firms and costs on clients to familiarize the new accountant with their operations. Costs associated with the periodic replacement of partners might include more frequent company-specific training, conducted by both the accounting firm and the audit client, as new partners join the audit engagement team. For example, the new partners will need to learn the company’s accounting and financial reporting procedures, controls and familiarize themselves with key personnel. The final rules also might result in incremental costs related to some partners being required to travel extensively, relocate from one part of the country to another, or from one country to another... We note that these costs may be passed on to issuers in the form of higher audit fees. Had the proposed rules been adopted, another potential impact would have been the impact on the specialization of accounting firms within each industry. To minimize partners’ costs of learning new businesses, accounting firms have an incentive to specialize in certain industries. This, potentially, could have had the effect of creating oligopolies within each industry and could have adversely affected competition among accounting firms.</i>”¹⁵</p> <p>Cont'd</p>	AICPA	See above

¹⁵ See *Strengthening the Commission’s Requirements Regarding Auditor Independence*, Federal Register, Vol. 68, No. 24, February 5, 2003.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
576.	Partner rotation	In addition, in its January 13, 2003 comment letter to the SEC on <i>Strengthening the Commission's Requirements Regarding Auditor Independence</i> , the U.S. Small Business Administration's Office of Advocacy ("Advocacy") also recognized that mandatory audit partner rotation has the potential to limit choices, decrease competition and thereby drive up costs. Specifically, their comment letter indicated they believed the increased costs to the auditing firm would result in increased costs to the audit consumer. While Advocacy's comment letter to the SEC focused on the need for a small firm exemption to public company audit partner rotation requirements, its comments can likewise apply to small firm audit partners of non-listed entities of significant public interest: Cont'd	AICPA	See above
577.	Partner rotation	<i>"Advocacy is concerned that small issuers retaining the services of currently exempt small audit firms who decline to offer audit services to them may be forced to engage the services of a larger audit firm. Advocacy believes that this could result in significantly increased audit costs to audit consumers in two ways. First, initial costs for new firms would rise, due to the need to familiarize auditors with the client firm's industry and business practices. Second, due to the effective elimination of smaller firms from the competitive market for audit services and the consolidation of the market, larger audit firms may gain some power over price, causing audit prices to rise."</i> Cont'd	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
578.	Partner rotation	<p>We also believe that a requirement of auditor rotation may force many qualified "local" and "regional" firms to abandon audits of entities of significant public interest as a provided service. This will result in a shrinking in the pool of available audit firms for such entities to consider as their auditor. The talents of skilled auditors now working for local and regional firms may be lost as firms realign service offerings. In addition, many smaller entities of significant public interest may be unable to afford the higher fees typically charged by larger CPA firms. We believe that opportunities should be afforded to small businesses and that, by providing such businesses with access to a resource they can afford, the economy benefits. The potential reduction in the number of firms performing audit services for entities of significant public interest and the resulting increase in costs to small businesses by mandatory audit partner rotation is clearly not in the public interest.</p> <p>We urge the IESBA to provide for alternative safeguards to address the familiarity threat for firms that audit entities of significant public interest but do not have enough partners to rotate them. As described above in our response to no. 1, we believe that discussion between the firm and those charged with governance on the potential threats to independence and consideration of the need to implement additional safeguards is a reasonable and effective approach in addressing the familiarity threat.</p>	AICPA	See above
579.	Partner rotation	<p>We do not support this issue [elimination of small firm exemption] because we believe that most small firms in the United States have adopted many independence safeguards, which mitigates the need to eliminate the small firm flexibility. The primary safeguard adapted to eliminate the familiarity concern is the policy of requiring a pre-issuance concurring review of the report, financial statements, and the supporting work papers of all significant audit areas by a qualified partner or other qualified person not otherwise associated with an engagement from either within the firm or from another firm.</p>	CoCPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
580.	Partner rotation	<p>Partner rotation and cooling off requirements should be optional for non-listed entities of significant public interest. Many federal and state regulators in the United States have already considered whether entities under their jurisdiction should be subject to these additional requirements. Partner rotation is tantamount to firm rotation for firms that do not have enough partners to provide for rotation. In particular, audit firm rotation has significant costs that far outweigh the potential benefits, as governmental agencies (including the Securities and Exchange Commission and the Government Accountability Office), private organizations and members of academia in the United States previously have concluded. Those costs include an increase in audit failures, start-up costs and difficulties in timely reporting, loss of institutional knowledge and reduced incentives to improve efficiency and audit quality</p>	Wolf	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
581.	Partner rotation	<p>The Kentucky Society of Certified Public Accountants (KyCPA) has grave concerns that one provision of the ED will limit the ability of certified public accountants (CPAs) to perform audits. That provision, if enacted as drafted, will have a harmful effect on small CPA firms, including scores of Kentucky-based firms whose practitioners are KyCPA members and/or AICPA members. The ED (290.147) would require firms to rotate key audit partners on innumerable audit clients that would encompass entities other than public companies. This includes financial institutions, pension plans, state and local government agencies, and not-for-profit organizations. Certainly an argument can be made for some audit partner rotation provisions in the audits of public companies, and we have no opposition to strengthening independence standards in this respect. Except in a very few circumstances (and some exceptions are allowed), rotation in audits of public companies is manageable and reasonable. However, we disagree with the broad definition of “significant public interest entities” beyond listed companies because of the unjustifiable complexities it creates for other entities and their audit firms. It also unfairly discriminates against small firm practitioners. In a vast majority of instances, audit partner rotation will be identical to mandatory audit firm rotation. Some supporters of the ED might suggest that small organizations may be able to comply with the ED’s intent by rotating audit managers instead of the audit partner. That presumes, of course, that every effected firm has multiple individuals with the requisite expertise to allow rotation. Such presumption is absurd. Some firms with exemplary professional reputation and a quality of service beyond reproach have only one professional with advanced audit skills and experience. Additionally, switching to another audit firm solely to accommodate the requirement will be ill-advised particularly when the organization has a commendable and professionally sound relationship with the existing service provider. In thousands of circumstances organizations would face insurmountable costs if forced to rotate audit firms every seven years or to rely solely on larger CPA firms that can accommodate audit partner rotation. Even where increased costs are not insurmountable, the unavoidable migration to larger CPA firms in order to comply with rotation requirements would create an unmanageable workload for those firms. The audit service would be denied or delayed; and the benefit of timely audits now performed for these organizations would be lost.</p> <p style="text-align: right;">Cont’d</p>	KyCPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
582.	Partner rotation	<p>Finally, the U. S. and current international ethics rules allow small CPA firms to rely on other independence safeguards instead of partner rotation; and the ED will end that choice despite the non-abuse of other safeguards only in rare circumstances. There is an inherent unfairness in drastic revisions of professional standards to remedy an ethical breach that is quite rare. Other measures are in place to deal with egregious violation of professional standards instead of changing the standards in a manner that makes no common sense whatsoever and creates an undue burden on thousands of significant public interest entities or entities that have a significant number of public stakeholders.</p> <p>The “additional year before this requirement is effective” guidance (ED page 18) is inconsequential. If partner rotation creates an unnecessary burden, as we believe it will, postponing the matter one year will give no relief whatsoever. Additionally, the ED’s assertion that a “long association [of the audit partner] with an audit client that is an entity of significant public interest may create a familiarity threat, a self-review threat or self-interest threat” (290.149) is not supported by empirical data. It is merely a presumption based on observations of the few alarming transgressions of current independence standards. In fact, the audit firm’s practitioner-in-charge’s wealth of experience with an organization’s operations and activities is often invaluable to acceptably performing and correctly reporting the results of audit. This degree of insight and preparation are found only rarely in successor auditors even when they exercise due professional care.</p>	KyCPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
583.	Partner rotation	<p>We consider it appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation for listed companies and regulated financial institutions such as banks and insurance companies. However, we are of the view that it is not appropriate to eliminate the flexibility for other entities of significant public interest at this stage. Until the term ESPI is properly considered and defined, it would be premature to propose a total elimination.</p> <p>We are concerned that if no flexibility is provided to smaller firms, including safeguards which may be applicable such as monitoring by external assessors or employing another firm of certified public accountants to carry out certain procedures, smaller firms will need to rotate off an audit. That will impair the quality of the service that smaller firms can provide to SMEs, while doing little to improve audit quality or public confidence. Therefore IESBA should consider the practical challenges if this is applied to enterprises such as charities and schools. Cont'd</p>	HKICPA	See above
584.	Partner rotation	<p>The mandatory partner rotation combined with the expanded definition of the audit partners will, in many circumstances in Hong Kong, effectively amount to firm rotation. Smaller firms will lose ESPI audit clients while larger firms will retain such clients by way of rotating audit partners. Over time many smaller firms will be driven out of the ESPI audit market and ESPI audit will slowly concentrate in the hands of larger firms. It is generally agreed that increased auditor concentration is not in the public interest.</p> <p>In this regard, we would prefer a principles-based approach to be developed rather than moving from a rules-based system that permits flexibility to a rules-based system that mandates rotation of key audit partners.</p>	HKICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
585.	Partner rotation	<p>No. Flexibility should be given to small firms. While such firms are named as small, they may not have any partner. Even they have, their size may not support such rotation indeed. In Hong Kong, over 95% of the audit firms are sole proprietor or have 2 partners only. If no flexibility is allowed, we can foresee that a large number of our members' firms may find difficulties, even in continuity and survival.</p> <p>The alternative safeguards to partner rotation for small firms, including sole practitioners, would be to require the auditing procedures and guidelines to be monitored by external assessors, such as practice review by the Hong Kong Institute of Certified Public Accountants or employment by the small firm of another firm of certified public accountants to carry out review of its firm's procedures</p>	SCAA	See above
586.	Partner rotation	<p>I agree with the substance of this requirement and the applicable timeframes, which accomplish the stated objective of balancing the familiarity threat with the need for auditor continuity and audit quality. However, I believe there should be an exemption for small firms, which allows them to apply safeguards to mitigate familiarity threats to independence. I believe an exemption is appropriate because in these firms, partner rotation does not achieve the desired balance of objectivity and audit quality. Thus, it is not in the public's interest to rotate these firms. I urge the Board to reconsider alternative safeguards for smaller firms such as pre-issuance and peer review (or other safeguards) in lieu of rotation requirements.</p> <p>Another possible approach the Board may wish to consider would be to allow IFAC Member Bodies to determine whether to exempt small firms (including defining "small firms") in their jurisdictions. If a Member Body believes that a small firm exemption is in the public interest, it would also be charged with mandating appropriate safeguards to be applied by these firms. For example, a Member Body would evaluate the existing level of regulation over SPIEs in their jurisdiction and determine whether and to what extent the regulatory structure helps to mitigate familiarity threats to the auditor's independence. In this case, the Code would provide basic requirements only, leaving the Member Bodies to determine the specific provisions. Some Member Bodies may choose not to exempt small firms from rotation requirements while others may believe exemption is appropriate. However, these judgments would be made by the Member Bodies themselves and reflect the regulatory structures in those jurisdictions.</p>	AC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
587.	Partner rotation	<p>While we agree that the lead partner bears the responsibility for key decisions or judgments on significant matters we do not agree that an “other audit partner” bears a similar responsibility. We therefore do not support the extension of the definition of “key audit partner” to be used in the provisions on employment relationships, partner rotation and compensation.</p> <p>The expansion of the definition of “key audit partner”, the expansion of the definition of an ESPI and the application of listed entity rules to all ESPIs together will place an unreasonable burden on firms with respect to partner rotation requirements.</p> <p>Should the IESBA adopt an expanded definition of the “key audit partner” we strongly recommend that the listed entity rules are not required to be applied to all ESPIs.</p>	Australia	See above
588.	Partner rotation	<p><i>Flexibility for small firms</i></p> <p>We believe that flexibility in the partner rotation rules for smaller firms, is necessary to facilitate competition in the accounting profession and to promote adequate servicing of the public, particularly in rural and regional areas. Securities, insurance, banking, and other government regulatory bodies have developed sufficient regulatory safeguards to allow for less onerous requirements for smaller firms in respect of particular pieces of legislation for which they have responsibility. We believe that it should also be possible for the IESBA to do so. Within the co-regulatory environment in Australia regulators are cognizant of their responsibilities to protect and serve the public interest and have assessed appropriate safeguards to sufficiently mitigate the familiarity threat for such “small firms”. These contexts should not be overlooked.</p> <p>Partner rotation carries significant costs to all size firms, but especially smaller firms, and the entities such firms audit. The benefits of a “fresh look” do not always necessarily outweigh these costs. For example, in firms other than the largest ones, the audit partner is far more likely to be providing services to a number of smaller clients, as compared to the partner in the large firms who may have only one or two very large multinational clients. The number and size of clients being dealt with day-to-day in the smaller firms itself mitigates the threats to independence. Further, the principle applies equally to the larger firms in those situations where audit partners deal with many smaller clients. Once again, an approach based on the “threats and safeguards” principles would be more appropriate.</p>	Australia	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
589.	Partner rotation	Association of Senior Personnel (Including Partner Rotation) requires the rotation of audit partners on entities of significant public interest. This could lead to broad interpretation and require that one owner/CPA firms resign from audits because it would be impossible to comply. Significant public interest is in the eyes of the beholder. This will also potentially lead to increased litigation.	GSH	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
590.	Partner rotation	<p>The extension of the prohibition to Key Audit Partners (“KAP”) effectively results in a requirement for audit firms to have at least 4 suitable people capable of being a KAP on a ESPI in order for that entity to remain a client. This effectively rules out many small firms from auditing an ESPI and may result in mandatory audit firm rotation rather than just audit partner rotation.</p> <p>In addition, the introduction of the concept of ESPIs results in a broadening of both the number and nature of entities brought into scope, some of which will undoubtedly operate in specialised markets. This means that in respect of some of these specialised industries, or in some of the more sparsely populated areas of the world, even the largest firms may have difficulty fulfilling the rotation requirements. Therefore, by only introducing flexibility for small firms, this issue would not be fully addressed. This has potential audit quality implications affecting ESPIs, which is in direct conflict with the reasons for their elevation to this status in the first instance. To avoid such a risk to audit quality, the IESBA should consider whether imposing additional safeguards may in fact be a more suitable solution than mandatory rotation.</p> <p>From a theoretical point of view, if it is accepted that no safeguard is sufficient to address the familiarity threat associated with long service periods of KAPs, then we believe that it is illogical as to why this threat would not be so significant if the service was provided by a small audit firm. However, the impact of rotation with audit quality has already been recognised in Paragraph 290.149 which, in certain circumstances effectively provides a short term exception to this prohibition where the quality of the audit is threatened.</p> <p>Although we recognise the importance of the familiarity threat, we believe that the introduction of ESPIs affects the absolute prohibition in a way that was not envisaged when it was first codified. Given the potential audit quality implication surrounding this matter, we recommend that the IESBA should reassess the appropriateness of the absolute prohibition by considering the public need for such restrictions and instances where these restrictions are likely to be against the public interest. We also recommend that the IESBA reassess the cost benefit aspect of this extension to all ESPIs.</p>	BDO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
591.	Partner rotation	<p>We are not in favor of eliminating the flexibility for small firms, particularly in the emerging countries, to apply alternative safeguards to partner rotation as a means of attenuating the familiarity threat. We note the existence of such provision for alternative safeguards in the USA (firms with fewer than 5 listed clients and 10 partners may substitute a three-yearly PCAOB review for partner rotation).</p> <p>The alternative safeguards might include:</p> <p>Recourse to another firm for independent review and quality control, and/or</p> <p>Organization of a periodical quality control review performed by an oversight body independent of the profession. The 8th directive provides for such reviews on a 3-yearly basis in the case of firms auditing entities of public interest, and several European countries have already anticipated this requirement.</p> <p>We also have reservations as regards the scope, in our view too broad (the “key audit partner” concept), of the rotation requirement.</p> <p>We believe that persons designated by the firm without final responsibility for the engagement and the audit opinion provided at group level, should not be required to rotate other than in specific circumstances to be determined on a case by case basis.</p> <p style="text-align: right;">Cont’d</p>	Mazars	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
592.	Partner rotation	<p>Audit team members should not be required to rotate simply because they have been involved with a client for a long time, as opposed to exercising significant influence on the formation of the audit opinion or being responsible for the engagement.</p> <p>Similarly, the rotation requirement should not systematically apply to the persons responsible for independent review, as we believe that a minimum amount of engagement team continuity is indispensable in the interests of audit quality.</p> <p>More generally, too broad a scope of rotation may generate a dual risk:</p> <p>The risk that audited entities in certain sectors, requiring very specific skills, may lack choice of their auditors given that the number of firms able to accept the engagement may become too restricted;</p> <p>The risk of compromising certain audit firms' future by hampering their ability to promote young partners, given that it is often desirable for new partners to be able to begin by dealing with clients of whom they have prior experience.</p> <p>Joint audit, involving two audit teams independent one from the other, who share their skills and oppose their opinions on significant technical issues while performing a double-sided examination, with a balanced apportionment of work and periodical exchange of work between the two firms (every three years) on areas involving material risk, is a factor which may contribute to mitigate certain threats, such as self-review, familiarity or intimidation. The two firms are jointly liable and in case of disagreement, it is possible that two diverging opinions be mentioned in the report.</p>	Mazars	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
593.	Partner rotation	<p>I wish to express my opposition to the proposed rotation of key audit partners. This would be fine for big corporations and listed companies but would create havoc for smaller accounting firms, who for the most part do not have audits where the Public sector has direct interests. Furthermore it would be devastating to sole practitioners. I urge you to limit this provision to listed companies.</p> <p>If there is to be rotation of audit partners, which I am against in the case of small audits, then it would do no good, merely to rotate the audit partner, if in fact the "new" partner by virtue of the rotation has little or no audit experience.</p> <p>Also peer review could do some steps to ensure there is proper independence. But I guess here again peer review is not required in all States.</p>	Blieden	See above
594.	Partner rotation	<p>We do not believe that it is appropriate to eliminate the flexibility for small firms as contemplated in the ED. In fact, we believe that the flexibility currently provided to small firms in the Code, paragraphs 290.156 and 290.157, for listed entities is appropriate, should not be eliminated, and should also be applicable for audits of entities of significant public interest.</p> <p style="text-align: right;">Cont'd</p>	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
595.	Partner rotation	<p>The exemption for the small firms is necessary to promote and retain appropriate competition in the market for audit services to listed entities and to avoid barriers to entry into the profession for newly formed accounting firms, existing smaller accounting firms, and accounting firms in developing nations to serve “entities of significant public interest.” The Board should not require that its ethical requirements be more restrictive than other regulatory bodies such as those in the securities, insurance, banking, or other government regulatory arena. Many regulators have been able to develop appropriate safeguards to allow a “small firm exception”, such as the SEC’s Strengthening the Commission’s Requirements Regarding Auditor Independence rule, which allows for audit firms with fewer than five audit clients that are issues and fewer than ten partners to qualify for an exemption from partner rotation requirement, the Statutory Auditors’ Independence in the EU: a Set of Fundamental Principles, which allows for the Statutory Auditor to determine what other safeguards should be adopted to reduce independence risk when the audit firm is unable to provide for rotation and the Federal Deposit Insurance Company’s guidance which is in concurrence with the SEC’s regulations on small firms. Regulators are sufficiently cognizant of their responsibilities to protect and serve the public interest. In order to reduce the familiarity threat to an acceptable level, the Board should consider requiring the auditor to communicate the facts and circumstances surrounding the utilization of the small firm exception to the client’s audit committee or its equivalent where one exists.</p>	Grant Thornton	See above
596.	Partner rotation	<p>In addition to the flexibility needed for small firms, the Board should consider the need for flexibility within firms when there may be limited expertise within a certain industry. Paragraph 290.157 of the current Code provides some relief from mandatory rotation where it states "Where a firm has only a few people with the necessary knowledge and experience to serve as engagement partner or individual responsible for the engagement quality review on a financial statement audit client that is a listed entity, rotation may not be an appropriate safeguard."</p>	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
597.	Partner rotation	<p>Partner Rotation – If the definition of entities of significant public interest remains as proposed, we would recommend that the partner rotation requirement be flexible and that the Board consider an exemption or transition period for firms of a certain size.</p> <p>In addition, an inequity is created if concurring partner or another “key” partner is not required to be assigned to all entities of significant public interest, but an accounting firm chooses to do so as part of its internal quality control measures to better ensure audit quality. The firm would be required to rotate several partners whereas another firm that does not make a similar decision for a similar entity of significant public interest would not have the same requirement imposed on it. Therefore, the extension of partner rotation would appear contradictory to the goal of promoting audit quality.</p>	Grant Thornton	See above
598.	Partner rotation	<p>In our view, it is not appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. While both the existing and proposed guidance recognize that using the same senior personnel on an assurance engagement over a long period of time may create a familiarity threat and could require rotation of certain engagement personnel, the ED expands the population of personnel subject to the partner rotation provision by extending the requirements to non-listed entities of significant public interest and to key audit partners other than the engagement partner and engagement quality control reviewer. Coupled together, these proposed changes greatly increase the number of audit partners required to be rotated. We question the benefits of such mandatory rotation requirements when considering the costs associated therewith.</p> <p style="text-align: right;">Cont'd</p>	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
599.	Partner rotation	<p>We believe ensuring audit quality is of paramount importance and as a result, are concerned that the elimination of the small firm exception may have unintended consequences that could be considerable and far-reaching. In some countries, small firms dominate certain market segments, and the audit skills required for these segments are often specialized. Mandatory rotation could lead to assigning individuals to audit engagements who do not have the knowledge or experience required under the circumstances.</p> <p>One response to these concerns is for the entity to change audit firms. However, there are obviously costs to entities and ultimately stakeholders associated with having to change audit firms. Another response is that smaller firms will consolidate in response to the partner rotation requirement to avoid what might appear to small firms as being a firm rotation rather than a partner rotation rule. Mergers of firms leave an entity with fewer choices and in some cases, other firms are not available to take on an audit because they have relationships with or provide services to the entity that are independence impairing. A reduction in competition can also potentially impact the cost of audits, raising questions whether the public is best served by requiring rotation when alternative safeguards may be appropriate.</p> <p style="text-align: right;">Cont'd</p>	DTT	See above
600.	Partner rotation	<p>Flexibility is also warranted because the degree of public interest in the entities that will end up being classified as entities of significant public interest in many jurisdictions may be vastly different. Consistent with the principles-based approach and given this variance, it is appropriate in our view to consider whether the threats to independence arising as a result of using personnel over a long period of time are mitigated to some extent based on other factors, such as:</p> <p>Turnover of client personnel. Threats arising from the familiarity with the client's personnel are reduced if such personnel, particular those in a position to influence the financial statements, have changed over the relevant period.</p> <p>Change in business. The audit client's business may have changed significantly as a result of acquisitions, mergers, or divestitures.</p> <p>Regulatory reviews. The audit client and/or the auditor's work on the audit client may be subject to reviews by external or regulatory bodies</p> <p style="text-align: right;">Cont'd</p>	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
601.	Partner rotation	<p>We also urge the Board to carefully consider the consequences of eliminating the small firm exception and the interplay between this proposal and the proposal that member bodies define entities of significant public interest. The possibility exists that member bodies may be motivated to adopt a very narrow definition of entity of significant public interest merely because of the implications to small firms of the partner rotation rule. Such a result seems counter to what the Board hoped to achieve by extending the listed-entity provisions to other entities of significant public interest.</p> <p>Cont'd</p>	DTT	See above
602.	Partner rotation	<p>We believe the safeguard described in the extant paragraph 290.157 of the Code is an appropriate safeguard that could eliminate the familiarity threat or reduce it to an acceptable level. This safeguard should be required in situations where rotation is not possible. Other safeguards that could be used include:</p> <ul style="list-style-type: none"> • Requiring that the specific engagements be subject to external mandatory peer review programs. Mandatory external reviews and practice monitoring programs of a firm's quality control system are designed to ensure that firms apply the applicable professional standards to engagements they perform. The application of those professional standards and the tests of firm policies and controls for complying with those standards under a mandatory practice monitoring review can help ensure that a firm applies the necessary level of objectivity and professional skepticism in approaching audit engagements of entities of significant public interest. • Where possible, encouraging the rotation of other staff on the engagement to provide a fresh look and "independent" perspective and require those staff to document their independence. • Obtaining concurrence from those responsible for governance with the firm's conclusion that any threats to independence from using the same partner over an extended period of time have been adequately safeguarded. 	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
603.	Partner rotation	<p>The IESBA proposes to not only extend the partner rotation requirements to non-listed entities of significant public interest, but also to key audit partners not already covered by the current Code (i.e., the engagement partner and engagement quality control reviewer). These proposals if adopted could, in our view, have a significant impact on audit quality, as noted above. Thus, we are concerned that the costs associated with such changes will outweigh the benefits.</p> <p>With respect to the extension of the rotation requirements to non-listed entities of significant public interest, we believe this proposed change is appropriate if the decision as to whether an entity is an entity of significant public interest is left to the judgment of the firm and engagement team. If however, the Board concludes that it is appropriate for member bodies to make the determination, then we believe the rotation requirements should apply to listed entities only and the threats and safeguards approach should be used with respect to other entities of significant public interest.</p> <p>As for the proposed expansion of the scope of partners covered by the proposed rotation requirements, we are concerned that regardless of the size of the entity or size of the firm, the risk that audit quality will be negatively impacted is such that we do not believe it is appropriate to mandate partner rotation beyond the engagement partner and engagement quality control reviewer. The threats associated with other key audits serving a client over a long period of time should be dealt on a facts and circumstances basis using the principles-based approach.</p>	DTT	See above
604.	Partner rotation	The Institute of Certified Public Accountants in Israel has yet to discuss this matter in depth and suggests that both the IESBA and the SMP Committee seek an optimal solution to this issue.	ICPAI	See above
605.	Partner rotation	(i) Flexibility should be given to smaller firms for rotation of partner. Additional safeguard can be inbuilt that a quality review is conducted by another partner of the firm at regular intervals. This will ensure the objectivity of independence as well as hardship on smaller firms will be avoided	ICAIIndia	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
606.	Partner rotation	We do not believe it is appropriate to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. As mentioned earlier (see our comments under the heading Association of senior personnel (including partner rotation)), we believe this move could have a significant effect on the availability of auditors in a number of jurisdictions around the world, particularly where the client is operating in a specialised or remote area. This could result in a significant problem with choice of auditor or extra cost. It is unclear to us that it can be shown that this is justifiable in the public interest and we believe the IESBA should carry out research into the effects before removing the exemption.	ACCA	See above
607.	Partner rotation	<p>We are concerned that the withdrawal of the exemption from rotation from the requirement for the engagement and review partners on the audits of ESPIs will mean firms now effectively need to have at least four suitably skilled audit partners in order to undertake such engagements. This could have a significant effect on the availability of auditors in a number of jurisdictions around the world, particularly where the client is operating in a specialised or remote area. This could result in a significant problem with choice of auditor or extra cost. We do not believe that the withdrawal of this exemption is justifiable in the public interest and that the IESBA should carry out research into its effects before removing the exemption.</p> <p>We also believe that the impact of the withdrawal of the exemption is further exacerbated by the inclusion of key audit partners within the rotation requirements. As with the ‘cooling off’ provisions, in our view the rotation requirements should be applied only to partners <i>at the group level</i> and this should be clarified.</p>	ACCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
608.	Partner rotation	Such flexibility is not available in the United Kingdom as it was removed by the Auditing Practices Board in the Ethical Standards ('APB ESs') that apply in this country. We cannot comment on the impact of the removal of the flexibility in other parts of the world but note that there is no logical basis to the existing provision: either partner rotation is required to safeguard the independence of audits of listed entities or it is not. In terms of extending the rotation requirement from listed entities to other entities of significant public interest, we assume regulators / member bodies will take the cost-benefit of these and other additional requirements into account when determining their definition. Even in larger audit firms, there could be only a small number of specialists in sectors in which clients might be designated as ESPIs, such as banks or charities.	ICAEW	See above
609.	Partner rotation	<p>As a result of provisions included in the Statutory Audit Directive, this flexibility has been withdrawn for public interest audits within the European Union already. However, we note that, as a result of the withdrawal of the exemption from rotation from the requirement for the engagement and review partners on the audits of ESPIs, firms now effectively need to have at least four suitably skilled audit partners in order to undertake such engagements. This could have a significant effect on the availability of auditors in a number of other locations around the world, particularly where the client is operating in a specialised or remote area. This could result in a significant problem with choice of auditor or extra cost. It is unclear to us that it can be shown that this is justifiable in the public interest and we believe the IESBA should carry out research into the effects before removing the exemption.</p> <p>The impact is further exacerbated by the inclusion of key audit partners within the rotation requirements. As with the 'cooling off' provisions (see 2.4 above), we believe that the rotation requirements should be applied only to partners <i>at the group level</i> and this should be clarified.</p>	FEE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
610.	Partner rotation	<p>We have noted that the elimination of flexibility provided for by the IFAC is consistent with the provisions of the Directive on the statutory audit of accounts.</p> <p>However, we should pay further attention so that the expected provisions do not lead to exclude most of the firms from the audit of significant public interest entities. Accordingly the CNCC disagrees with the scope of the definition of "key audit partner" which in its opinion is too broad.</p> <p>Therefore we would prefer that the audit partners who have not been appointed as audit engagement partners in charge of the file by the audit firm (those who do not sign the audit report) should be captured by rotation only in particular circumstances to be assessed on a case by case basis.</p>	CNCC	See above
611.	Partner rotation	<p>Thus the audit engagements members should not be concerned by rotation only on the basis of the fact that they have been working on the audit file for a long period. The criterion to be preferred should rather be the significant influence exercised by the said persons on the opinion issued or the criterion of responsibility over the audit file. We deem it essential to maintain minimum continuity at the level of the assurance engagement team in order to meet the objective of audit quality.</p> <p>In the same way, the persons in charge of the independent review should not automatically be concerned by the rotation requirement.</p> <p>Rotation applied in too much an extensive way entails a twofold risk :</p> <ul style="list-style-type: none"> - a risk for the audited entities operating in particular fields requiring very specific audit skills, of having no latitude any longer in the free choice of their auditors, since the number of audit firms likely to be in a position to meet the rotation requirements turns out to be too limited, - a risk for the going concern of audit firms since rotation would deprive them of the possibility of ensuring any in-house harmonious advancement of their younger partners. As a matter of fact it is advisable that the first audit engagement on which young partners lay their signature are files which they have already learned to know of. 	CNCC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
612.	Partner rotation	<p>More generally, application of rotation should take into account the other requirements set to ensure audit quality and independence, such as a periodical independent quality control review, such as is laid down by the European directive (every three year for firms with public interest entities assignments), the possibility of involving another firm for the implementation of independent review and internal quality control (See ISQC1) and joint audit (co-commissariat aux comptes).</p> <p>In France co-commissariat aux comptes (joint audit) involves two audit teams being independent one from the other, who share their skills and oppose their opinions on significant technical issues while performing a double-sided examination. Apportionment of work is generally well balanced and provides for the periodical exchange of work between the two firms (every two to three years) on areas involving material risk. The two firms are jointly liable and in case of disagreement, it is possible that two diverging opinions be mentioned in the report. The involvement of two firms is a factor which, in certain circumstances, may contribute to mitigate certain threats such as : self-review, familiarity or intimidation.</p>	CNCC	See above
613.	Partner rotation	<p>The definition in the ED of a <i>key audit partner</i> is quite wide, since it includes the engagement partner, the individual responsible for the engagement quality control review, and other audit partners on the engagement team such as lead partners on significant subsidiaries or divisions who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the audit firm will express an opinion.</p> <p>In the EC Directive on Statutory Audits of Annual Accounts and Consolidated Accounts (2006/43/EC) the definition of <i>key audit partner</i> only makes it mandatory to include (apart from the statutory auditor who signs the report, in the unlikely event that he or she is not one of the following):</p> <p>the statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm</p> <p>in the case of a group audit, the statutory auditor(s) designated by the audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries.</p> <p style="text-align: right;">Cont'd</p>	NRF	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
614.	Partner rotation	<p>NRF agrees that a legal standard that has been established in such an important capital market as the European Union is a natural benchmark that has to be considered in the efforts to achieve global harmonisation. But NRF fails to see the wisdom in introducing even more restrictive standards without very good reasons.</p> <p>Introducing rotation rules for other partners than those primarily responsible for carrying out the statutory audit will create practical problems of a nature that, if the rules are applied indiscriminately, will lead to a reduction in audit quality. This is true particularly, but not exclusively, in small countries with a limited number of professionals. The rotation of other partners, such as those engaged in quality review and in divisions, may visibly improve the appearance of independence, but if the effect is to remove from the global team an industry specialist or another expert who contributes strongly to a high audit quality, the potential negative impact on audit quality is significant and may increase the risk of audit failure. These risks are not limited to small or medium-sized audit practices, although the lack of specialist resources in such practices will make them particularly serious. Cont'd</p>	NRF	See above
615.	Partner rotation	<p>NRF would also like to point out that excessive rotation could have a negative impact on the professional career opportunities for auditors. When an auditor has been lead partner on a significant subsidiary or division he or she will not be able to advance and become key audit partner for the parent company and the group due to the rotation requirement. Especially if the auditor is specialised and no other similar engagements are available, this will mean an involuntary interruption in his or her career. This will inevitably affect the image of a career as an auditor, and thus the profession's ability to attract the right people.</p> <p>Instead of simply extending and applying the rotation rule NRF would support an extension of the "threats and safeguards" approach, where audit partners of subsidiaries and divisions and partners engaged in quality review of the work performed are subject to stringent and documented safeguard procedures.</p>	NRF	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
616.	Partner rotation	<p>Following on from our response to Question 1 above, EFAA believes that it is important to retain the flexibility for small practitioners to apply alternative safeguards to partner rotation. In many cases, especially relating to very small or sole practitioners, partner rotation is simply not possible. In developing nations, or in remote geographical locations, there may only be one, small audit practice available to audit an entity. In such situations, it cannot be in the interests of either the audit client and/or the broader public interest to impose burdensome and costly regulation.</p> <p>EFAA finds Question 2 itself and related changes to the Code somewhat inconsistent, however, and would welcome additional guidance and/or clarity from the IESBA. Our understanding of the proposed revisions to the Code is that the IESBA's proposal to eliminate flexibility applies to audits of entities of significant public interest only. Question 2 seems to imply that flexibility is being eliminated for all audits conducted by small practitioners. (Question 1, meanwhile, refers only to audits of entities of significant public interest). We believe that the IESBA should clarify the meaning of this point as a matter of urgency.</p>	EFAA	See above
617.	Partner rotation	<p>We accept that there is no theoretical basis to provide flexibility for small firms, although we note that a number of regulators, including the SEC, do provide such flexibility. We would consider that an appropriately scoped review, for example scoped in accordance with ISQC1, carried out <i>prior</i> to the issuance of the report by another firm might be a satisfactory safeguard, assuming that such an arrangement could be applied in practice.</p> <p>We also refer to our comments above regarding entities of significant public interest. We consider that some of the burden in extending partner rotation within small firms might be alleviated if it is clear that certain types of entities of local public interest would not be treated as entities of significant public interest (and therefore would not be subject to mandatory partner rotation).</p>	KPMG	See above
618.	Partner rotation	<p>This requirement, coupled with the definition of key audit partners, will exclude sole practitioners and some smaller firms from performing certain engagements. This will result in certain expertise being unobtainable in smaller firms, thereby increasing the gulf between large and small firms. Where smaller firms may be able to comply with these requirements, the attendant costs may be prohibitive.</p>	SAICA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
619.	Partner rotation	<p>In addition to the comments we have made above regarding the consequences of some of the proposed amendments on small firms, we would respond here by suggesting that the approach be more flexible.</p> <p>An alternative safeguard could be the appointment of an engagement quality control reviewer (independent to the partner) to review these clients.</p> <p>A further safeguard in this regard would be for such quality reviewer to be appointed by, or at least approved by, the statutory regulator of registered auditors</p>	SAICA	See above
620.	Partner rotation	<p>The existing Code provides that when a firm has only a few people with the necessary knowledge and experience to serve as the engagement partner, or the individual responsible for the engagement quality control review, rotation may not be an appropriate safeguard. In these circumstance</p> <p>The ED proposes to remove this flexibility and extend existing partner rotation requirements to all key audit partners on an audit of an ESPI.</p> <p>We are in support of the Board's proposal to eliminate the flexibility for small firms to apply alternative safeguards to partner rotation. Our views are consistent with those of the Board's. There is a need to strike a balance between addressing the familiarity threat by bringing a fresh look to the audit and the need to maintain continuity and audit quality for ESPI. The nature of an audit of an ESPI calls for more stringent standards, partly to address the expectations of today's market and other stakeholders. If a firm does not have the necessary resources and skills, it would not be appropriate for such a firm to undertake the audit of an ESPI going forward</p>	PAOC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
621.	Partner rotation	<p>Expanding the partner rotation requirements on audits of entities of significant public interest to all key partners may raise problem in developing countries and those countries that have limited number of auditors. In Thailand, the partner rotation requirement is applied only to the auditor of the listed company and there is no rotation requirement for other key audit partners of the auditor in charge.</p> <p>Eliminating the existing flexibility for firms with few partners to apply alternative safeguards instead of partner rotation to address the familiarity threat may cause problems to developing countries as stated in previous comment. In our opinion, local firms with limited number of auditors in many countries may face difficulty to comply with this modification.</p>	FAP	See above
622.	Partner rotation	<p>The Institute recommends that for the audits of listed companies, the engagement partner should be rotated after no more than 7 years. In small practices, or in special cases in firms, this period may be prolonged to 9 years. For example, in cases in which the engagement partner has audited a firm for 7 years, close to the initial date of incidence, rotation may be due after an additional 2 year period.</p> <p>In small practices we recommend that the issue of rotation should be discussed in depth separately</p>	ICPAI	See above
623.	Partner rotation	<p>Additionally, regarding lead engagement partners of significant subsidiaries or divisions, we suggest that only the lead partners of significant subsidiaries that would be making key decisions or judgments, be included, whose significance should be measured in relation to the consolidated financial statements.</p> <p>We suggest that partner rotation requirements have to apply only to the lead audit partner and the reviewing partner. That is, we do not agree to extend the rotation requirements to key audit partners. We believe that in this case, with the objective of achieving an appropriate cost-benefit balance, applying a principle-based approach is better than setting specific restrictions.</p>	FACPE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
624.	Partner rotation	We do not agree with the removal of this flexibility. Although we understand that it can be inconsistent with the rotation requirement for other companies, it can be justified on cost-benefit considerations. In many small or developing countries without the flexibility many entities not closed to centres of significant economic activity or in certain industries will be required to change auditors and many audit firms will be unable to audit ESPIs.	FACPE	See above
625.	Partner rotation	The APB supports the elimination of the flexibility for small firms to apply alternative safeguards to partner rotation in respect of the audits of entities of significant public interest. We believe that the perceived threats to independence which arise from extended relationships between a key audit partner and such an audit client cannot be addressed by safeguards other than rotation of the key audit partner.	APB	See above
626.	Partner rotation	From the perspective of banking regulators, the threat to auditor independence from a very long term relationship between auditor and client is such that, when auditing public interest entities, it should be mandatory to have rotation of audit partners.	CEBS	See above
627.	Partner Rotation	We agree that it is appropriate to extend the key audit partner rotation provisions to entities of significant public interest. We also agree that engagement quality control review should be extended to entities of significant public interest. Both of these measures are legitimate quality control responses to audits of entities of significant public interest and are quite different in nature to the changes proposed in the Exposure Draft.	CAGNZ	See above
628.	Partner rotation	We support extending the existing rotation requirements for listed entities to ESPIs. However, we do not believe that these requirements should extend to key audit partners other than the lead audit partner and the reviewing partner. Further, we support the extension of the existing rotation requirements to smaller firms as long as the mandatory rotation only applies to the lead audit partner and the reviewing partner. Cont'd	E&Y	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
629.	Partner rotation	<p>We agree with the IESBA that there is a need to strike a balance between addressing the familiarity threat and the need to maintain continuity and audit quality. In particular, rotation requirements should not be too inflexible as to become detrimental to audit quality. To achieve such balance, considering the variety of possible situations, we believe that a more principle-based approach is warranted, rather than the prescriptive provisions for other key audit partners stated in the Exposure Draft. For example, the client's organisation structure is an important factor to consider when assessing the familiarity threat. On very large multinational audits, key audit partners other than the lead audit partner or the reviewing partner, and senior personnel may actually rotate to a different part of the group. By nature of the fact that a very large multinational group is likely to have different operations and management, the familiarity threat can be significantly reduced. Further, permitting a partner to gain experience of the audit client by rotating within the same group before becoming the lead partner could enhance audit quality.</p> <p>Cont'd</p>	E&Y	See above
630.	Partner rotation	<p>In addition, in many countries where most audit firms are of medium or small size (this is the case in certain jurisdictions where the number of partners is limited by statute), we believe that prescribing rotation for other key audit partners would have the unintended consequence of mandating the rotation of audit firms. We firmly believe that rotation of audit firms will have adverse consequences for the continuity and quality of audits. In fact, the forced termination of long term relationships between auditors and clients in an increasingly complex business environment, where knowledge and expertise is created over many years, could lead to a sustained decrease in the quality of audits. This would have serious implications for investor protection and the integrity of the financial system. Accordingly, the IESBA should be careful not to inadvertently create an environment favouring mandatory rotation of audit firms and it should also state clearly that it is not advocating mandatory rotation of audit firms.</p> <p>Cont'd</p>	E&Y	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
631.	Partner rotation	<p>Consequently, although all rotation requirements for the lead audit partner and the reviewing partner should be maintained, the IESBA should address potential rotation of other key audit partners through the implementation of the threats and safeguards conceptual framework rather than a prescriptive prohibition.</p> <p>We would also recommend extending the transition provisions for rotation of all key partners for ESPIs to three years after the approval of the standard, rather than the proposed two years. This would allow the audit firms to know which entities will be designated as ESPIs by the Member Bodies prior to taking the appropriate steps to comply with the rotation requirements.</p>	E&Y	See above
632.	Partner rotation	<p>The ED proposes to extend existing partner rotation requirements to all key audit partners on an "audit" of an ESPI. At the same time, however, the IESBA is proposing to eliminate the exception in the current Code that provides relief to those firms with a limited number of individuals having the requisite knowledge, skill set, and experience to serve in engagement partner or quality control review roles.</p> <p>The explanatory memorandum acknowledges the Board's consideration of the so-called "small firm" exception (although "small" is not defined and a firm does not necessarily have to be small to find itself in that situation), and notes the Board's conclusion that flexibility should no longer be provided because, in the Board's view, there are no alternative safeguards that would adequately address the familiarity threat posed by long-term association. We are aware of no empirical data to suggest that the safeguards outlined in the current Code are inadequate, and therefore have difficulty in accepting this premise as a basis for the proposed revision.</p> <p style="text-align: right;">Cont'd</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
633.	Partner rotation	<p>Further, we have concerns about the marketplace disruption this requirement, if adopted, may create. The requirement may place an undue burden on small and mid-sized entities that retain audit firms lacking the resources to feasibly achieve partner rotation - perhaps because size constraints preclude such firms from being able to rotate senior personnel, because licensing requirements preclude the most suitable individuals from serving as a key audit partner, or visa or other entry requirements into the country cannot be satisfied by the most suitable individual. In those cases, there is also a clear risk that a firm will assign an engagement partner to the engagement who lacks sufficient expertise (in say a particular industry or financial services sector), simply to avoid being replaced as auditors, with the potential for a detrimental impact on audit quality.</p> <p>Entities that retain local or regional accounting firms to conduct their audits may be placed in a position of having to seek new auditors every seven years. Those entities whose audit firms cannot accomplish partner rotation would effectively be forced to undergo firm rotation, a result that would impose upon them and on the capital markets significantly greater costs without clear commensurate benefits. For the client, there is the time and effort needed to prepare requests for proposals from new auditors, interview candidates, and educate the new auditor about the client's business and operations; all of which take the client away from its core mission, and which increases cost for the client.</p> <p style="text-align: right;">Cont'd</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
634.	Partner rotation	<p>For both the client and the capital markets, there is considerable research showing that firm rotation can have an adverse impact on audit quality through lost institutional (firm) knowledge (e.g., detecting illegal acts, errors, and irregularities on a first year audit is generally a more difficult audit objective to accomplish). That research shows that the incidents of audit failures are highest in the first two years of a new audit.</p> <p>Rescinding the current exception may result in concentration among smaller firms so that partner rotation requirements can be achieved. We would be troubled by a standard that may cause firms to change the business model under which they operate, which, if not intended by the IESBA, would be another significant cost of complying with the requirement and an indicator that the requirement may not achieve an appropriate balance. This may also cause a concentration of audit appointments towards the larger firms to the extent they have sufficient numbers of partners to comply with the rotation requirement. We believe the public interest would be better served by not reducing the choices available to entities looking to retain an accounting firm. Accordingly, we suggest that the Board give further consideration to this matter</p> <p style="text-align: right;">Cont'd</p>	PwC	See above
635.	Partner rotation	<p>We fully recognise the benefits associated with a "fresh look" but question its benefits when in practice the effect will be to impose, in many situations, a requirement of firm rotation. Therefore, we recommend that the provision (Section 290.156) of the current Code allowing for flexibility of the rotation requirements "when a firm has only a few people with the necessary knowledge and experience to serve . . ." not be rescinded and that alternative safeguards be permitted in those situations, irrespective of whether the firm's client would be considered an ESPI. The safeguards in the current Code (paragraphs 290.153 and .157) are appropriate alternatives in those situations. We also recommend that the Code acknowledge as an additional safeguard periodic engagement reviews performed by a regulator or as part of an external peer review, since the deterrent effect of both types of reviews are effective in promoting auditor objectivity and audit quality.</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
636.	Partner rotation	<p>Also, in the case of entities of specialized industries, those having unique methods of organizational management or those placed under special regulations, it is possible that difficulties could arise in effecting the smooth transfer of engagement duties, unless some consideration be given to the rule of making rotations. We consider it appropriate that, in addition to the relief provision for unforeseen circumstances in Paragraph 290.148, a further relief be provided for, in order to ensure the proper maintenance of the audit team, for example, by permitting the key partner to remain on the team one additional year, if there be special circumstances that make smooth rotations difficult.</p> <p>In Japan, firms under private management may obtain exceptional treatments with approval by the Prime Minister for each accounting period under the provisions of the Cabinet Ordinance, when there are unavoidable circumstances as provided for in the Ordinance</p>	JICPA	See above
637.	Partner rotation	<p>We suggest that the Board has not given adequate consideration to potential safeguards that could be used to ensure that the potential for the appearance of lack of independence has not been adequately addressed. We suggest that the following safeguards should be considered as safeguards that would reduce the risk:</p> <p>Peer reviews of the firm; and</p> <p>Cold partner reviews of engagements of an Entity of Significant Public Interest.</p> <p style="text-align: right;">Cont'd</p>	CACPA	See above
638.	Partner rotation	<p>The universal application of partner rotation does not take into consideration the potential impact to smaller CPA firms, CPA firms practicing in smaller communities, or small firms that are just in the process of being formed that may have all the requisite skill, but not the current ability to provide for partner rotation. We recommend the Board consider the above safeguards in removing the mandatory requirement of partner rotation for an Entity of a Significant Public Interest.</p>	CACPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
639.	Partner rotation	As an auditor in public practice serving small not for profit organizations and as a peer reviewer of other such firms in Indiana, I have grave concerns about sections 290.146 and 290.147 in the revision of the Code of Ethics which require partner rotation even in small audits. Many of these firms have only one partner performing audits and this standard would effectively discriminate against these small firms and place a tremendous financial hardship on small clients if they have to be audited by large firms. Many of these small firms are performing high quality audit services at an affordable cost to small clients. Small clients are often required to have audits by their funding agencies or by governmental agencies and cannot exist without complying with these requirements from outside sources. The proposed changes add another layer of compliance issues for these entities. The public would not be well served by this change. Please reconsider the broad application of this standard and whether it serves the profession and the public. I feel that an exception needs to be made for small firms and their clients.	HRH-CR	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
640.	Partner rotation	<p>These comments represent my viewpoint as a CPA in public practice that is involved in performing audits on small tax-exempt organizations in central-northern Indiana.</p> <p>I have been a CPA since 1975 and have practiced in public accounting for all but 7 years of that time. These comments specifically deal with required partner rotation referenced in the revision of the Code of Ethics for sections 290.146 and 290.147.</p> <p>This is a change for appearance sake and with no reference to its impact on the party it is intended to benefit. Many small tax-exempt entities are required to have audits based on agreements with funding agencies or even by their by-laws. These audits are preformed by small accounting practices which essentially have only one audit partner. In today's environment of auditing, even the small tax-exempt clients are aware of the Peer Review process and require the accounting firms serving them to have and successfully pass a Peer Review. The Peer Review is the standard that was selected to allow those outside the profession of public accounting to have some objective measure of a firm's quality. Now, based upon changes to the Code of Ethics, the accounting profession is saying that the Peer Review process has little credibility. My viewpoint is that this requirement of partner rotation is a restraint of trade. It effectively removes many local accounting firms from the market place and gives larger firms an unfair advantage with little regard to the impact on the client. These local accounting firms have invested in the Peer Review process and served their clients well over a long period of time. They have met the standards set forth by the State and National Accounting Professions by being part of the Peer Review process.</p> <p>Now quality is not the issue only the size of the firm. These changes do not serve the public or the accounting profession in any positive way and should not be passed.</p>	HRH - DH	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
641.	Partner rotation	<p>Mandatory rotation at the end of seven years of the key audit partner of audit engagement on annual or consolidated accounts of an audit client of significant public interest is dealt with in paragraph 290.147 to 290.150.</p> <p>Withdrawal of the previous exemption granted to small practices inevitably leads to exclude such entities from the performance of assurance engagements in significant public interest entities, which in our opinion is tantamount to a material impediment to the freedom of practice of professional accountants</p> <p>In addition such a requirement is likely to raise in the long run an important problem to enterprises when appointing their contractual auditors, especially when they operate in a specialised segment and in developing countries; this also leads to an increase in the cost of the services requested and it is not certain that such withdrawal of exemption plays the part of public interest.</p> <p>As a consequence we believe that the IESBA should assess the effects induced by such withdrawal prior to adopting it.</p> <p>Moreover, among the safeguards to be implemented by the professional accountant operating within a small practice and performing an assurance engagement, it is in our opinion advisable, pursuant to the possibility granted by the ISQC1 standard, to make use of the independent review performed by an external professional accountant adequately qualified and of quality control procedures of the professional body</p>	CSOEC	See above
642.	Partner rotation	<p>We do not agree that this is appropriate. There are circumstances where partner rotation is not practical. Also, given the ongoing discussions in some jurisdictions concerning choice in the auditor market we do not agree that an outright ban is acceptable. This is an example of a rule that disadvantages SMPs, since partner rotation is never an option open to them.</p>	IDW	See above
643.	Partner rotation	<p>We do not agree with the elimination of the flexibility for small firms as this disadvantages SMP and reduces the options for entities of significant public interests regarding the choice of an auditor.</p>	WpK	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
644.	Partner rotation	<p>The Statement mentions the need for rotational policies for partners and significant audit staff. Firms both small and large tend to develop expertise over a period of years in areas requiring a significant learning curve. Examples of complicated audits/ audit issues are:</p> <ul style="list-style-type: none"> - IT systems and processes particularly communications systems with regional and global information processing - Derivative Policy Evaluation and substantive testing - Quasi-Reorganization in Bankruptcy accounting and litigation support - Pension and Actuarial Fund Accounting and mathematical algorithms - Specialized accounting and legal accounting practices of host countries <p>There are training technologies available to help facilitate knowledge transfer and reduce the down time due to training.</p> <p>These are the classic lecture, case studies, simulated transactions, apprenticeship, on-the-job training and Artificial Intelligence / Advice Giving Systems. Advice Giving systems contain the experiential domain of complex knowledge preinput by the knowledge engineer.</p> <p><i>GENERALLY</i>, the thrust of the new guidance is good; however, the practical implementation issues will be challenging for both small and large firms.</p>	Maresca	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
645.	Partner rotation	<p>We are very concerned that a blanket prohibition in respect of ESPI will, in many instances, result in an adverse cost-benefit outcome and so fail to serve the public interest. For this reason, we outline various suggestions above, including alternative safeguards and the retention of some form of small practice exemption...</p> <p>We note that throughout S290 additional prohibitions have been added for the audit of an ESPI. In many cases this will often result in the exclusion of SMPs from performing the audit of ESPI. We suggest modifying the mandatory partner rotation requirement and/or the definition of ESPI for various reasons.</p> <p>First, the mandatory partner rotation combined with the expanded definition of key audit partners will for many SMPs and SMP networks amount to firm rotation. Such firms will lose ESPI audit clients while larger firms will retain such clients by way of rotating audit partners. Over time many SMPs will be driven from the ESPI audit market and ESPI will slowly concentrate in the hands of larger firms. Large firms seem to have concluded that firm rotation is generally inappropriate because of the potential damage to audit quality resulting from new auditors being unfamiliar with the client. SMPs will, therefore, ask: if large firms see firm rotation as unacceptable on grounds of excessive cost, then why is it effectively being mandated for us? Moreover, many SMPs will question why they have to bear the brunt of the adverse impact of the revisions, revisions which have been prompted by regulators intent on averting a repeat of the high profile audit failures of recent years?</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	See above
646.	Partner rotation	<p>Second, the proposals could be viewed as discriminatory, anti-competitive and even a restraint of trade matter from the standpoint of both the auditor and the client. In countries with large numbers of smaller listed entities typically the partner rotation requirement will have a particularly serious impact on SMPs, forcing many SMPs to relinquish ESPI audit clients to larger firms. This will simultaneously exacerbate the concentration of the audit market and effect as a barrier to market entry for SMPs. If rotation is seen as the appropriate safeguard, and we think in most cases it is not, then in the interests of fairness firm rather than partner rotation should be employed.</p> <p>Third, rotation will restrict the choice of auditors open to ESPI. There are considerable benefits to be had when an ESPI is faced with a choice of auditors. This choice is limited in certain circumstances, such as developing nations and remote and/or sparsely populated areas. The proposals stand to restrict this choice still further and could conceivably result in an ESPI having a no access to an auditor.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
647.	Partner rotation	<p>Fourth, from the perspective of an external stakeholder, partner rotation within a firm is not visible since they do not get to see or know the individual auditor(s) undertaking the audit. This then begs the question: how does partner rotation within a large firm improve independence of appearance?</p> <p>Fifth, the foregoing implies a high cost to SMPs and some ESPI with little, if any, corresponding benefit in terms of enhanced audit quality. Indeed, firm rotation will likely impair audit quality in the period immediately following firm rotation since new auditors, with limited knowledge and understanding of the client, are more prone to making mistakes. In addition, new auditors will likely be charging more since they are intent on recovering the costs of getting a proper understanding of their new client. Consequently, in the short-term rotation may well enhance independence but at the cost of a more expensive and lower quality audit.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	See above
648.	Partner rotation	<p>Sixth, the costs associated with regulatory requirements need to be proportional to the threats in order for a favorable public interest outcome. Blanket mandatory rotation represents a draconian requirement to address what, in most situations, will likely amount to a modest threat. In the case of an SMP auditing a small listed entity the balance between public interest issues (auditor independence/audit quality/competition) is not the same as with a large firm auditing a large listed entity. Hence, partner rotation is not always an appropriate way of ensuring auditor independence for listed entities. In a large audit firm one could argue partner rotation is an acceptable safeguard since it imposes limited costs on the firm while yielding significantly more comfort for the general public. But in an SMP rotation may not be proportional as it may preclude the SMP from the audit and deny the client choice.</p> <p>Seventh, while rotation may enhance independence of appearance, it does not necessarily follow that it will improve independence of mind. Moreover, in the case of smaller listed entities independence of appearance is less relevant since there are few, if any, truly external investors. We believe there is a fundamental difference between large and small listed entities such as those trading on secondary markets or over the counter. Larger listed companies exhibit a clear separation between investors and the company, and hence increased demand and need for independence of appearance. Meanwhile with smaller listed entities the investors are much closer to the company and generally more involved. Investors are more likely individuals with some connection with the company.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
649.	Partner rotation	<p>Finally, if the investors vote to have an SMP undertake the audit in the full knowledge that the key audit partner has not been rotated then it would seem their consent means that rotation is a non-issue.</p> <p>These reasons suggest that the public interest case for blanket mandatory rotation of key partners for audits of ESPI, as defined in the ED, is not proven and/or inequitable. In many cases the wider costs of rotation – in terms of lower audit quality, higher audit costs, lack of choice, etc – may outweigh the benefits. We suggest that IESBA consider a combination of one or more of the following: modifying the ESPI definition as suggested above; providing for the use of alternative safeguards; and retaining the existing SMP exemption.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	See above
650.	Partner rotation	<p>We strongly recommend that the IESBA consider alternative safeguards to address the familiarity threat with respect to audits of non-listed entities of significant public interest. In particular, we suggest that where the key audit partner has been involved with the engagement for an extended period of time, the potential threat to the firm's independence should be discussed with those charged with governance of the entity. During this discussion, the firm and client should consider the appropriateness of implementing additional safeguards to eliminate or reduce the threat to an acceptable level. Such safeguards might include:</p> <ul style="list-style-type: none"> • An additional professional accountant who was not a member of the assurance team, including accountants from outside the firm, to do a pre-issuance review of the work done by the senior personnel or otherwise advise as necessary; or • An enhanced quality review of the engagements that focuses on the overall quality of the audit and, in particular, the independence and competence of the key personnel on the audit engagement teams. <p>We also believe, contrary to the IESBA, that external review by a regulator is an appropriate safeguard in certain cases. While we accept such a review is conducted ex-post, these reviews, just like historical financial statements, have confirmatory as well as predictive value.</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
651.	Partner rotation	We would recommend that provision is made for staggered rotation and that rotation be permitted within a group of companies, on the basis that removing all key audit partners from the audit of a large group of companies at the same time could have material negative consequences which could far outweigh the potential benefits. If the provisions do not provide for staggered rotation and rotation within a group but this is left up to the audit firms to manage within the 7 year period it will have the unintended effect of reducing the mandatory rotation period for some of the key audit partners to a period of less than 7 years in order to avoid the disruptive effect of a multiple rotation after 7 years.	IRBA	See above
652.	Partner rotation	On partner rotation, our members have expressed some mixed views. We all agree on the importance and necessity of addressing familiarity and long time association concerns, but not necessarily on a single best way of achieving this goal. We do not favor a broad and general two-tier standard for audits; however, at the same time, some jurisdictions do make some types of exceptions to the general independence requirements or provide alternative procedures for the very smallest audit firms who are auditing very small listed companies. We expect that these exceptions will continue, and think that some type of exception treatment for carefully defined circumstances is not necessarily undesirable. Please see our comments earlier in this letter regarding the need for the IESBA to consider the subject of rotation on both a short term and a long term basis.	IOSCO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
653.	Partner rotation	<p><i>The Code's content on rotation of audit personnel needs further consideration, on both a short term and a long term basis</i></p> <p>For the short term, what is intended by the proposed revision in the ED needs to be more clearly stated. In some portions of the Code, a detailed discussion of specific matters that follows a general beginning point or principle in the Code seems to wander away from or overshadow the original point, and as a result, obscures a good initial message. One example of this is the discussion on rotation of key audit partners (paragraphs 290.147 to 290.149) with respect to audits of entities of significant public interest. These paragraphs seem to imply that rotation is not expected for (1) key partners on audits of entities that are not of significant public interest or (2) senior audit personnel other than key partners on audits of entities of significant public interest. If that is the intent, the requirement should be made clear.</p> <p>In the way that the Code is written now, one is left with a general impression that rotation only applies to entities of significant public interest as provided by paragraphs 290.147 to 290.149. As a familiarity threat could apply to audits of any entity, a question arises as to what applies to entities that are not of significant public interest. Further on the subject of rotation, the message in paragraph 290.146 is that there is a threat to independence from long association of senior personnel, not just the audit partner; however, this point seems to be overshadowed by the discussion in the subsequent paragraphs, which seem to be contemplating some exceptions or lesser requirements with respect to these other types of individuals.</p> <p style="text-align: right;">Cont'd</p>	IOSCO	<p>No change – the provisions in 290.146 are title “General Provisions” and consequently apply to all audit clients whether or not they are of public interest. Mandatory rotation of key audit partners is required for public interest entities – for all other individuals and all non public interest entities a threats and safeguards approach is used.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
654.	Partner rotation	<p>For the long term, we suggest that the IESBA consider undertaking a project to study the ways in which the auditor rotation requirements work in combination with other controls and checks and balances that have come to exist in some frameworks today and which also address the familiarity and other threats and audit quality assurance. It would be useful for the IESBA to perform research, or to commission research, on what, if any, effects on independence and objectivity have been observed from the inspection work of independent auditor oversight bodies. The IESBA could then identify if there seems to be any resulting implications for auditor professional standards.</p> <p>While all rotation intervals are essentially arbitrary timing intervals designed to promote objectivity, we are concerned that the Code's currently proposed rotation requirements may not be sufficiently comprehensive to lead the way to greater global convergence over the longer term. Many jurisdictions have more stringent rotation requirements today and some currently have mandatory audit firm rotation requirements. Others such as the United States have a five and seven year rotation period based on a prescribed definition of "Audit Partner," addressing the Lead and Concurring Partners as well as audit partners responsible for significant consolidated subsidiaries and those in the chain of command.</p> <p style="text-align: right;">Cont'd</p>	IOSCO	Matter to be considered as part of Strategic Planning exercise

X ref	Par Ref	Comment	Respondent	Proposed Resolution
655.	Partner rotation	<p>On the other hand, some IOSCO emerging markets are actively engaged in building financial market infrastructure and have environments described as having very limited supplies of qualified audit personnel. It is asserted that such conditions make the auditor independence and rotation requirements of the more developed markets more difficult to maintain in practice in an emerging market situation. Still other jurisdictions have found it necessary and desirable to create exceptions to normal public company rotation requirement provisions for very small firms auditing very small public companies (e.g., Canada) or to provide alternative ways of addressing the familiarity threat in very small audit firms that audit only a few small public companies (U.S.)</p> <p>In the interest of moving toward an international standard that could win global acceptance, it would be desirable for the IESBA to benchmark the requirements that regulators and oversight bodies have in place today and to commission research into the experience with independence requirements. It might also be helpful to study the interactions of regular inspections by independent oversight bodies with the auditor rotation requirements that predated the creation of such requirements, to identify the ways, if any, that audit inspections may be addressing familiarity threat issues.</p> <p>We also believe it would be useful for the IESBA to enter into more extensive dialogues with regulators, users, and other stakeholders as to the prospects for developing a set of global standards that would be effective in addressing familiarity, self-review and other threats, yet recognize the challenges of countries with limited auditor supply and markets with a sizeable number of audits of very small public entities by small audit firms. Finding an effective way to address conflicting views and demands in professional standards, yet support appropriate independence and objectivity could help the IESBA to provide leadership. It could also serve to facilitate the ability for high quality audits to be conducted by a broader selection of audit firm choices for public interest entities.</p>	IOSCO	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
656.	148	<p>APESB supports the introduction of this term to clearly identify the key senior members of audit engagement teams. APESB also support the general view that those provisions relating employment relationships, partner rotation and compensation needs to be extended to this group.</p> <p>However, in terms of partner rotation there may be a benefit in allowing some flexibility to key audit partners (excluding the engagement partner) such as an extended period (i.e. one or two years) in exceptional circumstances. For example in a situation where the engagement partner as well as most of the key audit partners needs to rotate in the same year in a complex audit engagement. This is likely to have a detrimental impact on continuity of key audit staff and thus impact on the quality of the audit.</p> <p>We note that paragraph 290.148 does consider a similar situation (i.e. illness of a partner) and allows an additional year for key audit partners which include the engagement partner.</p> <p>APESB is of the view that this flexibility should not be extended to engagement partners (who has already served a seven year period). However, it would be appropriate to extend it to the other key audit partners even for an extended period (i.e. two years). We believe that more guidance is required in respect of key audit partners and rotation to ensure that there is a sufficient number of audit partners available to perform the assurance engagements under the proposed independence requirements.</p> <p>Further, it would be useful to have more guidance in respect of what would be considered to be an exceptional circumstance as otherwise there may be different interpretations what would constitute an exceptional circumstance in practice</p>	APESB	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
657.	147	<p>We agree with the proposed amendment that would prevent a key audit partner, rotating off an audit after a pre-defined period, from participating in the audit until a further period of time, normally two years, has elapsed.</p> <p>The amendment, however, does allow a former key audit partner to continue to be involved with the audit client in other ways - such as in the provision of non-assurance engagements. In our opinion, the familiarity risk will only be removed if the key audit partner rotating off the audit has no association with the audit client in <i>any capacity</i> during the two-year “cooling off” period. Consideration should therefore be given to extending the proposed revision to require a former key audit partner to have no association with the <i>audit client</i> during the “cooling off” period</p>	CAGNZ	No change – individual cannot be a member of the engagement team or a key audit partner
658.	147	<p>We support the approach taken by IESBA requiring the rotation of other key audit partners including the Engagement Quality Control Reviewer after a pre-defined period. However, we believe more timely rotation of key audit partners every five years rather than every seven years would further reduce the familiarity threat to independence. In Australia, the rotation of the Lead Engagement Partner, the Audit Review Partner and the Engagement Quality Control Reviewer is required every five years for listed entities and significant public sector entities. Our suggestion is also consistent with the requirements regarding audit partner rotation outlined in S 203 of the <i>Sarbanes-Oxley Act of 2002</i>.</p>	ACAG	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
659.	147	<p>In respect of partner rotation, the inclusion of the term “key audit partner” extends the mandatory requirement of rotation to a wider group of individuals.</p> <p>The Institute recognises the fact that in larger engagement, key audit partners, other than the engagement partner and the individual responsible for the engagement quality control review, may play a significant role in maintaining ongoing relationship with client management and therefore give rise to possible threats to independence.</p> <p>However, to require mandatory rotation for other partners in the engagement team apart from the engagement partner and the individual responsible for the engagement quality control review may be too onerous. It was also felt that the engagement partner and the individual responsible for the engagement quality control review are the final and ultimate decision makers on the financial statement, therefore the mandatory rotation of other engagement partner on the engagement team is overly strict and unnecessary to maintain independence.</p> <p>It should also be noted that in countries where there is a limited pool of available talent especially in cases of specialised audits, mandatory rotation of other audit partners on the engagement team may pose challenges and cause the audit quality to suffer.</p> <p>Therefore, the IESBA is requested to assess the approach taken and to consider the possibility of taking an approach whereby for other audit partners in the engagement team apart from the engagement partner and the individual responsible for the engagement quality control review, the threats to independence should be assessed on a risk basis rather than on a mandatory basis.</p>	MIA	See above
660.	147	<p>The CNCC in addition suggests that the cooling off period provided for in the case of lead engagement partner rotation (§ 290.147) be explicitly defined as "two audited financial years", rather than two years, since the notion of audited period seems to be more relevant. Therefore using the expression "financial year", in our view, would contribute to avoid any ambiguity</p>	CNCC	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
661.	147	We endorse the extension of the rotation requirement for the audit of ESPIs to key audit partners (though we have concerns about the interaction of this with the widened definition: see paragraph 56 below) and the retention of the rotation period at seven years. This period is a reasonable balance between issues of independence and the retention of knowledge, both important components of audit quality.	ICAEW	Supportive comment
662.	147	<p>Entities that may be classified as an “entity of significant public interest” as currently defined will include some governmental entities where the “key partners” may well be the “auditor general” of the jurisdiction that are required by law or regulation to audit the government’s comprehensive or general-purpose financial statements. In these circumstances, rotation will not be feasible.</p> <p>Partner rotation would apply to key audit partners as currently defined in the ED. Clarity should be provided regarding “partners on significant subsidiaries or divisions” in applying the partner rotation requirement. As written, it could be interpreted to imply that a partner on an international subsidiary could be required to adhere to the rotation requirement. This is not practicable and as discussed below, we do not believe that this partner bears the same responsibility as that of the lead engagement partner. Partner rotation should be required at the group level only, not at a subsidiary level unless the subsidiary is an entity of significant public interest in its own right.</p>	Grant Thornton	See above
663.	147	We also recommend that the first sentence of paragraph 290.147 be amended to read “In respect of the audit of <u>an entity</u> of significant public interest ...” to make it consistent with the rest of the paragraph and with the first sentence of paragraph 290.150.	PWC	Change made
664.	148	Any absolute period or amount inserted into a principles based code can lead to unintended consequences. Accordingly we are pleased to see the retention of a limited flexibility in this paragraph.	ICAEW	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
665.	148	Section 290.148 of the exposure draft stipulates that rotation can only take place after eight instead of seven years (1 year dispensation) under certain circumstances, and only when guarantees are made. NIVRA does not agree with this, because it is not in the public interest nor in line with the EU Statutory Audit Directive, which does not offer such a dispensation option.	NIVRA	No change – minority comment
666.	148	The example provided should clearly refer to the ‘key audit partner’ and not just a ‘partner’ in order to avoid any confusion.	KPMG	Change proposed
667.	148	<p>We support the new term and definition of ‘key audit partner’ and generally support extending the listed entity provision of key partner rotation for significant public interest entities.</p> <p>However, as outlined previously, in a number of jurisdictions, including Australia, public sector entities are required by legislation to be audited by the Auditor-General (or equivalent). In Australia, the Auditors-General (State and Federal) are appointed by the respective Parliaments, and in some jurisdictions within Australia the term of their appointment may exceed seven years. Therefore, it may not be practical to implement key partner rotation every seven years, in accordance with paragraph 290.147, with respect to the Auditor-General in this circumstance.</p> <p>To address the situation where the auditor is appointed by legislation for a term greater than seven years, the following guidance paragraph is suggested to be included following paragraph 290.148.</p> <p><i>‘In some countries, the engagement partner of significant public interest entities (particularly government agencies and government owned entities) are appointed by law or regulation. Where the term of the appointment of the engagement partner does not facilitate key partner rotation in accordance with paragraph 290.147, the firm should implement appropriate safeguards to minimize the familiarity, self review and self interest threats.’</i></p>	ACAG	Discussed by IESBA at June 2007 meeting agreed that limited flexibility would be permitted for firms with only a few people with the necessary knowledge and experience to serve as key audit partner if independent regulator in that jurisdiction had provided an exemption from partner rotation for such firm is alternative safeguards were applied.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
668.	150	<p>We believe that Board should re-evaluate its previous policies on the number of years served when an entity initially becomes an “entity of significant public interest.” Under paragraph 290.150, the partner would be required to count all prior years of service in determining whether he or she has provided a total of seven years of services, but at a minimum would be able to serve in his or her “key partner” role for two further years.</p> <p>Instead, we believe that the service life should start from the beginning of the first of the financial periods covered by the accountant’s report when the audit client becomes an “entity of significant public interest.”</p> <p>Many firms have voluntarily included in their quality control policies and procedures, an assignment of a concurring partner to the audits of higher risk or complexity, typically because they involve a public interest which may not be listed entities. If paragraph 290.150 remains as it is currently drafted, a continuing concurring partner on an audit of a public interest entity that becomes an entity of significant public interest (for example because it subsequently becomes listed) may only provide a further two years of service. This does not seem to be in the best interests of the public or the client and would conflict with the objective of the appointment of the partner, which is the maintenance of audit quality.</p>	Grant Thornton	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
669.	Non-audit services	<p>While we welcome additional guidance related to the provision of non-audit services, as mentioned earlier (see our comments under the heading Provision of non-assurance services), we are concerned that the additional restrictions do not appear to consider the significance of the threats. For example, the prohibition on material tax calculations for ESPIs seems to be moving away from the threats and safeguards approach, without a proper assessment of the significance of the threat. In the case of material tax calculations, the significance of the threat is greater where an auditor reviews his/her own subjective opinions than where the work has been of mechanical or routine in nature.</p> <p>Again as mentioned earlier, we do not believe that the introducing ‘blanket’ prohibitions, even in circumstances where acceptable safeguards may be available, is justified either on grounds of enhancing independence or evidence of a need to restrict further the ability of businesses to have access to and obtain their professional service needs cost effectively.</p>	ACCA	See above comment on principles/rules
670.	Non-audit services	<p>CGA-Canada concurs with the requirements set out at 290.165 and 290.166 regarding the preparation of accounting records and financial statements. We emphasize again that these sections need to be considered in additional guidance regarding the line between entities with significant public interest and other entities. Entities that do not have the resources for full-time accounting staff sufficient to maintain accounting records or draft financial statements in accordance with IFRS would almost certainly not qualify as having “significant public interest.”</p> <p>Virtually the same point can be made regarding entities which do not have resources or sufficient requirement to employ in-house staff capable of calculating deferred tax liabilities or assets, 290.177–290.178, or performing valuations for financial statement purposes, 290.169–290.173.</p> <p>With regard to taxation services, CGA-Canada concurs with the ED on tax planning and other advisory services as set out at 290.170–290.182, and on assistance in resolution of tax disputes, 290.183–290.185.</p>	CGA	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
671.	Non-audit services	We endorse the retention of the underlying premise that non-audit services should be assessed on a case by case basis and not provided only where threats cannot be safeguarded against. We also think the examples cover the right range of services. However, we have commented on the general issue of whether extra absolute prohibitions are justified in paragraph 10 above. See also paragraphs 36 to 49 below for comments on individual provisions.	ICAEW	Generally supportive comment – detailed matters considered below
672.	Non-audit services	No. See our comments under items 1.1 and 2.5 above.	FEE	General comment – concerns expressed discussed in more detail elsewhere in document
673.	Non-audit services	In most areas the proposed revised guidance would appear reasonable in the current climate. However, we do have concerns over the tax proposals as stated above	ICAS	General comment – concerns expressed discussed in more detail elsewhere in document
674.	Non-audit services	We believe the revised guidance to be generally appropriate, but have a number of concerns in particular as set out below. Our further thoughts on more detailed drafting aspects are set out in Part C of this letter:	KPMG	General comment – concerns expressed discussed in more detail elsewhere in document
675.	Non-audit services	While we support the application of the self-review threat approach in the provision of non-assurance services, the Code of Ethics should nevertheless allow the professional accountant the right to exercise professional judgement and apply appropriate safeguards (particularly disclosure) in situations where the nature of the environment is such that clients do not have an extended choice of advisers. This would often apply in smaller jurisdictions with developing economies	SAICA	No change – IESBA is of the view the right balance has been struck
676.	Non-audit services	In general, we support these proposed changes, bearing in mind the comments we made above concerning taxation services.	SAICA	General comment – concerns expressed discussed in more detail elsewhere in document
677.	Non-audit services	In most cases we believe that the revised guidance related to the provision of non-audit services is appropriate. Areas where we believe that further change should be made are commented on in more detail in Appendix 2.	APB	General comment – concerns expressed discussed in more detail elsewhere in document

X ref	Par Ref	Comment	Respondent	Proposed Resolution
678.	Non-audit services	<p>We support the changes regarding the provision of non-assurance services.</p> <p>We are hopeful that entities that are small and do not have resources for employment of accounting staff would not be considered an entity of significant public interest.</p> <p>In the Alberta market there are a number of small businesses that benefit from the professional services afforded by an assurance firm. These entities generally do not have the resources to employ in-house staff to maintain their accounting records or calculate more complex transactions.</p>	CGA - Alberta	General comment – concerns expressed discussed in more detail elsewhere in document
679.	Non-audit services	<p>The Guidance is adequate. But it will be appropriate that a FAQ is developed to clearly identify which activity is a management function and which is not. This will help proper adherence to the standard. For instance, standard permits preparation of Income Tax Returns but whether filing of Income Tax Return is a management function or not is not clear from the Section. Similarly, appearing before an appellant authority below ITAT/ Court is allowed, whether drafting of appeal is a management function is or not is not clear from the standard, thus a FAQ will help the professionals in adherence of standard. For example some non-audit functions can be listed at as below:</p>	ICAIIndia	Change made – paragraphs addressing management responsibilities ammended
680.	Non-audit services	<p>Although we agree that certain situations should be clearly prohibited as the result of robust assessment, such as services that entail acting as client management or acting in a management role, we are concerned that in the provision of certain IT systems services and valuation services there can be no safeguards to achieving and maintaining independence. For example, when such services are not subject to audits, we understand that it would be possible to render them under certain conditions, one of them being that they not entail acting as client management or in a managerial role. This is also applicable to other non-audit services, such as actuarial or internal audit outsourcing services .</p>	FACPE	No change – minority comment
681.	Non-audit services	<p>The Institute is of the view that the revised guidance related to the provision of non-audit services is appropriate.</p>	MIA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
682.	Non-audit services	The proposed changes in the Exposure Draft tend to relate to the provision of non-assurance services to audit clients such as valuation services, taxation services and IT systems services. Conceptually, given the nature of non-assurance services, it is very difficult to explain why it is possible to provide one level of service to an entity of significant public interest and another level of service to an other entity and assert that consistent standards of independence have been maintained. It is our opinion that the guidance in the 'Exposure Draft should apply equally to all audits - unless additional quality control measures are required for entities of significant public interest.	CAGNZ	No change – IESBA is of the view it is appropriate to distinguish between public interest entities and other because of the public interest
683.	Non-audit services	We are generally supportive of the revision to the guidance on the provision of non-audit services except for our comments on the guidance related to the provision of Taxation Services and Corporate Finance Services as follows:	KICPA	General comment – concerns expressed discussed in more detail elsewhere in document
684.	Non-audit services	We are of the view that the revised guidance related to the provision of non-audit services is appropriate.	ICPAS	Supportive comment
685.	Non-audit services	Yes, the revised guidance related to the provision of non-audit services is appropriate.	ICAP	Supportive comment
686.	Non-audit services	We believe that the revised guidance related to the provision of non-audit services is appropriate. This is not a significant issue for the Australian public sector as Auditors-General generally do not provide non-audit services to their respective clients.	ACAG	Supportive comment
687.	Non-audit services	We are generally supportive of the Board's efforts to draft standards that are seen as robust and credible and to reconsider the examples in the current Code covering non-audit services. We do have comments on the proposals relating to tax services, IT systems services and corporate finance services	DTT	General comment – concerns expressed discussed in more detail elsewhere in document
688.	Non-audit services	We believe that guidance provided regarding non attest services is appropriate.	CoCPA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
689.	Non-audit services	<p>While we are satisfied with most of the provisions some, in particular those relating to ESPI and taxation services, give us cause for concern. We also support the development of more detailed implementation guidance in the area of preparation of accounting records and financial statements...</p> <p>We firmly believe in the basic principle that an auditor should not review their own work and that this principle should apply irrespective of the size of the audit client or practice undertaking the audit. We also recognize that this is already bedded into the existing Code and that the ED largely simply clarifies this. Nevertheless, it is also important to recognize that the provision of non-assurance services by the auditor is appropriate in some circumstances.</p> <p>Many SMEs lack the appropriate in-house expertise and so rely more heavily on practitioners for help than larger entities. Many SMPs, especially those operating in jurisdictions where there is a statutory audit requirement for all companies regardless of size, typically provide a comprehensive range of assurance and other services to the same client. Often the SMP <i>helps</i> a particular SME client prepare the underlying books of account from the source documents, maintain proper accounting records, draw up the financial statements, compute taxes payable, and file the tax return while also providing tax advice, auditing the financial statements and providing general business advice. Restrictions on SMPs offering non-assurance services to SME audit clients can significantly increase the costs of doing business and make it less likely they will purchase services that will be of real benefit to them and their stakeholders.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	To be considered as part of Implementation support project
690.	Non-audit services	<p>SMEs often prefer to have many of these services provided by a known and trusted entity/person. They see great value in having a close business relationship with a practitioner who develops a deep understanding of their business. The relationship is one that is mutually beneficial and serves the public interest by making for a vibrant SME sector. We believe some aspects of the proposals, while well intended, threaten this relationship while offering little enhancement to independence.</p>	SMP/DNC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
691.	Non-audit services	<p>The CNCC took good note that the wording of the draft IFAC Code seems to move away from the principles based threats and safeguards approach, especially in the paragraphs dealing with the provision of non-audit services to entities with a significant public interest.</p> <p>For the time being the French requirements regarding the nature of the services that are prohibited are more binding than the IFAC requirements for services delivered by the statutory auditor or by his network to the audited company, to the entities controlled by this audited company or controlling it. All the same the threats and safeguards approach has been introduced in the French Code and even if such introduction remains yet limited, the CNCC considers that it is highly necessary because it gives the opportunity both to take the professional member's judgement into account and to escape from the contingent and limited nature of a set of rules. The fact that the revised version of the IFAC Code seems to move away from this approach is a matter of concern for the CNCC.</p>	CNCC	See comments above on Principles/rules
692.	Non-audit services	We support the updating requirements related to the provision of non-assurance services, including setting out additional guidance on the provision of tax services to audit clients.	FAP	Supportive comment
693.	Non-audit services	We refer to our detailed comments above. In addition, audit quality may be enhanced by knowledge gained performing other services; this aspect needs to be weighed up on an individual case basis, rather than taking an inflexible approach.	IDW	General comment – concerns expressed discussed in more detail elsewhere in document
694.	Non-audit services	We have no particular objection to the additional requirements applying in the case of entities of significant public interest.	Mazars	Supportive comment
695.	Non-audit services	Generally, the revised guidance related to the provision of non-audit services is appropriate for listed companies and regulated financial institutions such as banks and insurance companies. However, as mentioned above, given that the definition of the term “ESPI” has not yet been defined, it would be premature to introduce the revised guidelines for non-audit services affecting other potential ESPIs.	HKICPA	General comment – concerns expressed discussed in more detail elsewhere in document

X ref	Par Ref	Comment	Respondent	Proposed Resolution
696.	Non-audit services	<p>Our answer to this question is twofold. For those entities that are truly regarded as having significant public interest, the revised guidance related to the provision of non-audit services are appropriate.</p> <p>However, as mentioned in 1 above, it is pre-mature to define the term “Significant Public Interest”. It would be inappropriate to impose the revised guidance. In particular, it has been recognized that a significant percentage of the commercial entities worldwide are small and medium enterprises (SME). One of the characteristics of SME is that entrepreneurs are cost conscious and are always looking for one stop service to save cost when seeking professional services. These particular requirements would certainly increase their costs and time, for example, cost and time in dealing with different professionals by expressing the same set of information, which might be over the benefits they would generate from such requirements and therefore would affect their business operations.</p>	SCAA	General comment – concerns expressed discussed in more detail elsewhere in document
697.	Non-audit services	We are of the view that these proposals are adequate to address the independence requirements	IRBA	Supportive comment
698.	Non-audit services	We have provided a number of comments on this subject in the main body of our letter. In general, we see some progress in supplying useful guidance but also believe that significant clarification and further improvement is needed. We encourage the IESBA to consider the findings of the IOSCO Survey on Regulation of Non-audit Services, including portions which reference application of the IFAC Ethics Code, and identify ways to both enhance current guidance and move toward greater global convergence.	IOSCO	Independence Task Force carefully considered results of IOSCO survey when considering changes appropriate as a result of comments received on exposure

X ref	Par Ref	Comment	Respondent	Proposed Resolution
699.	Non-audit services	<p>We observe that certain requirements applicable to entities of significant public interest have been strengthened and that in many circumstances the IESBA has concluded that there were no safeguards available to overcome the threat to independence (e.g. 290.150). We appreciate this enhancement of the Code, as the areas involved have been the subject of concern among regulators, and encourage the IESBA to consider other enhancements that might be needed.</p> <p>We encourage the IESBA to analyze and consider the findings of the IOSCO Survey on Regulation of Non-audit Services and use these findings to identify ways to improve the IFAC Ethics Code. This could be very helpful in moving toward greater global convergence in ethics and independence standards. SC 1's Auditing Subcommittee would be happy to discuss the results of the Survey with representatives of the IESBA Board and staff as needed.</p>	IOSCO	<p>General comment</p> <p>Independence Task Force carefully considered results of IOSCO survey when considering changes appropriate as a result of comments received on exposure</p>
700.	Non-audit services	<p>We note that many requirements applicable to entities of significant public interest include both a "relevance" consideration (e.g. 290.167 or 290.173) and a "materiality" consideration (e.g. 290.178). In concept, we support the IESBA's use of both qualitative and quantitative criteria in determining safeguards that can be applied in certain specific situations; however, broad use of "materiality" as a threshold in the context of auditor independence requirements would be problematic to some of our members.</p> <p>As materiality is a term or concept that has had a wide range of usages and meanings in standards, we believe it would be helpful for the Board to study requirements and independence issues arising in jurisdictions around the world and to explore alternatives for assuring the necessary independence of the auditor while recognizing both cost/benefit considerations and impacts on investor perceptions. Alternatives explored could include such possibilities as greater or lesser thresholds for materiality, materiality definition in the context of auditor independence, whether it might be appropriate to establish a very low threshold below which an independence issue might be considered trivial or insignificant, and other ways to promote consistent application and convergence in ways that do not threaten adequate auditor independence.</p>	IOSCO	<p>No change – the materiality threshold is used in a few instances where the self-review threat is most critical.</p> <p>No change – materiality is a matter which is well established in auditing standards and methodology</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
701.	Non-audit services	We also suggest that the IESBA study whether creating a provision requiring the auditor to discuss both audit and non-audit services with those charged with governance and/or seek board or audit committee pre-approval of such services would be an enhancement to the Code.	IOSCO	ISA 260 addresses communications with those charged with governance. IESBA is of the view that pre-approval of non-assurance services is not appropriate in a global Code. Extra paragraph after 155 added stating that it may be helpful to discuss with those charged with governance judgments made by the firm.
702.	151	<p>The discussion and guidance around non-audit services is variable with some sections being very prescriptive and others more vague (for example IT systems services, recruiting senior management). Further, the detailed guidance in the area of tax services is far less restrictive than other services.</p> <p>We would recommend that there be more discussion as an introduction to the material on specific services (around paragraph 290.151) including the possible threats created when the audit firm provides non-assurance services to clients, and setting out some general principles. At a minimum, this should include discussion of the self-review threat that can arise, the increased exposure in the area of fees (the more services the firm provides, the greater the revenue, the more pressure to retain that client – a major factor in the Enron case) and the impact on the perception of independence.</p> <p>The IOSCO survey quoted earlier notes that “the threats and safeguards approach in this area may be viewed as somewhat profession-centric, as the emphasis is on general ethical conduct and the auditor’s own self-assessment of any threats to his or her objectivity” and reports significant variation internationally in the guidance given in relation to specific services, notably tax services.</p> <p>It would appear to us that a far more rigorous analysis of this area needs to be performed with a view to providing a clearer set of principles to be applied when considering offering non-assurance services to assurance clients and then consistent guidance in relation to specific types of services.</p>	ICANZ	<p>Sentence added to describe threats most commonly created by non-assurance services.</p> <p>Sentence added to state that if specific non-assurance service is not addressed in the section the conceptual framework should be applied.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
703.	151	Having rightly noted that it is impossible to draw up an all-inclusive list of non-assurance services ('NAS'), it may be helpful, either here or at the end of this section, to remind users that the sections that follow are examples of the application of the fundamental threats and safeguards requirement. Indeed this is so important it merits repetition in the context of a discussion of the overall approach, in a number of places, for example paragraphs 290.8 and 290.100. We believe there is a tendency in practice to use such sections in a tick-box fashion, missing the point of a principles-based code.	ICAEW	Sentence added to state that if specific non-assurance service is not addressed in the section the conceptual framework should be applied.
704.	152	<p>ED 290.152 contains the following new requirement:</p> <p><i>“In evaluating the significance of any threat created by a particular non-assurance service, consideration should be given to any threat that the audit team has reason to believe may be created by providing other related non-assurance services.”</i></p> <p>While the principle appears sound, we believe that this requirement is somewhat vague in intent and overly broad in scope such that it poses operational hurdles that may be difficult to overcome, particularly for networks with global reach (and particularly in respect of audit clients with global operations).</p> <p>It should be clear that it does not require detailed network searches, or documentation of every possible consideration, every time the client requests the firm to provide a new service. We recommend that 290.152 be amended to address this as follows:</p> <p><i>“Before the firm accepts an engagement to provide a non-assurance service to an audit client, consideration should be given to whether providing such a service would create a threat to independence and whether the threat is other than clearly insignificant. In order to evaluate threats created by a particular non-assurance service it may be necessary to consider the effects of (and any threats created by) related non-assurance services. If the audit team has reason to believe that related non-assurance services are relevant to its evaluation of a particular non-assurance service, the effects of those other services should be taken into account. In some cases it may be possible to eliminate or reduce the threat to an acceptable level by the application of safeguards. In other cases no safeguards could reduce the threat to an acceptable level and the non-assurance service should not be provided.”</i></p>	PwC	No change – minority comment. IESBA is of the view that the proposed change in the ED is clear

X ref	Par Ref	Comment	Respondent	Proposed Resolution
705.	153	It would also be helpful to clarify that in the relevant circumstances, the provisions in these paragraphs override those in the ensuring examples.	ICAEW	No change – minority comment
706.	153	<p>There are provisions (e.g., paragraph 290.153) providing protection against the consequences of inadvertent violations of the independence requirements. We fully support those provisions. However, we note that paragraph 290.153 does not include such protection when non-assurance services are inadvertently provided to the audit client itself (other than to divisions) and we believe that it should.</p> <p>We note that in many situations such provisions may be applied in circumstances where the Section states that ‘no safeguards could reduce the threat to an acceptable level’. Strictly, such positions are difficult to reconcile. The Board may wish to consider a clarification as part of the ‘clarity’ review.</p>	PwC	<p>No change – paragraph addresses “discrete financial statement” items</p> <p>No change – minority comment</p>
707.	154	We believe that the concept of “not subject to audit procedures” mentioned in § 290.154 and allowing the provision of certain non-audit services to the parent or affiliated entities of the audit client requires additional development. The concept is an interesting one but can it be applied to any and all services rendered to the parent company that do not imply a self-review threat for the audited subsidiary? The threat of conflict of interest or to be under influence of the management group when providing extensive services to the parent company should be appreciated in this case.	Mazars	Change made – paragraph clarified
708.	Managem ent functions	NIVRA agrees.	NIVRA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
709.	Managem ent functions	We agree with the position that the firm should not become too closely aligned with the views and interests of management. We also agree that activities that are routine or administrative are not ordinarily management functions – not only because of the nature of the activities themselves, but because routine and administrative activities do not require one to act in a management decision making capacity. If a member of management is making all significant judgments and decisions then the activity itself is only one part of the analysis. We recommend clarification that an activity that does not provide for capacity to make “management decisions” is not ordinarily a management function. A “threats and safeguards” principles based approach is appropriate.	Australia	No change – minority comment
710.	Managem ent functions	In particular we support ...recognition that the introduction of a sixth category of threat, namely the management threat, is not deemed necessary; We concur with the thoughts of the IESBA that a “management threat” is in effect a combination of the five existing categories of threat.	ICAS	Supportive comment
711.	Managem ent functions	We agree with the IESBA that adding management threat as a sixth category of threat is not necessary as it is in effect a combination of the five existing categories of threat.	ACCA	Supportive comment
712.	Managem ent functions	We agree that management functions should not become a sixth threat to Independence. We support, based on the Canadian experience, the proposed requirement for a designated member of management to be responsible for all significant judgments and decisions taken as a result of the firm’s performance of non-assurance services.	CICA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
713.	Managem ent functions	I believe that a sixth category of threat, i.e., the threat of performing management functions, should be added to the Code. I do not necessarily agree that that the management function threat results from a combination of the other threats to independence. But even if one makes that presumption, I would suggest the Board apply a more direct approach. I believe that adding the management function threat in the Code would help professional accountants identify threats to independence more easily and mitigate the risk that threats are overlooked. Adding this category of threat would also be consistent with the AICPA's "Conceptual Framework for AICPA Independence Standards" (AICPA, Professional Standards, ET sec. 100.01).	AC	No change – minority comment. IESBA has debated and concluded that a 6 th category of threat is not appropriate
714.	Managem ent functions	<p>We are broadly supportive of the direction of the proposals. However, we do have some recommendations to help clarify the intent.</p> <p>The word “function” in the term "management function" creates a risk that the term will be interpreted as covering any activity that might be performed by a member of management. However, not all activities performed by management involve acting as management. For example, the functions performed by a finance director in a small business are likely to be very different from those of a finance director in a large multinational business. Further, in a small business a finance director may perform a wide range of functions. In both cases, not all of the finance director's activities will be “management responsibilities” or involve acting as management.</p> <p>The term “management functions” is already in use in the SEC independence rules, where it has a different, and wider, meaning than that contemplated in the ED. For example, “management functions” in the SEC rules includes “acting as an employee” – which contemplates performing tasks for the client under the direction, control, and supervision of the client (but is sometimes erroneously interpreted as doing something that a client employee could or might do). Adopting the same term, therefore, creates a risk of importing the SEC meaning into the Code, or at the very least causing the term to be interpreted as covering any function that could be performed by management, even if it would not entail acting as management.</p> <p style="text-align: right;">Cont'd</p>	PwC	Change – paragraphs re-drafted to eliminate use of term “management functions”

X ref	Par Ref	Comment	Respondent	Proposed Resolution
715.	Managem ent functions	<p>The alternative expression “acting as management” conveys a more appropriate meaning; it conveys acting in a capacity equivalent to that of a member of management. We recommend that 290.156 through .160 be revised to refer to "acting as management" rather than “management functions.”</p> <p>Our detailed comments on this important sub-Section are set out in Appendix II. {Appendix 5 to this Agenda paper]</p>	PwC	See above
716.	157	<p>We welcome the additional explicit guidance provided on management functions. Among the examples provided, we would suggest adding the following:</p> <ul style="list-style-type: none"> • Supervising client staff in the performance of their duties. • Having custody of client assets. • Holding discretionary powers of attorney on behalf of the audit client. 	E&Y	<p>Example added</p> <p>No change – this would be too broad and could be seen as including holding a client prepared cheque</p> <p>No change – this is too detailed and possibly subject to differing interpretation</p>
717.	158	<p>We understand the new section on management responsibilities to be an additional discussion on existing requirements in this area, and as such it is welcome. However we note that the prohibition is now on performing ‘management functions’. The existing Section 290 refers in a number of places to not assuming management roles or making management decisions. A change of wording in a standard can be interpreted as implying a change in meaning. It would be helpful to clarify whether or not this change in wording is intended to imply just such a change.</p>	ICAEW	Change – paragraphs re-drafted to eliminate use of term “management functions”

X ref	Par Ref	Comment	Respondent	Proposed Resolution
718.	158	We agree with the principle behind this change. However, we have doubts about how this would work in practice. If an entity has someone with the ability to make all significant judgements and decisions and accept responsibility for the actions taken, then they may as well do the work themselves. Often, the audit firm is called on to perform non-assurance services because the entity does not have employees with the necessary expertise. The danger here is that someone will take responsibility as required by section 290.160, but practically they will still rely on the work of the audit firm.	ICANZ	No change – minority comment
719.	159	In our opinion, examples given in Paragraph 290.159 (especially, “monitoring the dates for filing statutory returns and advising an audit client of those dates”) are not appropriate for services of the kind to be provided.	JICPA	No change – minority comment
720.	159	We do not consider the example of executing an insignificant transaction that has been authorized by management is appropriate - as it does not adequately take account of the threat to independence in appearance	CAGNZ	No change – minority comment
721.	159	Also, Section 290.159 discusses examples of services that are not considered management functions. The last sentence states “ <i>Further, providing advice and recommendations to assist management in performing its functions or providing elements of a client’s internal training program would not be considered a management function.</i> ” The fact that advisory services are not a management function is an important concept and merits a separate statement in this section. Placing it with a very narrow example detracts from its importance. We recommend that the example of providing elements of a client’s internal training program be discussed separately, if not deleted altogether.	E&Y	No change – minority comment
722.	160	At paragraph 290.160, we would suggest the words ‘a sufficient level of understanding of the service, and’ be deleted. All that is necessary are the words ‘...an ability to evaluate ...’ as this would avoid the situation where the client needs to be an expert (say in tax), which is clearly not the intent.	ACCA	Change made
723.	160	We consider this is an important enhancement	CAGNZ	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
724.	Accounting	We agree in principle with the requirements in this section. The ED largely clarifies what is or is not permitted and we concur with the proposed new text. However, we are of the view that more detailed implementation guidance is required to ensure proper compliance with the provisions (see above). The guidance needs to help professional accountants determine how to support the SME client as they go about preparing their accounting records and financial statements, while ensuring that the client's management assumes full responsibility for the statements being audited.	SMP/DNC	Matter will be considered in Implementation support project
725.	Accounting	We support the clarification proposed to the guidance concerning the preparation of accounting records and financial statements for an assurance client.	CICA	Supportive comment
726.	Accounting	We agree with the proposals under this heading.	ACCA	Supportive comment
727.	161-168	We are pleased to see that there has been no change of substance in the requirements in respect of this topic. The requirements are already quite onerous but on balance, given the starting point, allow a reasonable ability to assist the client in improving the quality of the report being audited, while ensuring that threats to independence are not unacceptable. Further restrictions would be unnecessary and may harm quality.	ICAEW	Supportive comment
728.	161-165	The CSOEC globally approves the text of paragraphs 290.161 to 290.165 relating to the work performed by accountancy firms dealing with preparation of accounting records and financial statements and safeguards to be implemented in order to reduce the self-review threat to an acceptable level.	CSOEC	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
729.	163-164	<p>We agree with the conclusion that the activities described in paragraphs 290.163 and 290.164 do not give rise to threats to independence.</p> <p>We suggest that a distinction be made as follows: bookkeeping is the recording of transactions where the amount and basis on which they should be recorded has been determined by management; accounting is the determination of the value and treatment that should be applied and is a management activity.</p> <p>Reconciliation work or clerical work in posting client-coded entries into an accounting system would not infer management responsibility and require the implementation of the safeguards discussed in this section.</p>	Grant Thornton	No change – minority comment
730.	163-164	Conceptually, we may understand the logic which is used in paragraph § 290.163 and 290.164 in relation to bookkeeping and preparation of financial statements, although we strongly believe that those principles should be illustrated with further guidance either in the Code or by means of an interpretation.	CNCC	Matter will be considered in Implementation support project
731.	164	We believe that some of the items that are suggested as 'a normal part of the audit process' may pose a strong self-review threat to the auditor's independence and are more in the nature of accounting services. For example, we disagree that drafting disclosure items for an audit client is a 'normal part of the audit process,' particularly when considering the requirements of IFRS 7, Financial Instruments: Disclosures. We believe this paragraph should be revisited and should only include examples of activities that would not pose a self-review threat.	Basel	Paragraph redrafted to clarify what would be considered to be a normal part of the audit process and reference to drafting disclosure item has been dropped.
732.	164	We are concerned with this paragraph that many of the items which are suggested as 'a normal part of the audit process' would seem to pose a strong self-review threat to the auditor's independence and are more in the nature of accounting services. For example, the suggestion that drafting disclosure items is a 'normal part of the audit process' seems a little excessive when considering the requirements of IFRS 7, Financial Instruments: Disclosures. We believe this paragraph needs to be revisited and more thought given to what is appropriate given the self-review threat.	APB	Paragraph redrafted to clarify what would be considered to be a normal part of the audit process and reference to drafting disclosure item has been dropped.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
733.	164	<p>The interface between audit and reasonable accountancy assistance is a difficult one. Paragraph 290.164 attempts to provide guidance but, we fear strays too far to suggesting that some activities do not create a self-review threat. We believe that in certain circumstances self-review threats can arise from all of the four activities described, namely:</p> <ul style="list-style-type: none"> • resolving account reconciliation problems, • analyzing and accumulating information for regulatory reporting (especially if the auditors then report on that information), • converting financial statements from one financial reporting framework to another (especially if the auditors then report on that information), and • drafting disclosure items. <p>The question which needs to be addressed is the significance of the threat which arises. In some cases, this may not be significant and safeguards may not be necessary. However, it is not appropriate to state that no threats arise whatsoever in all cases.</p>	APB	Paragraph redrafted to clarify what would be considered to be a normal part of the audit process and reference to drafting disclosure item has been dropped.
734.	165	<p>It in particular agrees with the text in paragraphs 290.163 which insists on the part played by the professional accountant in point of technical and advisory assistance to the entity management.</p> <p>It also agrees with the definitions given of a "management function" (paragraphs 290.156 to 290.160) and the notion of "routine or administrative services" related to the preparation of accounting records and financial statements.</p> <p>However as far as small practising structures are concerned, the safeguards when deemed necessary by the professional accountant should include the possibility of involving another professional accountant to carry out a review of the work performed in accordance with what is recommended in the ISQC1 standard of the IAASB in paragraph 72, for what concerns the independent review of the audit file and in paragraph 80 for what concerns external quality control.</p>	CSOEC	No change – the second bullet addresses using someone from outside the firm
735.	165	<p>Equally we believe that the notion of "mechanical operations" referred to in § 290.165 and elsewhere in relation to the preparation of accounting records and of financial statements should be illustrated. Such a notion needs to be clarified to be understood by all.</p>	CNCC	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
736.	165	<p>We do not consider that the examples provided under the first four bullet points are services that should be performed for audit clients.</p> <p>Under the fifth bullet point the word "preparing" should be replaced by the word "compiling". We are also of the view that compiling financial statements should only be carried out in emergency situations as provided for in paragraph 290.168</p>	CAGNZ	No change – minority comment
737.	166	Section 290.166 permits the preparation of accounting records and financial statements for ESPIs in crisis situations. NIVRA does not agree with this, because it conflicts with the public interest.	NIVRA	No change – minority comment
738.	167	We disagree that such services should be permitted as it does not adequately take account of the threat to independence in appearance	CAGNZ	No change – minority comment
739.	168	Whilst we do agree with the dilution of the exception that is in paragraph 290.173 of the current Code, we believe that such provision should be rarely used and then only in true emergencies, such as certain national or international disasters, where no other service provider can immediately provide such services.	Grant Thornton	No change – minority comment
740.	Valuation services	We support the proposed changes and note that the proposals for entities of significant public interest are in line with existing Canadian guidance.	CICA	Supportive comment
741.	Valuation services	We endorse the guidance that an auditor should not provide a valuation service if it would have a material effect on the financial statement.	ICPAI	Supportive comment
742.	Valuation services	NIVRA agrees with the proposal to prohibit valuation services to ESPIs as soon as there is “a material effect on the financial statements” and to drop the subjectivity criteria with respect to this category of companies.	NIVRA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
743.	Valuation services	While we understand the Board wishes to provide an exemption relative to the provision of valuation services, we are not certain of many, if any, instances where valuations do not involve a significant degree of subjectivity and, therefore, recommend that the Board consider either clarifying their exemption or prohibiting the provision of valuation services for an attest client.	CACPA	No change – IESBA is of the view that given the public interest it is appropriate to restrict all material valuations for entities of public interest
744.	Valuation services	<u>Valuation services.</u> It is better not to give any option in the case in certain cases which do not involve a significant degree of subjectivity. It is difficult to measure. It is always better to avoid options	ICAIIndia	No change – IESBA is of the view that given the public interest it is appropriate to restrict all material valuations for entities of public interest
745.	Valuation services	Our view is that the audit firm should not provide services involving the valuation of any matters material to the financial statements as we feel that the self-review threat created could not be reduced to an acceptable level by the application of any safeguard. This is reflected in our current Code of Ethics section relating to Independence. Further, there is a danger in performing valuations that may be immaterial to the current financial statements as a valuation that is immaterial this year may become material for a future reporting period.	ICANZ	No change – IESBA is of the view that given the public interest it is appropriate to restrict all material valuations for entities of public interest
746.	Valuation services – tax valuations	As a general rule, we would consider that tax-only valuations do not give rise to the same threat to independence as financial valuations. We note that the preamble to the 2003 SEC rules specifically excludes transfer pricing studies, cost segregation studies and other tax-only valuations from the prohibitions on valuation services. We recommend that the guidance in this section be reconsidered accordingly.	KPMG	No change – IESBA is of the view there is no compelling reason to permit material valuations that are for tax purposes

X ref	Par Ref	Comment	Respondent	Proposed Resolution
747.	Valuation services – tax valuations	<p>In addition, in the Exposure Draft, the existing Section 290.178 of the current Code of Ethics has been removed. This section states: <i>“When a firm, or a network firm, performs a valuation service for a financial statement audit client for the purpose of making a filing or return to a tax authority, computing an amount of tax due by the client, or for the purpose of tax planning, this would not create significant threat to independence, because such valuations are generally subject to external review, for example by a tax authority”.</i></p> <p>Although it could be considered that such tax valuation services would now be addressed in the section on Taxation Services, it is not clear whether tax valuation services are subject to the provisions of Sections 290.169 to 173, or should be assessed under the sections addressing Taxation Services, where tax valuations are not explicitly mentioned. The Explanatory Memorandum does not identify a rationale for the removal of this section as a change nor explain whether the IESBA has changed its previous assessment of the threats to independence in relation to tax valuations subject to external reviews. We consider that the assessment of the threat in the present Code is still appropriate and we believe the section should be added back, either in the Valuation Services or in the Taxation Services section.</p>	E&Y	No change – IESBA is of the view there is no compelling reason to permit material valuations that are for tax purposes
748.	Valuation services – tax valuations	The ED should clarify that valuations performed for tax purposes should be permitted to the extent that such valuations, if material, are not used for financial reporting purposes.	DTT	No change – IESBA is of the view there is no compelling reason to permit material valuations that are for tax purposes
749.	Valuation services – tax valuations	We consider that section 290.178 in the code should be kept as it is now	ICJCE	No change – IESBA is of the view that given the public interest it is appropriate to restrict all material valuations for entities of public interest

X ref	Par Ref	Comment	Respondent	Proposed Resolution
750.	General	However, we believe that the provisions on Valuation Services should be further strengthened by acknowledging that such services could create threats other than self-review and addressing them accordingly. More specifically, there are valuation services that are not reflected in the financial statements and, accordingly, do not necessarily create a self-review threat but could pose an advocacy threat. For example, a valuation of a company or a business, which would not normally have an impact on the financial statements, could be used by the audit client to assist in negotiating a price to buy or sell a business, to obtain regulatory approval of a transaction or IPO, or to be included in an offering memorandum. We believe it would be important for the Code to provide guidance on how to evaluate the related threats and what safeguards could be employed	E&Y	No change – IESBA is of the view that given the public interest it is appropriate to restrict all material valuations for entities of public interest
751.	General	It would be also helpful to address whether independence can be threatened when a non-audit client (for instance a shareholder of an audit client or a third party) engages an accounting firm to perform the valuation of an audit client's business or assets.	E&Y	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
752.	169-173	<p>The Exposure Draft recognizes that the conduct of valuation services creates a self-review threat - however, it also acknowledges that valuation services may be provided in certain circumstances. In our view, valuations of material matters should not be undertaken in any instance, irrespective of whether the audit client is an entity of significant public interest.</p> <p>Paragraph 290.171 states that valuation services that have a material effect on the financial statements and which involve a significant degree of subjectivity, impair independence to such an extent that either the valuation services should not be provided or that the firm should withdraw from the audit engagement. What this paragraph could permit is valuation services on material matters that do not involve a significant degree of subjectivity. This possibility also appears to be envisaged in paragraph 290.172. In our view, such an outcome is unacceptable and the Exposure Draft should be amended accordingly.</p> <p>There is a further matter to consider in the provision of valuation services to audit clients in that the client will not generally be competent to form a view on the reasonableness of the valuation. In fact, the audit client will typically have acknowledged this in seeking an expert to provide a valuation for them. In this situation the auditor must also take account of the guidance in paragraph 290.160 which requires a member of management with a sufficient level of understanding of the service, and an ability to evaluate the results, to be designated to make all significant judgments and decisions connected with the services, and to accept responsibility for the actions to be taken arising from the results of the service. The guidance in paragraph 290.160 therefore needs to be reflected in the guidance on valuation services.</p>	CAGNZ	<p>No change – IESBA is of the view that given the public interest it is appropriate to restrict all material valuations for entities of public interest. For non public interest entities valuations are permitted if they are not material and subjective</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
753.	170	We doubt that the change made in paragraph 290.170 to refer to “material effect on the financial statements” rather than previously “material to the financial statements” has significantly improved the clarity of this section. In our view, the greatest self-review threat arises when the valuation is incorporated <i>directly</i> into the financial statements. A valuation might, however, not be booked in the financial statements, but might be disclosed in a note to the financial statements (eg certain valuations undertaken for tax purposes only). Other valuations might have an <i>indirect</i> effect on the financial statements, eg valuations underpinning the transfer of assets within a group, the effect of which might be eliminated on consolidation albeit possibly with an impact on the realised profits of the parent entity or some other indirect effect. .	KPMG	No change – minority comment
754.	171-172	If separate treatment is to be retained for the audit of ESPIs (see below) it should be clarified that these two paragraphs relate to the audits of entities that are not ESPIs rather than all audits: they are inconsistent with the requirements of paragraph 173 which apply to the audits of ESPIs.	ICAEW	Change made – heading added
755.	173	<p>Par 290.171 states that if the valuation service has a material effect on the financial statements and the valuation involves a significant degree of subjectivity no safeguard could reduce the self-review threat to an acceptable level. According to par 290.172 the valuation does probably not involve a significant degree of subjectivity, where the underlying assumptions are either determined by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.</p> <p>We agree with par 290.172 insofar as there is no threat to independence in this case, but we do not see any difference regarding entities of significant public interest. Therefore we recommend deleting par 290.173.</p>	WpK	No change – IESBA is of the view that given the public interest it is appropriate to restrict all material valuations for entities of public interest

X ref	Par Ref	Comment	Respondent	Proposed Resolution
756.	173	<p>The CSOEC does not believe it is appropriate to toughen the previous stance adopted on the subject which has already been dealt with as part of the recommendation of the European Commission of May 2002.</p> <p>As a consequence the CSOEC does not agree with the change proposed for entities of significant public interest, which is tantamount to forbidding the performance of any material valuation, even if it does not include any subjective evaluation on behalf of the professional accountant.</p> <p>We consider that in all cases when there are no material aspects of judgement in the work performed by the professional accountant, the degree of self-review threat is substantially reduced.</p>	CSOEC	See above
757.	173	<p>We do not understand the need for any change in the requirements of this section for the auditors of ESPIs, from those previously in place (and which are now restricted to the audits of entities that are not ESPIs). The existing requirements are logical in terms of concentrating on the real areas of threat, simple to understand and widely adopted by other bodies (the EU Recommendation on Auditor Independence and the UK APB ESs, for example, have very similar requirements to those in place in the extant 290). We are unaware of a widespread concern over the provision by auditors of non-subjective valuations to audit clients.</p>	ICAEW	See above
758.	173	<p>We do not believe that there is any evidence to support a need for the tightening of the requirements for ESPIs such that material valuations are prohibited even if they are not subjective in nature. The self review threat arises as a result of the auditor having to audit his or her own work but if there is no significant element of judgement included in that work, the degree of threat is very much reduced. In our view, the IESBA should retain the requirement as set out in the existing section 290, which is in line with the position set out in the European Commission Recommendation on Statutory Auditor Independence.</p>	ACCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
759.	173	FEE does not believe that there is any evidence to support a need for the tightening of the requirements in this area, which were in line with those advocated by the European Commission Recommendation on Statutory Auditor Independence. Accordingly, we do not support the change in requirements for ESPIs such that material valuations are prohibited even if they are not subjective in nature. The self-review threat arises as a result of the auditor having to audit his or her own work but, if there is no significant element of judgement included in that work, the degree of threat is very much reduced.	FEE	See above
760.	173	We appreciate that the so-called expectations gap and its interrelationship with independence in appearance lead to the need to distinguish entities of significant public interest from other entities in certain instances. However, we do not believe the proposed differentiation is justified in respect of valuation services that do not involve subjectivity and do not have a material impact on the financial statements. In our opinion any threat to independence stemming from the audit of an auditor's own work in respect of Section 290 valuations based on <i>widely accepted</i> assumptions or legal prescription as described in Section 290.173 will be negligible. Accordingly, we would like to suggest Section 290.173 be deleted.	IDW	See above
761.	173	We believe that the additional guidance on the meaning of significant subjectivity is very helpful. As result, given that this concept is now much clearer, we do not believe that is necessary to have a stricter prohibition for valuations services provided to ESPIs.	E&Y	See above
762.	173	We do not believe that there is any evidence to support a need for the tightening of the requirements in the area of valuation services. Accordingly, we do not support the change in requirements for ESPIs such that material valuations are prohibited even if they are not subjective in nature. The self review threat arises as a result of the auditor having to audit his or her own work but if there is no significant element of judgment included in that work then the extent of the threat is modest.	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
763.	173	<p>We agree with the conclusion that the accountant should not perform valuation services that have a material effect on the financial statements.</p> <p>We disagree that exclusion from the requirement should be made for valuations that do not involve a “significant degree of subjectivity.” While there may be an argument that actuarial valuations or similar valuations are widely accepted or use generally accepted standards, we believe that one should step back and look at the appearance of association by an independent accountant with such valuation that is subject to the accountant’s audit or review. Frequently, for an insurance company or defined benefit plan calculation, such amounts are particularly significant. Therefore, we do not agree that a self-review threat can ever be sufficiently mitigated merely because the calculation is standardized.</p>	Grant Thornton	No change – IESBA is of the view that given the public interest it is appropriate to restrict all material valuations for entities of public interest. For non public interest entities valuations are permitted if they are not material and subjective
764.	Tax	In particular, we have significant concerns regarding the provision of tax services. The introduction of additional absolute prohibitions, even in situations where acceptable safeguards could be applied, does not seem justified in terms of enhanced independence. Moreover, these prohibitions will hinder the ability of businesses to secure necessary professional services in a cost effective manner. There are a number of matters that need to be considered when proposing additional prohibitions, particularly for SMEs. For example, cost and management time is often greater when non-audit services are obtained from a provider other than the auditor. In addition, in audits of SMEs, the additional information acquired when providing other services enhances audit quality.	SMP/DNC	General comment
765.	Tax	<p><u>Taxation service.</u> Tax calculation is an important activity of the management and vetted by the Auditor. Auditor has better knowledge and with varied experience it is not correct to say that Auditor should not do calculation services. This aspect should be reviewed fully</p> <p>Where there is a separate department, Tax Planning and Advisory services should not be prohibited. In fact under Indian condition this is an important service expected by the client</p> <p>Same thing is applicable to resolution of tax disputes. Here familiarity to the facts is more important. When done by a separate partner this should be allowed.</p>	ICAIIndia	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
766.	Tax	<p>Tax services</p> <p>We agree with the approach taken in this section, in particular with the need to replace the existing section on taxation with a discussion of the threats and safeguards arising from the provision of tax services to audit clients.</p>	KPMG	Supportive comment
767.	Tax	<p>It is appropriate for the Board to recognise that in certain circumstances tax services can give rise to actual or perceived threats to an auditor's independence, and to highlight those circumstances and the safeguards that may be appropriate in mitigating the threats.</p> <p>Overall the ED strikes the right balance between enhancing auditor independence and enabling robust tax expertise to remain embedded in audit firms in order to maintain audit quality. A greater separation of audit and tax work could lead to a loss of quality and additional costs for clients without commensurate benefits.</p>	PwC	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
768.	Tax	<p>Taxation systems vary significantly around the world (both in terms of laws and administrative practice). In addition, the expectations of a “reasonable person” as to the proper and expected activities of an audit firm, when working in the tax environment of a jurisdiction, differ significantly from country to country as a consequence. We are therefore concerned that in some respects the draft code may be responding to threats that are perceived to occur in certain jurisdictions, which are not perceived as such in other parts of the world.</p> <p>Moreover many companies and other organisations want to use a single tax adviser for all their tax services. The auditor is well-placed to offer these services cost effectively, and indeed it is generally accepted that the provision of tax services by the auditor in fact enhances audit quality. Prohibiting, or at least strongly discouraging, audit firms from undertaking certain tax service activities for an audit client, could lead to clients concluding they should use another provider for all their tax services even in jurisdictions where the independence threat is not significant. This reduction of choice and potential impairment of audit quality is unlikely to be in the public interest particularly where there are adequate safeguards for the perceived threat or local conditions that make the perceived threat insignificant or not applicable. We consider that the Exposure Draft does not adequately recognise the nature of tax regimes operating in different territories, nor their various customs and practices, and allowance should be made for safeguards to be determined by the audit firm based on IESBA guidance.</p>	Australia	Section clarified to distinguish between services which can be safeguarded and those which cannot.
769.	Tax	<p>This is another area where we believe the provisions could be strengthened further. The provision of any taxation services to audit clients may affect the audit firm’s independence and the approach taken in Section 290 contradicts the general principles established in paragraphs 156 – 160.</p>	ICANZ	Section clarified to distinguish between services which can be safeguarded and those which cannot.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
770.	Tax	<p>There is no general threat by advisory services where the advise is supported by tax authorities, by established practice or has a basis in tax laws.</p> <p>Regarding the representation before the tax authorities, the process has 2 stages:</p> <ul style="list-style-type: none"> a) there is no self review threat in the preliminary phase of deliberations, according to the law in Israel, it is of importance that the auditor himself act as a representative for an audit client and explain the data in cases of disagreements with the tax authorities. b) In cases where the disagreement with the tax authorities is brought before a court of law – the auditor must not be involved and only lawyers are to advocate for the audit client. 	ICPAI	No change – minority comment
771.	Tax	<p>We agree with the threats and safeguards approach to taxation, in line with the provision of other non-audit services. However, we do have concerns as to the level of analysis within the guidance, the resulting presumed threats, and ultimately a number of the absolute prohibitions.</p>	BDO	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately
772.	Tax	<p>Whereas the current Code states in par 290.180 an assignment for the provision of taxation services not being generally seen to create threats to independence, the proposed Code contains very detailed requirements regarding common tax services. We share the opinion of the Board that taxation services – provided by the auditor - may create a self-review threat and may lead to the refusal of an engagement, if no appropriate safeguards could be installed. Nonetheless we are concerned about a variety of included threats to independence in the whole section regarding common tax services, which cannot or can only hardly be mitigated by safeguards.</p> <p>Like stated in the current Code (par 290.180) in many jurisdictions the firm may be asked to provide taxation services to a financial statement audit (or review) client. For those clients, especially but not only SMPs, it is a very important reason to ask their audit firm to provide the tax services, especially the preparation of tax returns, tax planning and tax advisory services, due to cost saving purposes as the audit firm usually has already most of the information necessary to provide the relating tax services. We therefore are of the opinion that the provision of tax services by the audit firm is likely to be in the public interest.</p>	WpK	Section clarified to distinguish between services which can be safeguarded and those which cannot.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
773.	Tax	<p>While we welcome the revisions of the provision of taxation services in Section 290 and support the general thrust of the recommendations, we are concerned that the additional restrictions do not appear to consider the significance of the threats. For example, the prohibition on material tax calculations for audits of entities of significant public interest seems to be moving away from the threats and safeguards approach, without a proper assessment of the significance of the threat. In the case of material tax calculations, the significance of the threat is greater where an auditor reviews his/her own subjective opinions than where the work has been of a mechanical nature.</p> <p>We believe that the introduction of such restrictions could adversely affect the quality of tax return preparation and tax calculations, especially for smaller listed entities. If IESBA has evidence that prohibitions are needed, we suggest that these restrictions should at most apply to tax calculations which are material to the group financial statements of entities of significant public interest and are subjective in nature.</p>	CCAB	Section clarified to distinguish between services which can be safeguarded and those which cannot.
774.	Tax	<p>Existing Section 290 dealing with this type of services describes in detail the numerous situations highlighting threats over independence which cannot be reduced to an acceptable level by the application of safeguards, accounting for the nature of the service provided.</p> <p>As previously indicated this position is likely to increase the costs of assurance engagements and we are not convinced that this moves in favour of public interest.</p>	CSOEC	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately

X ref	Par Ref	Comment	Respondent	Proposed Resolution
775.	Tax	<p>NIVRA believes the number of rules, including prohibitions, which are proposed in relation to taxation services, are out of proportion to the regulations concerning each of the other non-assurance services. This wrongly implies that the possible threats with respect to taxation services are different in nature and size to those in respect of other non-assurance services</p> <p>NIVRA again raises the question of whether the regulation of these services will lead to an improvement of the quality of the audit, while it will most likely result in increased costs for clients. See “General comments”. An example of this are the possible guarantees referred to in 290.181. One-person firms will have to request a second opinion outside of their office. This will lead to extra costs for the client. Small companies, in particular, do business with one-person firms and extra costs are the most problematic for this category of clients.</p> <p>The real areas of risks are aggressive tax advising and assistance in the resolution of tax disputes. In the light of the above, NIVRA proposes only setting rules with respect to aggressive tax advising and assistance in the resolution in tax disputes.</p>	NIVRA	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately
776.	Tax	<p>We agree that the provision of taxation services by auditors, like any other non-audit service, could create threats to independence and these need to be assessed and necessary safeguards applied, or the service not provided. Accordingly, we welcome the revisions to the guidance concerning the provision of taxation services in Section 290. Indeed, the IOSCO Survey on Non-Audit Services¹⁶ notes the need to consider threats while recognising that taxation services are, in many jurisdictions, seen as unique as a result of certain inherent safeguards.</p> <p>However, we believe that the section proposed is in far greater detail than necessary and seems to support a presumption of threats, which cannot be mitigated by safeguards in many cases. We are concerned, therefore, that the additional restrictions do not appear to consider the significance of the threats.</p>	ACCA	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately

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X ref	Par Ref	Comment	Respondent	Proposed Resolution
777.	Tax	<p>The proposed changes introduce a number of absolute prohibitions which go beyond those applied in a number of other cases and for which no evidence has been produced that there is a public interest need. Indeed, from the perspective of the users of professional tax services, the inevitable additional costs of sourcing tax assistance and potential issues of choice and audit quality indicate that these additional restrictions are likely to be against the public interest.</p> <p>We believe that the introduction of such restrictions could adversely affect the quality of tax return preparation and tax calculations, especially for smaller listed entities. If the IESBA has evidence that prohibitions are needed, we suggest that these restrictions should, at most, apply to tax calculations which are material to the group financial statements of ESPIs and are subjective in nature.</p>	ACCA	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately
778.	Tax	<p>Our comments on these provisions must be viewed in the context of what we believe to be important public interest issues. Generally, we believe that it is in the broad public interest for audit firms to provide tax services to audit clients without restrictions.</p> <p>The provision of tax services to an audit client has not historically been viewed as an independence problem. For example, the Securities and Exchange Commission in the US concluded in its rule making that the provision of tax services to audit clients, “generally [does] not create the same independence risks as other non-audit services.” In part, the SEC’s conclusion is based on the scrutiny tax work receives from the tax authorities. Tax returns of audit clients are often subject to examination by the tax authorities and enforcement mechanisms are available to the regulators in some countries, including suspension of practice for the practitioner, as well as his or her firm, and loss of license and authority to practice.</p> <p style="text-align: right;">Cont’d</p>	DTT	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately

X ref	Par Ref	Comment	Respondent	Proposed Resolution
779.	Tax	<ul style="list-style-type: none"> • There is no evidence that the provision of non-audit services by the auditor has been a contributing factor in the failure of, or the timing of the failure of, any of the widely publicized corporate failures in recent years. On the contrary, empirical evidence analyzed by academic researchers suggests that audit quality is improved (i.e. there are fewer restatements) when the auditor also provides tax services to the audit client. • The external and independent review by tax authorities of company tax returns provides a safeguard that helps mitigate any perceived self-review threat that could undermine an auditor's objectivity. • For many clients, particularly large or complex ones, there are separate tax teams involved in audit-related work and advisory or specialist work. • Whenever a tax expert suggests a particular tax planning opportunity, client management takes the final decision. As such, management takes the responsibility for the transaction and may often seek input from other advisors before reaching a decision. • Tax advisors outside the audit firm are under no obligation to inform the auditor of information relevant to financial reporting, and they may not even be informed of the client's accounting treatment of the transaction or tax position. • Having to use two separate firms for auditing and tax services can undoubtedly lead to increases in client costs due to the economies associated with the inter-linkage between audit work and tax services. • Limiting tax services by audit firms to audit clients can be particularly disadvantageous for smaller-listed companies and SMEs. These tend to have fewer or, in some cases, no internal tax resources. If an audit firm can no longer provide a broad range of tax services to SMEs and smaller-listed companies, these entities would have disproportionately greater costs. <p style="text-align: right;">Cont'd</p>	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
780.	Tax	<p>The provision of tax services to audit clients has often been an integral part of the work of auditors and we question whether certain of the prohibitions that are included in the ED are necessary rather than permitting the use of appropriate safeguards if threats to independence are considered significant. We recognize that threats to independence could arise as a result of tax services, just as they could arise with respect to the provision of any non-audit service. As with any service, it is necessary to consider those threats and apply appropriate safeguards where necessary. However, we believe there are appropriate safeguards that can be applied.</p> <p>Overly technical or complicated independence rules by their nature can provide unnecessary barriers for audit firms in providing tax services to audit clients. These rules must daily be interpreted by audit and tax professionals as well as their clients in order to ensure that the audit firm remains independent. Taken individually, the various provisions may seem reasonable, but as a whole the provisions may greatly complicate what has traditionally been fairly straightforward. The current Code contains the independence rules for tax services in just one paragraph. The ED has extended that to 12 paragraphs over 4 pages. While some of this might be seen as helpful guidance, many audit and tax professionals will view this as excessive regulation in an area that has not been problematic to date. An unintended consequence may be that this additional regulation will by virtue of its complexity reduce tax services by audit firms to audit clients. When in doubt (and complexity feeds doubt) auditors and audit clients may chose the safest course and not have the audit firm provide a broad range of tax services to the audit client</p> <p>We have the following specific comments on various paragraphs in the current ED.</p>	DTT	See above
781.	Tax	The proposed guidance does not recognize the potential threat that may occur when a taxing entity may propose a tax assessment on the (1) client and (2) a preparer penalty. Such a situation clearly places the CPA firm and the client in a potentially adverse situation which is not addressed in the guidance.	CACPA	No change – matter is addressed under dispute
782.	Tax	We support the additional guidance provided on Taxation Services and agree that applying the conceptual framework to these services is appropriate. However, certain issues are still unclear and, in our view, could benefit from further clarification to minimize any misinterpretation and to ensure a consistent implementation of the Code.	E&Y	Section clarified to distinguish between services which can be safeguarded and those which cannot.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
783.	Tax	<p>The ED sets out guidance pertaining to the following taxation services:</p> <ul style="list-style-type: none"> (a) Tax return preparation. (b) Preparation of tax calculations intended to be used as the basis for the accounting entries in the financial statements. (c) Tax planning and other tax advisory services. (d) Assistance in the resolution of tax disputes. <p>In principle, we agree with the Board that in certain circumstances, tax services can give rise to actual or perceived independence threats.</p> <p>However, we are also cautiously aware that in practice, the above activities are usually interrelated. For example, companies seeking tax return preparation service would generally also require the professional accountant to have the flexibility of providing other advisory services and assistance in the resolution of tax disputes.</p> <p>Whilst the principle is sound, we are concerned that the revised Code could unnecessarily result in smaller companies (which are not significant public interest) being forced to incur additional costs in seeking tax services from firms other than their auditors when the additional safeguards are not likely to result in material enhancements to auditor independence. There is a perception, based on empirical experiences, that tax is an area which has not been subjected to significant audit independence issues.</p> <p>In short, we are in support of the proposed ED for application to entities of significant public interest. However, we urge the Board to take a more cautious approach and defer the application to entities that are not of significant public interest until the Board has the opportunity to reassess whether the separation of audit and tax work for such entities necessarily raises audit quality materially.</p>	PAOC	Section clarified to distinguish between services which can be safeguarded and those which cannot.
784.	Tax	We agree that updating the provisions relating to taxation services is required and we support generally the proposed changes.	CICA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
785.	Tax	We strongly concur that there are many types of tax services, especially of a compliance nature, that do not impair independence. Accordingly, we support the AICPA recommendations for clarification of safeguards to permit a broad range of appropriate tax services that may be provided without impairing independence.	OCPA	Section clarified to distinguish between services which can be safeguarded and those which cannot.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
786.	Tax	<p>Overall, we support the IESBA's proposed guidance related to tax services and believe it provides a reasonable approach to addressing and differentiating between the types of tax services that pose a threat to independence from those that do not. We strongly believe that there are many types of tax services that firms could perform for an audit client that do not threaten the firm's independence. By virtue of the independent accountant's involvement in understanding the financial activities of an audit client, as well as his/her expertise in understanding the tax accounting and financial accounting guidance, accountants have been the logical professionals on whom audit clients rely for tax reporting to governmental authorities as well as for advice on the tax effects of alternative business decisions.</p> <p>The SEC also recognized that, "[T]ax services are unique among nonaudit services for a variety of reasons. Detailed tax laws must be consistently applied, and the Internal Revenue Service has discretion to audit any tax return. Additionally, accounting firms have historically provided a broad range of tax services to their audit clients...The Commission reiterates its longstanding position that an accounting firm can provide tax services to its audit clients without impairing the firm's independence. Accordingly, accountants may continue to provide tax services such as tax compliance, tax planning, and tax advice to audit clients, subject to the normal audit committee pre-approval requirements."¹⁷</p> <p>Audit quality and the quality of the resulting financial statements are elevated when auditors have access to the deeper understanding of a client's financial transactions that can be gained from providing tax services. Accordingly, we recommend that the IESBA ensure that the final rules on tax services will not interfere with that important access.</p> <p>With respect to the proposed guidance, we have identified a number of issues that we believe require further consideration or clarification by the IESBA which we have described below.</p>	AICPA	Section clarified to distinguish between services which can be safeguarded and those which cannot.

¹⁷ See *Strengthening the Commission's Requirements Regarding Auditor Independence*, Federal Register, Vol. 68, No. 24, February 5, 2003.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
787.	Tax	<p>The proposed amendments are examples of an apparent move away from a principles-based approach to a more rules-based approach. The current Code of Ethics has a single paragraph on this subject matter, whereas the proposed Code of Ethics is far more prescriptive and includes many absolute prohibitions. Once again, this limits the professional judgement an accountant can exercise, and makes it easier for an accountant to fall foul of the Code of Ethics and therefore be subject to discipline and possible litigation. In addition, the absolute prohibitions have the consequence of outside resources having to be engaged, leading to increased costs.</p>	SAICA	<p>IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately</p>
788.	Tax	<p>Whilst we agree that the provision of tax services to audit clients may, in common with the provision of other non audit services to audit clients, create threats to independence we are concerned that many of the additional restrictions do not appear to consider the significance of the threats or give due consideration to the safeguards which could be applied. An example is the prohibition of material tax calculations without any proper assessment of the significance of the threat.</p> <p>We believe that the restrictions proposed are unnecessary and cannot be justified in the public interest. Further we believe that such restrictions would affect the quality of the tax calculation and tax return preparation for smaller entities, including listed entities. If the IESBA has evidence that prohibitions are necessary they should apply only where the degree of threat is significant, i.e. for material and subjective calculations.</p>	CARB	<p>IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
789.	Tax	In our estimation, the additional constraints proposed on the provision of tax services to clients ignores jurisdictions which presently permit both assurance and tax services to be provided to the same client. While CGA-Canada appreciates that these services are already separated in certain countries, for those countries where this regime is not employed it has severe consequences, and inconvenience to the client that would benefit from both services being provided by the same firm (i.e., cost benefit). Any independence concerns could be mitigated through the use of external review provisions	CGA - Canada	Section clarified to distinguish between services which can be safeguarded and those which cannot.
790.	Tax	<p>We agree that the provision of taxation services by auditors, like any other non-audit service, could create threats to independence and these need to be assessed and necessary safeguards applied, or the service not provided. Accordingly, it is appropriate to introduce a discussion on potential threats and examples of safeguards. We note that the IOSCO Survey on Non-Audit Services¹⁸, in its comments on tax services, observes that taxation services are in many jurisdictions seen as unique as a result of certain inherent safeguards, but there is agreement with the need to consider threats.</p> <p>However we believe that the section proposed is in far greater detail than necessary and seems to support a presumption of threats which cannot be mitigated by safeguards in many cases. It introduces a number of absolute prohibitions which go beyond those applied in a number of other cases and for which no evidence has been produced that there is a public interest need. Indeed, from the perspective of the users of professional tax services, the inevitable additional costs of sourcing tax assistance and potential issues of choice and audit quality (see 1.1(c) above) indicate that these additional restrictions are likely to be against the public interest.</p> <p>Should the IESBA nevertheless decide that the proposed structure of a detailed analysis is to be retained, we set out below a number of specific points on the proposed tax section.</p>	FEE	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately

¹⁸ A Survey on the Regulation of Non-Audit Services Provided by the Auditors to Audited Companies, IOSCO, January 2007

X ref	Par Ref	Comment	Respondent	Proposed Resolution
791.	Tax	<p>The previous version of the IFAC Code of Ethics (2005) stated in one Section (290.180) that the provision of tax services to financial statement audit clients is generally not seen to create threats to independence.</p> <p>In the current Exposure Draft, however, the IESBA's attitude towards provision of such services has been radically altered. According to the proposals, taxation services provided by a firm to an audit client will become subject to strict and detailed (11 sections) regulation. This constitutes a move towards a rules-based approach in this area and consequently deviates significantly from the EU Recommendation on Statutory Auditors' Independence and the recently approved EU Statutory Audit Directive. Furthermore, with one exception (preparation of tax calculations), there is no distinction between provision of tax services to entities of significant public interest audit clients and others. We explain our contention as follows:</p> <p>It is common for entities to request their accountant to perform taxation services in addition to audit services, as this is very often efficient for the entities needing the services. A practitioner providing both taxation and auditing services obtains information during the audit that is pertinent to taxation services and vice versa. Ultimately, it is the entity that benefits from such synergy effects, both in terms of cost savings and audit quality. We would like to draw the Board's attention to the study by Professor Kinney [Journal of Accounting Research Vol. 42 No. 3 June 2004], which indicates that the knowledge an accountant gains in the role of taxation adviser is positively correlated to the quality of the audit.</p> <p>We would like to comment on the following specific provisions:</p>	IDW	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately
792.	Tax	<p>With respect to Preparation of Tax Calculations, the Code of Ethics would be more consistent if the applicable provisions for ESPIs were similar to the provisions on preparation of accounting records and financial statements. In particular, the proposed revised Section 290 clarifies that accounting and bookkeeping services may be provided in emergency situations or other unusual situations when it is impractical for the audit client, including ESPIs, to make other arrangements. We believe that a similar exemption in emergency situations should be available for the preparation of tax calculations of current and deferred tax liabilities (or assets) for the primary purpose of preparing accounting entries as well.</p>	E&Y	Change made – paragraph on emergency situations added

X ref	Par Ref	Comment	Respondent	Proposed Resolution
793.	Tax	<p>In Hong Kong, we are especially concerned about the revised guidance related to the provision of taxation services. We are of the view that smaller firms will be put in a disadvantaged position as compared to the larger firms. An example is the provision of services relating to (a) tax planning and other tax advisory services and (b) assistance in the resolution of tax disputes.</p> <p>We note that smaller firms may not be able to implement the safeguards mentioned in the Exposure Draft such as:</p> <ul style="list-style-type: none"> • Using professionals who are not members of the audit team to perform the service; • Having an additional tax partner or senior tax employee who is not involved in the provision of the tax services to the client, advise the audit team on the service and review of the financial statement treatment; or • Obtaining advice on the service from an external tax professional <p style="text-align: right;">Cont'd</p>	HKICPA	Section clarified to distinguish between services which can be safeguarded and those which cannot.
794.	Tax	<p>Accordingly, we urge the IESBA to identify safeguards that are appropriate to firms of all sizes, rather than limiting the identified safeguards to those relevant to larger firms. For example, unlike other major jurisdictions, the Hong Kong taxation system is not a full “self assessment” system and the tax system is significantly simpler than in many other major jurisdictions. The Hong Kong Inland Revenue Department plays an active role in vetting all tax returns and tax disputes. Accordingly, consideration of such a system should be taken into account, and could be identified in the Code as an acceptable safeguard.</p> <p>SMEs often prefer to have many of the abovementioned services provided by a known and trusted service provider. They place great value on having a close business relationship with a practitioner who develops a deep understanding of their business. The relationship is one that is mutually beneficial, has stood the test of time, and serves the public interest by making for a vibrant SME sector. Some aspects of the proposals in the Exposure Draft, while well intended, threaten this relationship while offering little enhancement to audit or service quality.</p>	HKICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
795.	Tax	<p>We agree that the provision of taxation services by auditors could create threats to independence and that accordingly these need to be assessed and necessary safeguards applied, or the service prohibited. The existing Code simply states in one section (290.180) that the provision of tax services to financial statement audit clients is generally not seen to create threats to independence. The ED, however, marks a significant shift in the IESBA's attitude towards the provision of such services. It proposes stringent and detailed regulation of the provision of tax services by a firm to an audit client.</p> <p>We believe that the proposed provisions are far more detailed than necessary and in many cases presume the existence of threats which cannot be mitigated by safeguards. It introduces a number of absolute prohibitions that exceed those applied in many other cases and for which there is no evidence of a public interest need. Indeed, from the perspective of the users of professional tax services, the inevitable additional costs of sourcing tax assistance, combined with issues of reduced choice and audit quality, suggest that these additional restrictions will work against the public interest.</p> <p>As well as adversely impacting SMPs and their clients, this implies a move towards a rules-based approach in this area and, consequently, deviates from the IESBA's stated intent to adopt a principles-based approach. Furthermore, with the exception of the preparation of tax calculations, no distinction is drawn between the provision of tax services to ESPI clients and others. This lack of distinction is especially detrimental to SMPs since many SMPs will not be in a position to apply the safeguards as outlined in Section 290.181.</p> <p style="text-align: right;">Cont'd</p>	SMP/DNC	IESBA concluded that due to the different nature of taxation services it is appropriate to address each category separately

X ref	Par Ref	Comment	Respondent	Proposed Resolution
796.	Tax	<p>The end result of applying the new provisions will be that many SMPs will be excluded from providing such services to their clients, forcing their clients to look elsewhere for tax services and/or to move all their audit and non-assurance work to a larger firm that can apply the safeguards. This is potentially discriminatory, will likely increase business costs and risks impairing the quality of both the audit and tax work. Similar arguments can be extended to other non-assurance services, for instance, some IT systems services and litigation support and legal services.</p> <p>If the IESBA is determined that the proposed structure of a detailed analysis is to be retained, we have two general comments: first, we suggest extending the public interest entity differential approach from the present few isolated cases to most, if not all, taxation services and other non-assurance services; and second, we suggest consideration be given to extending the use of the materiality concept across more taxation services, such as tax advice, and other non-assurance services. In the next section we set out a number of specific comments.</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
797.	174-185	<p>We have concerns that the guidance in respect of taxation services is too permissive and ignores the threat to independence in appearance.</p> <p>An argument supporting the preparation of tax returns by auditors for audit clients is that tax returns are prepared on the basis of established tax law and are subsequently approved by the taxation authority. In our opinion this argument is flawed in that the application of tax law is often subject to interpretation and the application of professional judgment and that tax returns are rarely approved by the taxation authority before the completion of the audit.</p> <p>As noted previously, in respect of valuation services, it is unlikely that the audit client will be competent to form a view on the reasonableness of the taxation services provided. In fact, the audit client will typically have acknowledged this in seeking an expert to provide the taxation services for them. In this situation the auditor must also take account of the guidance in paragraph 290.160 which requires a member of management with a sufficient level of understanding of the service, and an ability to evaluate the results, to be designated to make all significant judgments and decisions connected with the services, and to accept responsibility for the actions to be taken arising from the results of the service.</p> <p>The guidance in paragraph 290.160 therefore needs to be reflected in the guidance on taxation services.</p>	CAGNZ	No change – minority comment IESBA is of the view that the proposals strike the appropriate balance
798.	174-185	The material in paragraphs 290.174 to 290.185 recognises the type of instances where self-review and advocacy threats arise. We believe that it would be improved if it was made clearer that safeguards need to be considered in the circumstances described in paragraphs 290.176 and 290.180. A threat is created in both these circumstances (albeit possibly an insignificant one) and an evaluation of its significance should be made.	APB	Paragraph 176 is similar to the accounting provisions. Paragraph 180 is an illustration and 181 requires a consideration of threats and safeguards.
799.	174-175	We entirely agree with the need to replace the existing section on taxation with a general discussion of the threats that can apply in the provision by auditors of taxation services to audit clients, and of the types of safeguards that might be applied. Taxation services are similar to many other non-audit services in terms of threats and safeguards and the existing position is inappropriate.	ICAEW	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
800.	175	The ED also provides in paragraph 290.175 that a factor that can create an independence threat is the level of tax expertise of the audit client's employees. Many audit clients have limited tax expertise in-house for a number of practical reasons, mostly related to size and the difficulty of maintaining the high level of expertise necessary to provide tax advice. The real issue is not the level of tax expertise in a client, but the competency of its general management and its ability to receive professional advice in tax matters in order to take the necessary management action based on that advice. This provision would have particular effect on smaller enterprises.	DTT	No change – it is one of the factors that may influence the significance of the threat
801.	176	<u>Tax return preparation:</u> We agree with the proposals in this regard.	IRBA	Supportive comment
802.	176	We however agree with the text of paragraph 290.176 dealing with preparation of tax returns.	CSOEC	Supportive comment
803.	176	290.176. Firms provide a range of tools, including spreadsheets and templates, designed to enable clients to input their own data and prepare their own tax returns and other tax information and documentation. It would be helpful to clarify in this paragraph that the sale or licensing of the audit firm's proprietary tax software to audit clients does not generally threaten independence, for the same reasons. We propose adding a final sentence, "Similarly, the provision of software that the audit client can use to prepare its own tax returns and other tax-related information and documentation will not threaten the firm's independence."	Australia	No change – matter would be considered under IT systems or through threats and safeguards under tax. In addition several expressed concern about the existing length of the tax section
804.	176	According to the last sentence of Section 290.176, the provision of tax return preparation services does not generally threaten the firm's independence as long as management takes responsibility for the returns including any significant judgments made. To our assessment there is obviously no reason to keep the word "generally" in this sentence.	SMP/DNC	No change – IESBA of view generall is important

X ref	Par Ref	Comment	Respondent	Proposed Resolution
805.	176 -178	<p><u>Preparation of tax calculations:</u> Although we agree that this would create a self review threat, we also believe that the risks associated with preparation of tax returns can be contained. The Revenue Service would generally perform its own independent checks on tax calculations, which should reduce the risk of any self review threat. In addition, requiring someone else to perform the tax calculation would necessarily result in doubling of cost. The additional cost of requiring an independent party to prepare the tax calculation when they are not familiar with the figures on which the calculation is based whilst still incurring the cost of the review of the calculation by the auditor outweighs the potential self-review threat. We believe the threat can be managed by requiring persons independent of the engagement team within the audit firm to prepare the calculation</p>	IRBA	No change – paragraphs state that these services generally do not create threats
806.	176-178	<p>We agree with the underlying analyses in respect of tax return preparation and tax calculation preparation for audits of entities that are not ESPIs. These seem to address exactly the potential threats in these areas. However, the prohibition on material tax calculations for the audits of ESPIs moves away from threats and safeguards and the resultant wording causes a number of problems.</p> <ul style="list-style-type: none"> First, because there are different requirements in respect of tax calculations and tax advice, the prohibition could be taken to cover tax advice in respect of tax liabilities. If material tax calculations are to be prohibited for all audits of ESPIs it is likely, particularly in the case of small listed entities, that the outcome will be that the client does their own calculation, incorrectly. As the ultimate aim must be the maintenance of high standards of financial reporting and audit quality it must be made clear that iterative tax advice in respect of the liability reported is acceptable. <p style="text-align: right;">Cont'd</p>	ICAEW	<p>No change</p> <p>Restriction is on preparing calculations for the purpose of preparing accounting entries – it does not restrict advice</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
807.	176-178	<ul style="list-style-type: none"> In addition, the differing treatment for tax return preparation and tax calculations in respect of the audit of ESPIs is likely to result in some keen debates as to whether the calculations are “for the primary purpose of preparing accounting entries”. Again particularly for smaller listed entities, tax return and tax calculation services are often seen as a logically combined product with neither output being regarded as the primary or secondary one. <p>We agree with the discussions on tax planning and other tax advisory services. These focus on the areas of likely threat and provide a sensible and reasoned conclusion. We note that some regulators, particularly in the U.S. have included provisions relating to the sale of ‘aggressive’ tax schemes by auditors. This is an interesting subject within the wider sphere of professional ethics and worthy of separate debate, but it is not directly related to threats to independence and we are pleased that such provisions have not been included in this particular standard.</p>	ICAEW	Change made – “primary” deleted
808.	177	<p>We note that the implication of Section 290.177 is that, in appropriate circumstances and with appropriate safeguards, an auditor may prepare accounting entries containing tax calculations. As the tax provision is often material to the financial statements, the degree of subjectivity criterion becomes very important. We would ask the IESBA to consider additional guidance, for example, to state that the application of a fixed statutory tax rate to an annual income amount, the auditor of which is otherwise independent, will not ordinarily involve an undue degree of subjectivity.</p> <p>We would suggest that a safeguard similar to the safeguard set out in section 290.160 (Management Responsibilities) be considered for the preparation of tax calculations in Section 290.177. (This additional safeguard might also be added to Section 290.165 which deals with the preparation of accounting records, etc.).</p> <p>We would also suggest that the IESBA consider including in the Taxation Services section a provision for an exemption in emergency situations like that found in Section 290.168.</p>	CICA	Change made – emergency situation exemption added

X ref	Par Ref	Comment	Respondent	Proposed Resolution
809.	177	We concur with the SEC that accountants have historically provided a broad range of tax services to their audit clients. This is particularly the case for privately-held audit clients, which often rely on their auditors, typically small firms and sole practitioners, to provide high quality integrated tax and audit services at a reasonable price. Accordingly, providing guidance that will help small firms and sole practitioners to safeguard against potentially significant self-review threats to their independence can help promote their continued objectivity and independence in the performance of the audit. While the safeguards suggested in the tax section are not mandatory, and other safeguards can be used if they are effective even though not described in the section, it would seem useful to describe in 290.177 at least one safeguard that small firms and sole practitioners would be capable of implementing. We encourage the IESBA to do so by describing the safeguard of "obtaining advice on the service from an external tax professional" (as described in 290.181 and .183), which can be an effective safeguard when a firm does not have enough qualified individuals to implement the other safeguards described in that paragraph.	AICPA	Change made – safeguard added
810.	177-178	Preparation of tax calculations – small audit clients may not have the internal ability to perform this function. If the CPA cannot provide this service, then outside CPAs would have to be employed to do so, increasing the cost to the client.	GSH	See above
811.	177-178	<p>Para's 290.177 and 290.178. Our primary concern is how materiality and subjectivity should be assessed. The Code should clarify that materiality should be consistent with the International Auditing and Assurance Standards Board's concept of materiality.</p> <p>We also consider that the distinction should be drawn between adjustments that are the result of generally accepted principles of tax law and hence are routine and mechanical, (e.g. different depreciation rates for accounting and tax), and those that are subject to a considerable degree of subjectivity. That is, the need for safeguards should be limited to that item which is significantly subjective and which is itself material. The proposed Para 177 could be interpreted such that the conclusion is drawn that tax will always be material – meaning that the safeguards will in effect be mandatory. This is not necessary or appropriate; and a "threats and safeguards" approach is considered appropriate.</p>	Australia	<p>No change – materiality is also used in existing valuations provisions</p> <p>No change – for non-PIEs complexity is a factor that influences the significance of the threat. For PIEs, because of eth public interest, the IESBA is of the view calculatoins should not be permitted for purpose of preparing material accounting entries</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
812.	177-178	We are concerned that paragraphs 290.177 and 290.178 have been drafted so that a threat to independence is said to depend on the "purpose" or "primary purpose" for which the tax service was provided. We believe that it is the outcome of a non-audit service provided by an audit firm to an audit client that creates the risk of a self review threat rather than the particular motivation of the client when it commissioned the service, which has no place in the consideration of the ethical impact of any non-audit services. We therefore believe strongly that these paragraphs should be redrafted to remove the references to "purpose".	Grant Thornton	Change made – reference to purpose dropped
813.	177-178	The ED includes a prohibition against the preparation of tax calculations of current and deferred tax liabilities (or assets) if the primary purpose of such calculations is for financial reporting purposes. Although we appreciate that this prohibition is with respect to entities of significant public interest, for the reasons discussed above, we are concerned that this would extend to too many entities where the public is not best served by requiring a firm other than the auditors to assist the client with its tax calculations. In many instances, the calculation is not highly subjective and safeguards could be applied, including the use of professionals who are not members of the engagement team. Moreover, the Code could include a requirement that the accountant review the results of the service with management in sufficient detail so that management is able to approve and take responsibility for the results of the service.	DTT	Definition of PIE had been narrowed

X ref	Par Ref	Comment	Respondent	Proposed Resolution
814.	177-178	<p>Additionally, we are uncomfortable with the construct in paragraphs 290.177 and 290.178. In both paragraphs there is reference to the purpose of the preparation of the tax calculation. The inference is that there is a self-review threat when the tax calculation is prepared for the purpose of preparing the financial statements, but there is no self-review threat if the tax calculation is prepared by the audit firm for another primary purpose. The significance of the threat depends not on the purpose of the preparation of the tax calculation, but the timing of when this work is undertaken and what the tax figures are actually used for. As stated in paragraph 290.176, where the tax returns are prepared based on historical financial information, this is unlikely to create a significant threat to the firm's independence, but only on the basis that the audit of the historical financial information has already been completed and the resulting tax figures are not used in the financial statements. Where the work is undertaken prior to the completion of the audit, it is very likely that the calculation of the tax due will be used in the finalisation of the accounts and, if so, either safeguards should be applied where necessary as required under paragraph 290.177, or, in the case of entities of significant public interest, the firm should not prepare such tax calculations where the tax is material to the financial statements.</p>	APB	<p>Change made to delete "primary purpose"</p> <p>Timing is not a specific issue – even if the calculations are after the financial statements are prepared there is still a need for a "true up".</p>
815.	177-178	<p>Traditionally even some listed companies have looked to their audit firms to provide assistance with the calculation of their liabilities for current and deferred taxation and we do not believe that the Code should rule out such assistance entirely. In particular, as with other aspects of the financial statements, auditors should be able to help clients correct miscalculations without giving rise to self review threats. We therefore recommend that a new paragraph should be inserted under paragraph 290.178, as follows:</p> <p>"Nothing in paragraphs 290.177 or 290.178 should be taken as preventing auditors from proposing correcting adjustments to clients' own calculations of their liabilities for current and deferred taxation. Advice may also be provided on the tax treatment of specific transactions and pro forma templates or schedules may be provided to assist clients with the performance of their tax liability calculations."</p>	Grant Thornton	<p>No change made to preparation of accounting records to clarify that proposing adjusting entries is a normal part of the audit process</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
816.	178	<p>We would nevertheless like to comment on the text of paragraphs 290.178 which deals with tax calculations of current and deferred tax liabilities or assets.</p> <p>As for valuation services, we believe that absolute prohibition should apply only in cases when the calculations performed by the professional accountant are material and include a large part of subjectivity.</p>	CSOEC	No change – IESBA is of the view that because of the public interest for PIEs the restriction should be linked to materiality
817.	178	Regarding the preparation of tax calculations we do not agree with par 290.178 that the calculation of material current and deferred tax liabilities (or assets) should be prohibited for entities of significant public interest, irrespective of whether safeguards could be applied. This is especially the case for calculations that are not subjective (please see above, 2.1).	WpK	See above
818.	178	<p>We question whether the prohibition at paragraph 290.178 concerning material tax calculations by auditors for their ESPI clients, irrespective of whether safeguards can be applied, is necessary or justifiable in the public interest. At the very least if a prohibition is to be applied, it should only be to material and subjective calculations as otherwise, the threat is less significant. The additional restriction does not consider the significance of the threat.</p> <p>In our view, the ‘blanket’ prohibition on material tax calculations for ESPI audit clients moves section 290 away from the threats and safeguards approach as there is no proper assessment of the significance of the threat. In the case of material tax calculations, the significance of the threat is greater where an auditor reviews his/her own subjective opinions than where the work has been of a mechanical/routine nature , i.e. where you are applying a tried and tested method.</p> <p>At paragraph 290.178, it is unclear what it meant by ‘financial statements on which the firm will express an opinion’. We believe that the prohibition, to the extent that it stands, should apply only to the group financial statements.</p>	ACCA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
819.	178	<p>We agree that the guidance in the current IFAC Code is weak. Therefore we welcome the introduction of a discussion on potential threats and examples of safeguards. We also support the general thrust of the recommendations, although we are concerned that the additional restrictions do not appear to consider the significance of the threats. In this respect, the proposed prohibition on auditors performing material tax calculations for significant public interest entity audit clients appears to be moving away from the threats and safeguards approach, without a proper assessment of the significance of the threat. In the case of material tax calculations, the significance of the threat is greater where an auditor reviews his/her own subjective opinions than where the work has been of a mechanical nature. Indeed, from the perspective of the users of professional tax services, the inevitable additional costs of sourcing tax assistance and potential issues of choice and audit quality indicate that these additional restrictions are likely to be against the public interest.</p> <p>We believe that the introduction of such restrictions could adversely affect the quality of tax return preparation and tax calculations, especially for smaller listed entities. If IESBA has evidence that prohibitions are needed, we suggest that these restrictions should at most apply to tax calculations which are material to the group financial statements of entities of significant public interest and which are subjective in nature.</p>	ICAS	See above
820.	178	In particular, we do not believe that the prohibition in 290.178 on material tax calculations by auditors for their ESPI clients, irrespective of whether safeguards can be applied, is necessary or justifiable in the public interest. At the absolute minimum the prohibition, if applied, should apply to material <i>and</i> subjective calculations as we believe the degree of threat is otherwise less significant. See our comments on valuation services under item 2.5.1 above.	FEE	See above
821.	178	We commented above on the lack of clarity of what is meant by “financial statements on which the firm will express an opinion”. The same phrase is used in 290.178. We believe that the prohibition, to the extent that it stands, should apply only to the group financial statements.	FEE	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
822.	178	In particular, the standard promotes a situation of very little threat involved in the preparation of tax returns, yet an absolute prohibition on the calculation of the current year's tax liability for ESPIs. In practice, it is often difficult to establish where work performed in respect of the tax return preparation finishes and where work performed in the preparation of the current year liability starts. This is often, therefore, an artificial distinction which audit clients will find difficult to understand and the profession will find difficult to apply with consistency. The concept of ' <i>for the primary purpose of preparing accounting entries</i> ' is not helpful and will be open to widely differing interpretations.	BDO	Change made – “primary” deleted
823.	178	We do not believe that the prohibition in 290.178 on material tax calculations by auditors for their ESPI clients is necessary or justifiable in the public interest. At the very most the prohibition should only apply to material <i>and</i> subjective calculations, as we believe the extent of the threat is otherwise not significant.	SMP/DNC	No change – IESBA is of the view that because of the public interest for PIEs the restriction should be linked to materiality
824.	179	It would be useful to clarify that advising the client on new tax legislation is clearly a duty for a tax advisor as it is in the interest of the client. This would help to remove the implication that could be read into 290.179 (which we assume is intended to be a neutral introductory paragraph) that the services mentioned are a potential threat.	FEE	Minority comment
825.	179	At paragraph 290.179, it would be useful to clarify that the intention is not to restrict the professional accountant from advising the client on new tax law or regulation but such services are mentioned as an example of a potential threat.	ACCA	Minority comment
826.	179	<u>Tax planning and other tax advisory services:</u> Although we agree with this prohibition, we are also of the opinion that there are further threats which need to be managed, such as auditors assisting clients to develop aggressive tax schemes. We appreciate that these threats are matters to be considered by the various regulators and not by codes or standards.	IRBA	No change 290. 182 restricts tax advise in certain circumstances

X ref	Par Ref	Comment	Respondent	Proposed Resolution
827.	179	Tax planning and other tax advisory services – will not be permitted if the CPA prepares a financial statement for the client. Most small clients rely upon the CPA to provide tax planning and preparation of financial statements. This would require the client to have two (2) firms for a simple engagement.	GSH	No change – proposals do not restrict all tax planning and advisory services
828.	179	In many jurisdictions, e.g. in Germany, public accountants are also entitled to provide tax advisory services. In these cases even a public accountant who is only engaged to perform the statutory audit of an entity is obliged by professional law to inform his client about developments in the entity's tax environment. This might lead to the result that the public accountant who fulfils his professional duties compromises his independence according to the Code. Therefore a clarification in par 290.179 might be helpful.	WpK	No change
829.	179	Section 290.179 regards services such as advising the client how to structure its affairs in a tax efficient manner (tax planning) on one hand and the advice on the application of a new tax law or regulation on the other hand as part of a broad range of tax planning and other tax advisory services. We do not agree that it is appropriate to lump these together in this manner. We do not appreciate how the latter might impair an auditor's independence. On the contrary, due to professional requirements for the exercise of due care and professional competence, we believe it is entirely conceivable that an accountant providing tax services will be obliged to make an audit client aware of a new tax law or regulation, e.g. when there is a deadline for a tax exemption or a tax relief.	IDW	No change – minority comment
830.	179	It does not seem appropriate to apply the same treatment to services such as advising the client on how to structure its affairs in a tax efficient manner (tax planning) on the one hand and the application of a new tax law or regulation on the other. It is unclear how the latter could impair the auditor's independence. On the contrary, one could argue that the provider of tax services should be obliged to make the audit client aware of a new tax law or regulation for example, if there is a deadline for a tax exemption or a tax relief. Hence, we suggest clarifying that advising the client on new tax legislation is clearly a duty for a tax advisor and that this could constitute a safeguard. This would help to remove the implication that could be read into Section 290.179 that the services mentioned are a potential threat	SMP/DNC	Minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
831.	180	We do not believe that the first bullet in paragraph 290.180 adds anything to the more specific guidance set out in the other bullets, and in particular the final bullet so far as concerns the implications for the accounting of the tax advice in the financial statements. We therefore believe that the first bullet will confuse the reader and should be deleted.	KPMG	No change – IESBA is of the view that extent of subjectivity will influence significance of the threat
832.	180	It would be easier to understand if any examples of specific restrictions are given	JICPA	No change – 290.182 provide an situation where the combination of these factors are such the service is restricted
833.	180	The last bullet under section 290.180 refers to “doubt as to the appropriateness of the accounting treatment or presentation.” We recognize that the difference in construct between 290.180 and 290.182(a), that is, 290.182(a) uses the word "reasonable" as a modifier of the word "doubt," was intentional. However, we would not expect most readers to grasp the subtlety of the distinction and recommend that the word “reasonable” be added before “doubt” to be consistent with the language used in section 290.182(a): “Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is <i>reasonable</i> doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.”	AICPA	No change – minority comment
834.	180	In listing the various factors of tax consultancy that could give rise to advocacy threats in paragraph 290.180, the factors are either a financial statement factor or a tax factor. It is not clear whether this is an inclusive or exclusive test. What is the advocacy result where the financial treatment is accepted but the tax outcome questionable? Therefore we recommend that IFAC provides clearer guidance as to whether these are mutually inclusive or exclusive advocacy threats.	Grant Thornton	No change – factors are those that will influence the significance of the threat. The construction is the same as elsewhere in the Section

X ref	Par Ref	Comment	Respondent	Proposed Resolution
835.	180	Section 290.180 states that a self-review threat may be created where the advice will affect matters to be reflected in the financial statements and that the significance of any threat will depend, among others, on “the level of tax expertise of the client’s employees” (third bullet-point). The extent to which this level of tax expertise represents a relevant factor for the assessment of the self-review threat needs to be clarified.	IDW	No change – minority comment
836.	180	Section 290.180 states that a self-review threat may be created where the advice will affect matters to be reflected in the financial statements and that the significance of any threat will partly depend on “the level of tax expertise of the client’s employees”. It should be clarified to what extent this level of tax expertise represents a relevant factor for the assessment of the self-review threat.	SMP/DNC	No change – this is one of the factors which should be considered
837.	181	<p>In addition the text of paragraph 290.171 (sic) {181?} refers to three types of possible safeguards.</p> <p>For small entities, only the safeguard consisting in obtaining advice on the tax service requested from an external tax professional is possible.</p> <p>This type of safeguard may turn out to be onerous for the client and could lead to prevent small practices from performing the tax services requested by the entity.</p> <p>We propose as a result to add among the safeguards provided the possibility for the professional accountant to ask for example for the opinion of the tax authorities when available or to extend the periodic quality control reviews undertaken by the professional body to the tax services provided to the client.</p>	CSOEC	Change made
838.	181	The following additional safeguard should be added to paragraph 290.181 picking up the same language as in paragraph 290.176: “Requiring management of the client to take responsibility for evaluating the appropriateness of the advice including any significant judgments made”.	DTT	No change – IESBA is of the view that requiring management to take responsibility is not, in itself, a sufficiently robust safeguard to adequately address a threat

X ref	Par Ref	Comment	Respondent	Proposed Resolution
839.	181	At paragraph 290.181, three possible safeguards are mentioned. In many countries small businesses source their tax assistance from small practitioners, many of them being sole practitioners. In the context of sole practitioners in particular, the only possible safeguard appears to be ‘obtaining advice on the service from an external tax professional’. This is likely to add to the cost to the client. Indeed it might render the provision of tax services to audit and review clients unviable, presenting the client with the need to find another source, if available. It would be helpful to add additional examples, such as obtaining pre-clearance or advice from the tax authorities, where available, and extending periodic quality control reviews to tax services, as possible safeguards.	ACCA	Change made – pre-clearance from tax authorities added
840.	181	We note that the discussion in 290.181 refers to three possible safeguards. These safeguards are mentioned as examples (“might include”). In many countries, small businesses source their tax assistance from sole practitioners. However, of the examples mentioned in 290.181, the only possibility for such practitioners is the last example: obtaining advice on the service from an external tax professional. This is likely to add to the cost to the client. Indeed it might render the provision of tax services to audit and review clients unviable for this part of the profession, presenting the client with the need to find another source, if available. It would be helpful to add additional examples, such as obtaining pre-clearance or advice from the tax authorities, where available, and extending periodic quality control reviews to tax services	FEE	Change made – pre-clearance from tax authorities added
841.	181	Par 290.181 enumerates three possible safeguards relating to a self-review threat resulting from tax planning or other tax advisory services performed by the auditor. In some jurisdictions, e.g. in Germany, there is the possibility to receive a binding advice from the tax authorities. In this advice the tax authority obligates itself to treat a certain case in a predefined way. We recommend adding the binding advice as a possible safeguard to par 290.181	WpK	Change made – pre-clearance from tax authorities added

X ref	Par Ref	Comment	Respondent	Proposed Resolution
842.	181	Section 290.181 refers to three possible safeguards which are presented as examples as denoted by “might include.” In many countries SMEs obtain tax assistance from sole practitioners. However, of the three examples mentioned the only possibility for such practitioners is the last one, obtaining advice on the service from an external tax professional. This is likely to increase the cost to the client. Indeed for this sector of the profession it might render the provision of tax services to audit clients unviable causing the client to have to seek another source. We suggest including additional safeguards, such as obtaining pre-clearance or advice from the tax authorities and extending periodic quality control reviews to include tax services.	SMP/DNC	Change made – pre-clearance from tax authorities added
843.	182	NIVRA agrees with the prohibition in 290.182 regarding aggressive tax advice.	NIVRA	Supportive comment
844.	182	Paragraph 290.182 contains a limitation on the provision of tax advice if such advice depends on a particular accounting treatment or presentation in the financial statements and there is reasonable doubt as to the appropriateness of the related accounting treatment, and the advice will have a material effect on the financial statements. We assume that this was intended to cover the very narrow situation where the realization by the audit client of tax benefits from implementing the advice provided by the audit firm is conditioned on a certain accounting treatment and the auditor agrees with the client to such accounting treatment, notwithstanding the fact that there is reasonable doubt as to the appropriateness of such treatment. In our view, we question the need for this paragraph as it seems to cover a fairly remote set of circumstances. If retained, we suggest that it be clarified so the reader will better understand the particular circumstances the limitation is intended to cover. At a minimum, paragraph 290.182 should be amended by adding the words “or the engagement for tax services discontinued as the case may be” after the words “should not be provided”. In most cases it will not be until the engagement is in process before it can reasonably be concluded that the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements.	DTT	No change – minority comment
845.	182	We are concerned that the phrase “reasonable doubt as to the appropriateness of the accounting treatment” in 290.182(a) is unhelpful and request that this be rephrased. See comments on a similar statement in the Corporate Finance section, under item 2.5.5 below.	FEE	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
846.	182	<p>In sections 290.182 and 290.211 the guidance prohibits any consultancy services where the effectiveness of the tax or corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and</p> <p><i>"(a) There is reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and</i> <i>(b) The outcome or consequences of the tax advice will have a material effect on the financial statements."</i></p> <p>In FSR's opinion this is not an independence issue. An auditor should never give any advice where the effectiveness depends on a particular accounting treatment.</p> <p>We recommend that you remove the two sections from the exposure draft or that you get more specific about the purpose or the meaning of these two sections.</p>	FSR	No change – minority comment
847.	182	<p>While we are generally supportive of the proposed guidance on the provision of tax planning and other tax advisory services, we do not believe that the guidance in paragraph 290.182 of the ED should be required for audit clients that are not entities of significant public interest. Therefore, we recommend rewording paragraph 290.182 as follows (new language in boldface italics):</p> <p><i>"Audit Clients that are Entities of Significant Public Interest</i> In the case of an audit client that is an entity of significant public interest, where the effectiveness of the tax advice depends on particular accounting treatment or presentation in the financial statements and: (a) There is reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and (b) The outcome or consequences of the tax advice will have a material effect on the financial statements; the self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level in which case the tax advice should not be provided. The only other course of action would be to withdraw from the audit engagement."</p>	KICPA	No change – IESBA is of the view that such services should not be provided for any audit clients

X ref	Par Ref	Comment	Respondent	Proposed Resolution
848.	182	We would note that section 290.182 seems to presume that a professional accountant may adopt or acquiesce in an inappropriate accounting treatment or presentation. If that were the case there would be more than an Independence problem. This may simply be a wording issue producing an unintended result.	CICA	No change – minority comment
849.	182	The guidance introduces the concept of ‘ <i>reasonable doubt as to the appropriateness of the accounting treatment</i> ’. We are concerned that this phrase is extremely difficult to apply without reference to the person who is actually assessing the appropriateness. Therefore, we recommend that the wording be amended to ‘ <i>the audit partner having reasonable doubt as to the appropriateness of the accounting treatment</i> ’. If a competent audit partner has no doubt as to the appropriateness of the accounting treatment under a given framework, then we do not consider that the firm’s independence would be insurmountably threatened.	BDO	Change made – redrafted to refer to the reasonable doubt of the team
850.	182	With respect to Tax Planning and Other Tax Advisory Services and more specifically, paragraph 290.182, additional clarification of the concept of “reasonable doubt” and the provision of examples to illustrate the intent of the paragraph would be helpful for ensuring appropriate and consistent application of the prohibition	E&Y	No change – minority comment
851.	183	Assistance in the resolution of tax disputes – does not permit the firm that performs the audit to represent the client before a “tribunal or court”. Small audit clients would not be permitted to have the CPA represent them before an IRS appeals hearing.	GSH	No change – paragraphs restrict certain assistance but not all
852.	183	With respect to Assistance in the Resolution of Tax Disputes, we are concerned that the proposed Exposure Draft wording could give rise to interpretation issues. In particular, a number of concepts are unclear: for instance, the meaning of “formal proceeding” or “...once the tax authorities have made it known...” We would support a much more direct test such as “when the firm represents an audit client in the resolution of a tax dispute before a tribunal or court”. In addition, this section should be more explicit that Litigation support services permitted under 290.198 to 200 would be equally permitted when related to a tax dispute under 290.183 to 185.	E&Y	No change – threta may be created before the matter is before a formal proceeding

X ref	Par Ref	Comment	Respondent	Proposed Resolution
853.	183	In Section 290.183 (assistance in the resolution of tax disputes) it remains unclear whether, and to which extent, the first bullet-point (whether the firm has provided the advice which is the subject of the tax dispute) and the fifth bullet-point (the role management plays in the resolution of the dispute) overlap. In our opinion, the fifth bullet-point could be deleted.	IDW	No change – minority comment
854.	183	I agree with this requirement to the extent that it addresses the appearance of advocacy between a professional accountant and his or her client. My concern is that professional accountants may believe that “private” advocacy of a client’s position does not threaten independence. I suggest the Code specify that the advocacy threat to independence, i.e., promotion of a position or opinion to the point that subsequent objectivity may be compromised, may occur in a non-public setting.	AC	No change – 183 states that the significance of the threat should be evaluated
855.	183	We have a number of suggestions concerning paragraph 290.183 regarding Tax Disputes. First, the phrase “have made it known” should be changed to “provided formal notification”. This will make the triggering event clearer and therefore compliance much more effective. Second, the phrase “in a formal proceeding” should be changed to “in an independent proceeding”. Dealing directly with the tax authorities on a tax matter on behalf of an audit client has long been accepted as appropriate. Using the word “independent” serves to make it clear that once the issue has moved to a forum that is independent of the tax authority, it would no longer be appropriate for the audit firm to represent the client. This is also a brighter line test. Third, an inherent problem lies with the fact that it is necessary to draw a line in each jurisdiction notwithstanding that each jurisdiction has unique procedures set down in the different tax codes for resolving tax disputes. The paragraph should expressly direct each IFAC member body to determine and publish which tribunals are “independent” and hence “prohibited” by audit firms on behalf of audit clients. Without this specific guidance, compliance will be much more difficult and audit firms will differ in interpretation. Fourth, the following safeguard should be added along the lines of; “Requiring that a competent member of client management review, approve and take responsibility for making all final decisions with respect to the services provided by the auditor”	DTT	Change made – changed to “notified the client”

X ref	Par Ref	Comment	Respondent	Proposed Resolution
856.	183	In paragraph 290.183 we suspect there will be debate in particular about the meaning of a “formal proceeding”. We suggest that it should be clarified that this would need to reflect how the collection of tax is administered in a particular jurisdiction.	KPMG	No change – minority comment
857.	183	We would also note that in Canada, and perhaps elsewhere, it is more commonly the audit client and not the tax authorities who will refer disputes to courts or tribunals. We believe, therefore, that Section 290.183 would be improved if it applied whenever a tax dispute goes to a formal proceeding and without reference to the initiating party.	CICA	Change made
858.	183	We agree that an advocacy threat may be created once the matter is referred for determination in a formal proceeding. However, clarification is needed regarding what is meant by “made it known” when a dispute is heading to a formal proceeding. For example, verbal communication (rejection of arguments) from an appellate agent often takes place before the “formal” (written) notification; there is then a period of time before the formal disallowance occurs during which the matter could still be settled without a formal proceeding. Because procedural rules vary from jurisdiction to jurisdiction, we recommend the appropriate standard be formal notification. Cont’d	AICPA	Change made – changed to “notified the client”

X ref	Par Ref	Comment	Respondent	Proposed Resolution
859.	183	<p>In addition, in the United States the appeals process generally is not initiated based on the referral of the matter <i>by the taxing authority</i>. For example, the <i>taxpayer</i> may be required to initiate a petition to present their case in tax court. Also, a significant period of time may lapse once the taxing authority provides notification that it has rejected the argument before the taxpayer may decide to appeal the matter and request a “formal proceeding.” During that period before the taxpayer has made a decision to request a formal proceeding, we believe the advocacy threat is insignificant. Accordingly, we recommend that section 290.183 be revised as follows to clarify that it may not necessarily be the taxing authority that initiates the referral and the “trigger” for determining when the advocacy threat is created is when the matter is actually referred for determination as part of a formal proceeding:</p> <p>An advocacy threat may be created when the firm represents an audit client in the resolution of a tax dispute once the tax authorities have made it known <i>provide formal notification</i> that they have rejected the audit client’s arguments on a particular issue and <i>the matter is referred</i> are referring the matter for determination in a formal proceeding, for example before a tribunal or court...”</p>	AICPA	Change made
860.	183	In Section 290.183 regarding assistance in the resolution of tax disputes it remains unclear if, and to what extent, the first bullet-point (whether the firm has provided the advice that is the subject of the tax dispute) and the fifth bullet-point (the role management plays in the resolution of the dispute) are overlapping. In our opinion, the latter bullet-point could be waived.	SMP/DNC	No change
861.	183-184	NIVRA believes that granting of assistance to a client in tax procedures is inherent to the activities of an auditor in the field of taxation services. For this reason, this service must remain, except in the case of legal action before the highest national judicial authority. In the Netherlands, and NIVRA assumes that this also applies to other jurisdictions, the Taxation Section is public (makes its judgements in public). However, as a result of the adjective “public” the granting of assistance before lower legal authorities is (possibly unintentionally) not permitted. NIVRA is not in agreement with this.	NIVRA	No change – as indicated in ED¶184 what constitutes a public tribunal or court should be determined according to how tax proceedings are heard in that particular jurisdiction.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
862.	183-184	<p>Par 290.183 states that an advocacy threat may be created when the firm represents an audit client in the resolution of a tax dispute once the tax authorities have made it known that they have rejected the audit client's arguments on a particular issue and are referring the matter for determination in a formal proceeding. Bullet 2 says that the significance of the threat will depend among others on the extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion.</p> <p>Par 290.184 adds that where the taxation services involve acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements, the advocacy threat is considered so significant that no safeguard could eliminate or reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for an audit client. This rule is applicable for all audit clients. Safeguards are not provided.</p> <p>These paragraphs go far beyond the existing requirements. In this context we would like to draw your attention to the EU Commission Recommendation of 16 May 2002 — Statutory Auditors' Independence in the EU: A Set of Fundamental Principles, par 7.2.5 of the Annex:</p> <p><i>“It is less likely that this threat will become significant, when the Statutory Auditor is only required to give evidence to a court or tribunal in a case in which the client is involved.</i></p> <p><i>Even when taking a relatively active role on behalf of the client, there can be other specific situations which are generally not seen to compromise a Statutory Auditor's independence. Such situations could include the representation of an Audit Client before the court or the tax administration in a case of tax litigation. They could also include advising the client and defending a particular accounting treatment in a situation where a Member State's authority, securities regulator or review panel, or any other similar European or international body investigates the Audit Client's financial statements. However, whatever the circumstances, the Statutory Auditor should analyse the specific situation and his particular involvement to carefully assess whether or not there is a significant risk to his independence.”</i></p>	WpK	No change – last sentence of 184 states that what constitutes a public court or tribunal needs to be determined according to how the tax proceedings are heard in that particular jurisdiction.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
863.	183-184	<p>In 2004, after several accounting scandals in Germany and worldwide, the German legislator considered a prohibition of certain tax and legal services provided by the statutory auditor, and representation in court in particular. In this context the German legislator abolished the advocacy threat in representing a client in a public tribunal or court.</p> <p>We agree with the German legislator that representing a client in a public tribunal or court does not create an advocacy threat. At least the audit firm should have the possibility in accordance with the EU Recommendation to defend a particular accounting treatment in court, when the tax authorities rejected a position which was already confirmed by the audit firm.</p> <p>As “on which the firm will express an opinion” is not repeated in par 290.184, we conclude that the auditor should not act as an advocate for his audit client before a public tribunal or court in the resolution of tax matters, not even when the amounts involved are only material to financial statements, which are not subject of the audit performed by the auditor in question. In this case we do not see an advocacy threat. We therefore request the IESBA to generally reconsider par 290.183 and 290.184.</p>	WpK	See above
864.	183-185	<p>The ED highlights a potential advocacy threat when in a tax dispute the audit firm represents an audit client in certain circumstances. We believe that it is appropriate for the Board to provide guidance on this issue. We do believe, however, that the self-review threat inherent in tax advisory work might, in some cases, be augmented in a tax dispute where the firm’s original tax advice and the client’s accounting treatment thereof has been called into question, creating a potential self-review for the audit engagement team as it considers the appropriateness of the accounting treatment. In most cases, however, it would be possible to reduce the, possibly augmented, self-review threat to an acceptable level through the use of safeguards. The Board may want to add this to the discussion in paragraph 290.183. Some of the factors relating to the significance of the threat mentioned in paragraph 290.183, as well as the safeguards, relate more to this self-review threat than to the advocacy threat. Cont’d</p>	PwC	Change made – self-review threat added

X ref	Par Ref	Comment	Respondent	Proposed Resolution
865.	183-185	<p>We agree with the basic presumption that the auditor's role in assisting the client to comply with its statutory obligations in relation to its tax affairs, including helping to resolve routine differences of opinion between the client and the tax authority, is compatible with independence.</p> <p>We also agree that assistance to an audit client in the resolution of a serious dispute with the tax authority should be subject to an evaluation of the significance of any actual or perceived threat to the auditor's objectivity and the application of appropriate and proportionate safeguards. As the ED acknowledges in paragraph 290.174, the activities involved in providing a tax service are often interrelated. The ability to assist the client when disagreements arise out of an interpretation of the applicable tax rules, having regard to the need to monitor and preserve independence, is clearly important to audit firms being able to maintain sustainable tax practices. Cont'd</p>	PwC	See above
866.	183-185	<p>The reference to a "formal proceeding" in 290.183 is, however, unclear since there are a number of activities within the compliance processes in the jurisdictions of member bodies which constitute an integral and routine part of agreeing a tax liability and which take place before the matter could reasonably be described as a serious dispute, but which might nevertheless be construed as a formal proceeding (e.g., the filing of an administrative appeal). Disagreements which the tax authority and taxpayer attempt to resolve between themselves are common and routine in many jurisdictions. Furthermore, formality is an inherently subjective criterion which could introduce uncertainty and inconsistency.</p> <p>The advocacy threat arises when other parties get the impression that the audit firm represents an audit client in a manner that creates a perceived lack of objectivity. We believe that this perception does not arise in a non-public proceeding with the tax authorities. The word "formal" proceeding in paragraph 183 is therefore, we believe, unfortunate, as it does not address the public attribute of the proceeding. In the interests of clarity, therefore, the reference to "a formal proceeding" should, in our view, be amended to "a proceeding accessible to the public". Cont'd</p>	PwC	No change – last sentence of 184 states that what constitutes a public court or tribunal needs to be determined according to how the tax proceedings are heard in that particular jurisdiction.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
867.	183-185	<p>Reference is made to “tribunal or court” in 290.183 and to “public tribunal or court” in 290.184 and 290.185. Consistently with what we say in the preceding paragraph, we believe that reference should be made to “proceeding accessible to the public”.</p> <p>However, the Board will appreciate that there are many tax assessment systems around the world, and there are many different types of closed and open forums within their tax administrative and judicial processes. We do not believe it is possible for the Board to define exactly what processes are accessible to the public to such a degree that they create an advocacy threat; this should be left to each member body to determine. The Board may want to review, after some time, the application in each country to ascertain that the application has been made with sufficient levels of consistency.</p> <p style="text-align: right;">Cont’d</p>	PwC	See above
868.	183-185	<p>Accordingly, we recommend the following:</p> <ol style="list-style-type: none"> 1. Enhance the discussion in this Section to acknowledge that it deals with both the self-review threat and the advocacy threat. Acknowledge that most self-review threats can be dealt with through safeguards. 2. Delete the word “formal” in the introduction to 290.183, add “accessible to the public” after “proceeding” and take out the “for example, before a tribunal or court”. 3. Amend the first sentence of 290.184 to refer to “representing” an audit client, and delete the final sentence of 290.184, replacing it with the following: What constitutes a “proceeding accessible to the public” should be determined by the member bodies in that jurisdiction. 4. Delete “public tribunal or court” from 290.184 and 290.185 and replace it with “proceeding accessible to the public”. <p>Revised proposed language is provided in Appendix I. [Appendix 4 to this agenda paper]</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
869.	184-185	Paragraphs 290.184 and 185 prohibit the audit firm from acting as an advocate for the client in the resolution of a tax matter in certain circumstances. While threats should clearly be considered, the degree of threat will vary. The EU Recommendation on Independence notes (at Section 7.2.5) “Even when taking a relatively active role on behalf of the client, there can be other specific situations which are generally not seen to compromise a Statutory Auditor's independence. Such situations could include the representation of an Audit Client before the court or the tax administration in a case of tax litigation. They could also include advising the client and defending a particular accounting treatment in a situation where a Member State's authority, securities regulator or review panel, or any other similar European or international body investigates the Audit Client's financial statements.” It is at the very least important to distinguish between merely representing a client position and the audit firm defending its own opinion, where it has already opined on a certain treatment (this is implied in the second item in the list in 290.183 but “on which the firm <i>will</i> express an opinion” is not repeated in 290.184). In this latter case, there is no advocacy threat to a future opinion and there should be no prohibition	FEE	No change – IESBA is of view that form should not act as an advocate before a public tribunal or court of the matter is material
870.	184-185	Paragraphs 290.184 and 185 prohibit the audit firm from assisting the client in the resolution of a tax matter in certain circumstances. While threats should clearly be considered, the degree of threat will vary. The European Commission Recommendation on Statutory Auditor Independence notes (at section 7.2.5) ‘Even when taking a relatively active role on behalf of the client, there can be other specific situations which are generally not seen to compromise a Statutory Auditor's independence. Such situations could include, the representation of an Audit Client before the court or the tax administration in a case of tax litigation. They could also include advising the client and defending a particular accounting treatment in a situation where a Member State's authority, securities regulator or review panel, or any other similar European or international body investigates the Audit Client's financial statements’. It is at the very least important to distinguish between merely representing a client position and the audit firm defending its own opinion, where it has already opined on a certain treatment (this is implied in the second bullet of paragraph 290.183 but ‘...on which the firm <i>will</i> express an opinion’ is not repeated in paragraph 290.184). In this latter case, we do not believe there is an advocacy threat to a future opinion and, therefore, there should be no prohibition	ACCA	No change – IESBA is of view that form should not act as an advocate before a public tribunal or court of the matter is material

X ref	Par Ref	Comment	Respondent	Proposed Resolution
871.	184-185	Sections 290.184 and 290.185 prohibit the audit firm from acting as an advocate for the client in the resolution of a tax matter in certain circumstances. While threats need to be considered, the degree of threat will vary. We question whether the advocacy threat is so significant that no safeguard could eliminate or reduce the threat to an acceptable level in particular, in cases where the taxation service is provided to an entity other than ESPI. We suggest, therefore, that at the very least the Code should distinguish between merely representing a client position and the audit firm defending its own opinion, where it has already opined on a certain treatment. In this latter case, there is no advocacy threat to a future opinion and so there should be no prohibition. Indeed, it is hard to justify denying the client access in a decisive phase of tax assessment to the very expert who best knows the circumstances of case.	SMP/DNC	No change – IESBA is of view that form should not act as an advocate before a public tribunal or court of the matter is material
872.	184	Section 290.184 prohibits taxation services that involve acting as an advocate for an audit client before a public tribunal or court in the resolution of tax matters where the amounts involved are material to the financial statements. We would like to question the Board's opinion, that the advocacy threat is considered so significant that no safeguard could eliminate or reduce the threat to an acceptable level, in particular in cases where the taxation service is provided to an entity not of significant public interest. Furthermore, we do not see that there is a convincing reason as to why in a decisive phase of tax assessment the expert who knows best the circumstances of the relevant case should be withdrawn from the client. Furthermore, we would like to point out that an auditor, having audited the financial statements, including the tax charges, provisions etc. reflected therein, will be essentially justifying his or her own audit opinion as to the taxation issues presented in the financial statements in this respect, as opposed to acting solely in the interests of the audited entity. In such circumstances we do not believe there is an advocacy threat	IDW	No change – IESBA is of view that form should not act as an advocate before a public tribunal or court of the matter is material

X ref	Par Ref	Comment	Respondent	Proposed Resolution
873.	184	<p>Paragraph 290.184 of the ED states that “Where the taxation services involve acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements, the advocacy threat is considered so significant that no safeguard could eliminate or reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for an audit client. What constitutes a “public tribunal or court” should be determined according to how tax proceedings are heard in the particular jurisdiction.” We strongly believe that there should be more detailed guidance on the facts and circumstances in which case the taxation services should not be provided. In addition, we do not believe that the guidance should be required for audit clients that are not entities of significant public interest. Therefore, we recommend rewording paragraph 290.184 as follows (new language in boldface italics):</p> <p><i>“Audit Clients that are Entities of Significant Public Interest</i></p> <p>In the case of an audit client that is an entity of significant public interest, where the taxation services involve acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements, the advocacy threat is considered so significant that no safeguard could eliminate or reduce the threat to an acceptable level. Therefore, the firm should not perform this type of service for an audit client that is an entity of significant public interest. What constitutes a “public tribunal or court” should be determined according to how tax proceedings are heard in the particular jurisdiction and will normally meet all of the following three criteria:</p> <p>(a) the tax proceedings are open to the public or a transcript of the proceeding s is available to the public</p> <p>(b) the public tribunal or court is the final trier of fact so that any appeal is based on the factual record developed at the public tribunal or court, and</p> <p>(c) the public tribunal or court may issue decisions that apply the law to the facts and that serve as precedents for subsequent cases involving different taxpayers with similar facts”</p>	KICPA	No change – IESBA is of view that form should not act as an advocate before a public tribunal or court of the matter is material

X ref	Par Ref	Comment	Respondent	Proposed Resolution
874.	185	<u>Assistance in the resolution of tax disputes:</u> We agree that if an auditor is requested to fulfill the continuing advisory role as envisaged in paragraph 290.185, there is no advocacy risk. It appears, from the references to public tribunals and courts, that the intention is to relate the advice to matters dealt with in a public forum rather than any 'formal' proceeding which in many cases is not open to the public and therefore would not create a visible advocacy threat. We therefore suggest that references to 'formal proceedings' be avoided and the term 'public proceedings' be used instead.	IRBA	No change
875.	186-191	The guidance on internal audit services will be subject to the overriding guidance in paragraph 290.160 - which effectively elaborates on the existing guidance in paragraph 290.190(b).	CAGNZ	No change – addressed by IT2
876.	188	As the safeguards in Paragraph 290.188 are somewhat too broadly defined, there is a possibility of loose interpretations.	JICPA	No change – addressed by IT2
877.	192-197	The guidance on IT systems services will be subject to the overriding guidance in paragraph 290.160 - and should be amended accordingly.	CAGNZ	No change – 290.160 applies to all non-assurance services
878.	193	<p>Paragraph 290.193 makes reference to IT systems that do not form a significant part of the accounting records or financial statements. We consider the words "a significant" should be removed as it introduces an unacceptable level of subjectivity and does not take account of the threat to independence in appearance.</p> <p>We do not consider implementation of "off-the-shelf" accounting or financial information software (as set out in paragraph 290.193) is appropriate for the reason that it does not take account of the threat to independence in appearance.</p>	CAGNZ	<p>No change – minority comment</p> <p>No change - Minority view</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
879.	193	<p>With respect to paragraph 290.193, we note that in certain countries audit firms have developed their own proprietary software for example to facilitate the preparation by clients of their tax returns. This software may be sold or licensed to clients. In the same way as tax return preparation services do not generally threaten the firm's independence in the circumstances outlined in paragraph 290.176, it should also be recognised that the firm might license or sell software to clients to the extent that the functionality is limited to the preparation of tax returns. If the software has additional functionality, for example to generate information which might be incorporated in the financial statements, such functionality would need to be evaluated in order to consider the potential effect on the audit firm's independence. An additional safeguard that might be necessary in certain circumstances would be for the audit client to accept responsibility for the use of the software by designating a competent employee to operate the software, including the assumptions and inputs and the results of the software in determining any accounting entries to be made in the financial statements. We believe that paragraph 290.193 should be extended to include a discussion of the acceptability of such types of software in these circumstances.</p>	KPMG	<p>No change – matter would be considered under IT systems or through threats and safeguards under tax. In addition several expressed concern about the existing length of the tax section</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
880.	193	<p>Our concern is specifically whether the Code should restrict an auditor from licensing software to an ESPI/listed entity that helps the client calculate tax provisions.</p> <p>The current provision in 290.197 is a blanket prohibition on the provision of IT Systems Services that form a significant part of the accounting systems or generate information that is significant to the client's financial statements to an ESPI, without any consideration of whether there is an <i>actual</i> threat to independence from the particular services for the ESPI audit client.</p> <p>The particular concern we have is with generic Tax Effect Accounting software (TEA) designed by the auditor. We believe that such software should continue to be permitted to be licensed to all audit clients under the Code, whether an ESPI or not, in cases where safeguards have been implemented to reduce any threat to independence to an acceptable level. In particular, we believe that the calculation functionality of such "off the shelf" tax software is routine and mechanical in nature and no judgement is exercised.</p> <p>We would encourage that the Code maintain a "threats and safeguards" approach and be amended to remove the restriction on IT Systems Services contained in 290.197 for ESPI. The provisions should be updated to permit IT Systems Services for ESPI <i>provided that any threat to independence is reduced to an acceptable level by appropriate safeguards</i>, consistent with the overall policy approach contained in paragraph 290.151 of the Code for non-audit services.</p> <p style="text-align: right;">Cont'd</p>	Australia	No change – matter would be considered under IT systems or through threats and safeguards under tax. In addition several expressed concern about the existing length of the tax section
881.	197	Paragraph 290.197 should be amended to remove the subjectivity around the references to "... a <u>significant</u> part of the accounting systems or generate information that <u>is significant to</u> the clients financial statements...". This can be achieved by removing the words "a significant" and replacing the words "is significant to" with "will be included in". The amendments also remove the possibility of threats to independence in appearance.	CAGNZ	No change – minority comment
882.	197	The ED should clarify that technology and systems provided by audit firms to support or deliver permitted tax services do not impair independence.	DTT	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
883.	Internal audit	We agree with the proposals under this heading.	ACCA	Supportive comment
884.	Internal audit	We note that these sections have not been amended at this stage but will be reviewed in future. As with valuation services we believe the provisions in this area to be logical, relatively simple and widely adopted.	ICAEW	General commnet
885.	IT Services	We believe overall the guidance is appropriate.	Australia	Supportive comment
886.	IT Services	We support the strengthening of the provisions on IT Systems Services.	E&Y	Supportive comment
887.	IT Services	We support the proposed changes relating to IT systems services.	CICA	Supportive comment
888.	IT Services	We also believe that the auditor assistance in design and implementation of internal control systems and procedures would provide a good example of a threat for which appropriate safeguards (to be defined) might be required.	Mazars	No change
889.	IT Services	Two views are possible in this. The Auditor should know the system well. Hence this service should be done by the auditor if the necessary capabilities are available Blanket prohibition needs a review	ICPAIndia	No change – minority comment
890.	IT Services	An explanation has not been provided either in the explanatory memorandum or in the Code as to why the implementation of a financial information system, which could be a packaged system developed by a third party, creates a threat that is so material for significant public interest entities that an auditor is prohibited from implementing it. On that basis we do not have sufficient information to state whether we support the proposal or not.	IRBA	No change – 290.193 would permit such an implementation if the customization is not significant

X ref	Par Ref	Comment	Respondent	Proposed Resolution
891.	194	We note a potential ambiguity regarding use of the term ‘involving’ as, for example, used in paragraph 290.194 and 290.212. To illustrate, in the context of corporate finance services, the services provided by the firm may involve assisting the client to identify a third party to underwrite an audit client’s shares. The intent would not be to prohibit such a service as the audit firm is not providing ‘underwriting’ services. However, the term ‘involving’ may inappropriately capture such a ‘service’. Use of the phrase “services of” would seem preferable.	PwC	No change – minority comment
892.	194	The guidance here is vague and again, should be strengthened. The inclusion of “significant” in two places introduces unnecessary subjectivity	ICANZ	No change – minority comment
893.	194	The requirements applying to non-SPIEs indicate that designing or implementing a financial IT system that forms a significant part of the accounting system, or generates information that is significant to the client’s financial statements may cause a threat to independence. For consistency with other requirements, I suggest replacing the term “significant” with the more familiar term, “material”.	AC	No change – minority comment
894.	197	<p>We recommend that the approach on IT services to audit clients who are entities of significant public interest should be extended to all audit clients. The services set out in paragraph 290.194 (involving the design or implementation of hardware or software systems which form a significant part of the accounting systems or generate information that is significant to the client’s financial statements) are likely to be relied on by the auditors and therefore a significant self-review threat is created. The safeguards outlined in paragraph 290.195 and 290.196 alone are unlikely to be sufficient to reduce this threat to an acceptable level. We believe that, as it is unlikely that such a service will be of a routine or mechanical nature, any such service should be prohibited for all audit clients.</p> <p>Additionally, we believe that where there is any connection between an IT service and the accounting system, then a threat is created and an evaluation of its significance should be made. Therefore, some of the IT systems services set out in paragraph 290.193 should only be provided to audit clients where safeguards are applied as necessary to eliminate any threat or reduce it to an acceptable level, in addition to ensuring that firm personnel do not perform management functions</p>	APB	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
895.	197	Proposed section 290.197, under the area of IT systems, prohibits both the design and/or implementation of systems that form a significant part of the accounting systems, or generate information that is significant to the client's financial statements on which the firm will express an opinion for entities with significant public interest. In our view, this seems to carry the prohibition too far. We are not convinced that the simple implementation of a new software system requires prohibition and believe that this may be better dealt with by safeguards. Perhaps this is not the intent, and additional guidance would suffice.	CGA - Canada	No change 290.193 would permit implementation of off-the-shelf software provided the customization was not significant
896.	197	Again, we see no evidence of the need to introduce an absolute prohibition in respect of the audit of ESPIs. The provisions for other audits provide a sensible framework allowing the work to be undertaken only where there are adequate safeguards, and they are not out of line with those used by a number of regulators, including the European Commission and the APB.	ICAEW	No change – IESBA of the view that because of the public interest more stringent position is appropriate for PIEs
897.	197	We note that the scope of this example has been changed from covering "design and implementation" circumstances to a wider set of circumstances covering "design or implementation". We do not believe that there is any evidence of a need to additionally introduce the wholesale prohibition in 290.197 on the provision of such services for ESPI audits. The safeguards discussed in paragraph 290.195 for audit clients that are not ESPIs should still be possible to apply for all audits, since the threats will not always be of such significance that they cannot be reduced to an acceptable level	FEE	No change – IESBA of the view that because of the public interest more stringent position is appropriate for PIEs
898.	197	NIVRA agrees in the introduction of a prohibition with respect to ESPIs that also relate to design <i>or</i> implementation. NIVRA agrees with IESBA that the provision of guarantees is sufficient for non-ESPIs.	NIVRA	Supportive comment
899.	197	We question the basis on which the IESBA has decided to move the scope of IT systems services from 'design and implementation' to 'design or implementation'. The IESBA has not provided any evidence of a need to introduce the wholesale prohibition at paragraph 290.197. The safeguards discussed at paragraph 290.195 are, in our view, equally appropriate for ESPIs as threats will not always be of such significance that they cannot be reduced to an acceptable level.	FEE	No change – IESBA of the view that because of the public interest more stringent position is appropriate for PIEs

X ref	Par Ref	Comment	Respondent	Proposed Resolution
900.	197	<p>In sections 290.197 you introduce a prohibition against IT services to entities of significant public interest if the services involve the design <i>or</i> implementation of financial systems that form a significant part of the accounting system or generate information that is significant to the client's financial statements.</p> <p>This is a deviation from the principle-based assumptions. In our opinion the basis must be that the auditor makes sure that he is independent. Section 290.195 describes a number of safeguards which can be put in place to maintain the independence of the client. These safeguards should be effective also for entities of significant public interest.</p> <p>We have noticed that section 290.197 is equal to the SEC rule. However, we have not experienced that the independence of the auditor outside the US has been questioned regarding services involving the design or implementation of financial systems as long as the auditor follows the rules as set up in the present CoE.</p>	FSR	No change – IESBA of the view that because of the public interest more stringent position is appropriate for PIEs

X ref	Par Ref	Comment	Respondent	Proposed Resolution
901.	197	<p>We believe the policy and safeguards contained at 290.195 - 290.197 can equally apply to ESPIs. Consideration should be given to incorporating guidance and safeguards contained in:</p> <ul style="list-style-type: none"> • <i>The Australian Accounting Professional and Ethical Standards Board (APESB) – APES 110 Code of Ethics on independence and IT Systems Services</i> • <i>Institute of Chartered Accountants Australia (ICAA) and CPA Australia (CPAA) Independence Guide – Question and Answer 4.2.2 on Tax Effect Accounting (a copy of this is reproduced at Appendix 1).[Appendix 3 to this agenda paper]</i> <p>We believe where the above safeguards are in existence, the provision of IT Systems Services (such as Tax Effecting Accounting software) to an audit client would <i>not</i> create an unacceptable threat to independence as any self review threat would be reduced to an acceptable level. Any self-review threat arising from the firm's involvement in the design of the software would be reduced to an acceptable level by (a) the product being an “off the shelf” product that is not specifically designed for the client, and tested for broad market application (b) separate review of the tax balances (and results of the TEA software) by the audit team.</p>	Australia	No change – matter would be considered under IT systems or through threats and safeguards under tax. In addition several expressed concern about the existing length of the tax section
902.	197	<p>We appreciate that the wording has been changed from “design and implementation” to “design or implementation” and so constitutes a tightening of this provision. Given this enhanced degree of stringency, we believe that safeguards discussed in Section 290.195 for audit clients that are not entities of significant public interest should be possible for all entities, since the threats will generally not be so significant that they cannot be reduced to an acceptable level. We suggest Section 290.197 be deleted.</p>	IDW	No change – IESBA of the view that because of the public interest more stringent position is appropriate for PIEs

X ref	Par Ref	Comment	Respondent	Proposed Resolution
903.	197	<p>We note that par 290.192, 290.193, and 290.97 of the Exposure Draft refer to the „design <u>or</u> implementation of hardware or software systems“, whereas the current Code refers to „design <u>and</u> implementation“.</p> <p>The underlying purpose for the additional prohibitions with its absolute effects expressed in par 290.197 for clients of significant public interest remains unclear. We suggest that the safeguards listed in par 290.195 should be applicable for all clients, as far as the threats are not so significant that they cannot be reduced to an acceptable level.</p>	WpK	No change – IESBA of the view that because of the public interest more stringent position is appropriate for PIEs
904.	197	<p>Paragraph 290.197 of the ED introduces a prohibition against providing IT services to entities of significant public interest if the services involve the design or implementation of financial systems that form a significant part of the accounting system or generate information that is significant to the client’s financial statements. We do not believe there is evidence that the existing mandatory safeguards have failed to adequately mitigate any threats to the auditor’s independence. Consequently, we believe that the proposed changes in this area are not necessary.</p>	DTT	No change – IESBA of the view that because of the public interest more stringent position is appropriate for PIEs
905.	197	<p>We note that the scope of this type of service has been changed from covering “design and implementation” circumstances to a wider set of circumstances covering “design or implementation.”. We see no justification for the absolute prohibition in Section 290.197 on the provision of such services for ESPI audits. We suggest that the safeguards discussed in Section 290.195 for audit clients that are not ESPIs should still be possible to apply to all audits on the basis that it may be possible to reduce the threats to an acceptable level.</p>	SMP/DNC	No change – IESBA of the view that because of the public interest more stringent position is appropriate for PIEs
906.	Litigation support	<p>In fact in India many Statutes require certificate from statutory Auditors and to say Auditor should not get involved is not correct. This aspect once again needs a review.</p>	ICPAIndia	No change – minority comment
907.	198-200	<p>The guidance on litigation support services will be subject to the overriding guidance in paragraph 290.160 - and should be amended accordingly.</p> <p>In our opinion the guidance does not adequately consider threats to independence in appearance in respect of such engagements.</p>	CAGNZ	No change – 290.160 addresses all non-assurance services

X ref	Par Ref	Comment	Respondent	Proposed Resolution
908.	198-200	It is not clear from the description of litigation support services whether it is the Board's position that no litigation support services (services as an expert or as a litigation consultant) is prohibited in the event that the process of estimating damages or other services may affect the financial statements. It is also not clear what the Board intends and what services would be allowed when the practitioner provides other activities other than estimating damages or other amounts	CACPA	No change – minority comment
909.	198-200	We agree that where litigation support services involve estimating amounts impacting upon the financial statements, it is appropriate to apply whatever the valuation service provisions are (though see comments in paragraphs 40 and 41 re these).	ICAEW	Supportive comment
910.	Legal Services	Legal services can involve giving accounting advice. We believe that the guidance in 290.201 to 290.205 would be strengthened if it included the material to the effect that the service should be prohibited if there is reasonable doubt as to the appropriateness of the accounting treatment and the outcome of the legal advice will have a material consequence on the financial statements.	APB	No change – legal services would not include giving accounting advice
911.	201-205	<p>The guidance on legal services will be subject to the overriding guidance in paragraph 290.160 - and should be amended accordingly.</p> <p>The provision of legal services to an audit client is fundamentally in conflict with the role of the auditor. This is because the individual providing the legal services is ethically bound to act in the interests of the client. For this reason the provision of legal services should not be permitted.</p> <p>We note that paragraph 290.202 states that the provision of legal services to support an audit client in the execution of a transaction may create self-review threats but may be acceptable if the threat is clearly insignificant and safeguards are applied. In our opinion, it is inappropriate for the firm, network firm or a member of the audit or assurance team to support a client in the execution of a transaction. We consider that this situation creates an unacceptable threat to independence in appearance</p>	CAGNZ	No change – the firm cannot execute a transaction
912.	Recruiting	NIVRA agrees.	NIVRA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
913.	Recruiting	We agree with the proposal in this regard.	IRBA	Supportive comment
914.	Recruiting	We support the proposed changes and note that these revisions bring the International Standard closer to the existing Canadian standard which prohibits the auditors of reporting issuers, as defined, from engaging in psychological testing or from recommending or advising the client to hire a specific candidate for a specific position.	CICA	Supportive comment
915.	Recruiting	Again, we believe that this does not go far enough. Reviewing qualifications, doing interviews and providing advice is an integral part of the appointment process which associates the firm with the appointed person. Being involved with the recruiting of any individual in a position to exert significant influence over the preparation of the financial statements threatens the firm's independence.	ICANZ	No change – in all case the hiring decision is the client's and the firm should not act in the role of management
916.	206	It is unclear to us whether all of 290.206 is intended to apply to the audit of ESPIs as the second paragraph within 290.206 is not wholly consistent with 290.207, which clearly does apply to such audits. It should be clarified which requirements apply to all types of audits and which to audit clients that are not ESPIs.	FEE	Change made – heading added before 290.206
917.	206	It is unclear to us whether paragraph 290.206 is intended to apply to ESPIs as the second paragraph within 290.206 is not wholly consistent with paragraph 290.207, which clearly does apply to ESPIs.	ACCA	Change made – heading added before 290.206
918.	206	In addition, the last paragraph within 290.206 is written in a 'permissive' style which sits uneasily with the general stance of a principles-based Code that activities are permitted provided safeguards can be applied to address any threats, unless specifically prohibited. The paragraph could more helpfully be rephrased in terms of giving examples of activities where there is likely to be little or no threat to independence	FEE	No change – style is not inconsistent with other parts of the Code

X ref	Par Ref	Comment	Respondent	Proposed Resolution
919.	206	In addition, the last paragraph within 290.206 is written in a ‘permissive’ style which sits uneasily within a principles-based code in that activities are permitted provided safeguards can be applied to address any threats, unless specifically prohibited. The paragraph could more helpfully be restated by giving examples of activities where there is likely to be little or no threat to independence.	ACCA	See above
920.	206-207	We do not consider it is appropriate for the firm to be associated with the process of recruiting senior management. In our opinion this situation creates an unacceptable threat to independence in appearance.	CAGNZ	No change – minority comment
921.	206-207	the construct of these paragraphs is different to that in a number of other areas in that the first paragraph applies to all audits, while the second gives additional (rather than alternative) requirements for the audits of ESPIs. The interaction of the two is slightly confusing. It appears, for example that auditors of ESPIs may provide advice on the suitability of candidates for significant posts, but they may not undertake reference checks – the latter surely being a mechanical process with a lower likely level of threat. The key requirement here is that management is able to (and does) make an informed decision from alternatives presented objectively. This should apply regardless of the type of entity audited.	ICAEW	Change made – heading added before 290.206
922.	Corporate finance	We agree with the proposal in this regard.	IRBA	Supportive comment
923.	Corporate finance	We support the strengthening of the provisions on Corporate Finance Services.	E&Y	Supportive comment
924.	Corporate finance	We support the proposed changes relating to corporate financial services	CICA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
925.	Corporate finance	Again, the client is going to place reliance on any advice received as they generally only seek advice and assistance in respect of corporate financial services when that expertise isn't available in-house. This then places the firm at risk of inadvertently making a significant judgement or decision on behalf of management.	ICANZ	Supportive comment
926.	Corporate finance	In India Auditors views are given importance and consulted very often particularly in restructuring exercise looks as though there is no blanket ban on this. This needs a review.	ICPAIndia	No change – minority comment
927.	208-212	<p>The guidance on corporate finance services will be subject to the overriding guidance in paragraph 290.160 - and should be amended accordingly.</p> <p>Our view on the extent to which assignments involving corporate finance and similar activities should be conducted, is that the firm should only be involved in advising the audit or assurance client on matters of process. The Exposure Draft currently permits certain activities to be performed for an audit or assurance client (such as assistance in development of corporate strategies - paragraph 290.208) that result in an unacceptably high self-review threat. Such activities should therefore be prohibited.</p> <p>In our opinion the guidance does not adequately consider threats to independence in appearance in respect of such engagements.</p>	CAGNZ	No change – minority comment
928.	208-212	We believe the intent of the ED is to continue to permit a firm to provide corporate finance services to an audit client if safeguards can be applied to eliminate the threat or reduce the threat to an acceptable level. Paragraph 208 gives examples of the services that could be provided. However, as currently drafted, paragraph 212 could be understood to contradict the preceding paragraphs and go significantly further than the existing Code of Ethics. To provide clarity to the reader and remain consistent with the preceding paragraphs we recommend that paragraph 212 be amended by deleting the first five words 'Providing corporate finance services involving'. This would clarify that the intention of the paragraph is to reflect the existing position that a firm cannot promote, deal in or underwrite an audit client's shares.	ICAEW	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
929.	211	We question whether the expansion of this section compared to the extant Code is really necessary, as we do not believe that it provides an improvement on the extant material. In particular, Section 290.211 is confusing as, although it relates to a self-review threat, it contains only a total prohibition rather than foreseeing that other safeguards may be possible.	IDW	No change – minority comment
930.	211	NIVRA agrees with the prohibition in 290.211 regarding aggressive corporate finance advice.	NIVRA	Supportive comment
931.	211	<p>In sections 290.182 and 290.211 the guidance prohibits any consultancy services where the effectiveness of the tax or corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and</p> <p><i>"(a) There is reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and</i></p> <p><i>(b) The outcome or consequences of the tax advice will have a material effect on the financial statements."</i></p> <p>In FSR's opinion this is not an independence issue. An auditor should never give any advice where the effectiveness depends on a particular accounting treatment.</p> <p>We recommend that you remove the two sections from the exposure draft or that you get more specific about the purpose or the meaning of these two sections.</p>	FSR	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
932.	211	<p>While we are generally supportive of the proposed guidance on the provision of corporate finance services, we do not believe that the guidance in paragraph 290.211 of the ED should be required for audit clients that are not entities of significant public interest. Therefore, we recommend rewording paragraph 290.184 as follows (new language in boldface italics):</p> <p><i>“Audit Clients that are Entities of Significant Public Interest</i></p> <p>In the case of an audit client that is an entity of significant public interest, where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:</p> <p>(a) There is reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and</p> <p>(b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements;</p> <p>the self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level, in which case the corporate finance advice service should not be provided. The only other course of action would be to withdraw from the audit engagement.”</p>	KICPA	No change – minority comment
933.	211	<p>This section has been extended significantly by comparison with the existing Code. However, we do not believe it has added much useful discussion and the need for the additional wording should be revisited. In particular the reference in 290.211(a) to “reasonable doubt as to the appropriateness of the accounting treatment” is unhelpful. It is a wholly reasonable safeguard to ensure that the auditor can accept any proposed accounting treatment but it needs to be clarified that management is responsible for the accounting treatment and the requirement is therefore to ensure, if material, that the proposed accounting treatment is acceptable under applicable GAAP before supplying the service</p>	FEE	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
934.	211	The guidance on corporate finance services has been extended significantly by comparison to that in the existing section 290 but we do not believe it has added much useful discussion. The need for this additional wording should, therefore, be reviewed. In particular the phrase ‘reasonable doubt as to the appropriateness of the accounting treatment’ at paragraph 290.211(a) is unhelpful. It is a wholly reasonable safeguard to ensure that the auditor can accept any proposed accounting treatment but it needs to be clarified that management is responsible for the accounting treatment and the requirement is, therefore, to ensure, if material, that the proposed accounting treatment is acceptable under applicable GAAP before supplying the service.	ACCA	No change – minority comment
935.	211	The IESBA is proposing a change to this section with respect to corporate finance advice that mirrors paragraph 290.182. We have the same views with respect to paragraph 290.211 as with paragraph 290.182.	DTT	Discussed above with tax
936.	212	Section 290.212 states that, “ <i>Providing corporate finance services involving promoting, dealing in, or underwriting an audit client’s shares would create an advocacy or self-review threat that is so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm should not provide such services to an audit client.</i> ” We are not certain what the term “ <i>dealing-in</i> ” means in relation to corporate finance services and therefore may be misinterpreted by member bodies. We recommend that the IESBA either clarify what this term means or delete it.	AICPA	No change – minority comment
937.	Remuneration packages	The provision of advice on the quantum of remuneration packages paid to directors and key management of the audit client gives rise to familiarity threats, which we believe cannot be addressed by any safeguards. Such services should therefore be prohibited for all audit clients	APB	Matter may be considered as a future project depending upon input on strategic plan
938.	Fees	NIVRA agrees.	NIVRA	Supportive comment
939.	213-214	On balance we agree with the removal of the guidance on pricing. While we believe it is important that low pricing should not result in less work being performed than is necessary to support the opinion and that this should be capable of being demonstrated, this is more of a procedural matter than an issue directly related to independence.	ICAEW	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
940.	215	This differs from its counterpart in the current Code (paragraph 290.208) in that it now refers to the evaluation of the threat presented by unpaid fees and the application of safeguards after (rather than before) the report has been signed. In our view it is not logical to provide for the application of safeguards after a report has been issued	ICAEW	No change – minority comment
941.	215	The application of "safeguards" after, rather than before, an audit report is issued is an odd concept since any influence that overdue fees might have had on a firm's audit opinion will already have been felt. All that subsequent reviews could achieve is to identify such influence after the event. We believe that where material fees remain unpaid at the time that an audit report is to be signed, arrangements need to be in place to ensure that their payment by the client (or by a third party on behalf of the client) is put beyond all reasonable doubt	Grant Thornton	No change – minority comment
942.	216	<p>We believe that the definition of "contingent fees" and the text of paragraph 290.216 do not encompass all of the arrangements which give rise to a self interest threat. In particular, a success-related fee may not need to be 'calculated' but instead the amount may be pre-determined. Also, the definition can be read so as to include any fee that is only receivable when an assignment has been completed, which cannot have been the intention of the Board. We therefore recommend that the definition and paragraph 290.216 should be reworded as follows:</p> <p>"Contingent fee: A fee the entitlement to which is pre-determined and dependent on the outcome or result of a transaction or the result of the work performed which cannot be predicted with certainty at the outset of the engagement."</p>	Grant Thornton	Addressed in IT2
943.	216-219	We note that this section is amongst those that were not considered to be of a priority nature though the wording of the current 290.211 and 290.212 (now 290.217 and 290.218 of the draft) has been changed. The most significant amendment is the deletion of the phrase "was agreed to, or contemplated, during an assurance engagement" after "If the amount of the fee for as non-assurance engagement" in the former 290.212. This change has real effects in practical situations and we do not believe that it is necessary.	ICAEW	Addressed in IT2

X ref	Par Ref	Comment	Respondent	Proposed Resolution
944.	218	We note that the wording of paragraph 290.218 (which corresponds to paragraph 290.212 of the current Code) now omits the qualifying phrase “was agreed to, or contemplated, during an assurance engagement”. It is our understanding that under the ED an independence threat can be mitigated by consideration to any threats to independence arising from the service if an agreement to provide a non-audit service on a contingent fee basis is entered into before an assurance engagement is agreed. If the omission was a conscious decision, it is inconsistent with the changed paragraph 290.30. We recommend including the omitted wording in paragraph 290.218 of the ED.	Grant Thornton	Addressed in IT2

X ref	Par Ref	Comment	Respondent	Proposed Resolution
945.	218	<p>We believe that the proposed wording of paragraph 290.218 is not satisfactory, as explained in the following:</p> <ul style="list-style-type: none"> • A contingent fee arrangement with a party other than the audit client can also give rise to a self interest threat: for example, where the outcome of the audit of the client's financial statements will determine whether a contingent fee will be received from the third party. An example of this is where an audit firm is engaged by a group of shareholders to dispose of their shares in a client company where the fee is not receivable unless the sale proceeds and this is dependent on, say, the reported net assets exceeding a level specified in the sale agreement. • The intended scope of the term “the result of the audit engagement” is undefined. Since the result of an audit is an audit opinion, a literal application of paragraph 290.218 would permit contingent fee arrangements that are dependent, say, on material balances in the financial statements but are not dependent on the nature of the audit opinion (i.e. modified or unmodified). • The existence of audited financial statements may be one of a number factors on which a transaction (such as a business purchase or sale) may depend yet it may not be significant (or the most significant) factor in the circumstances. For example, a purchaser of a business may perform its own due diligence and the audited financial statements are only necessary to ensure that statutory filing requirements have been complied with before ownership passes. • We do not believe that a contingent fee charged for a non-assurance service always creates a self-interest risk that cannot be reduced to an acceptable level by safeguards. For example, where even the maximum fee receivable under a contingent fee arrangement is neither material to the firm nor to the segment of the firm whose performance determines the remuneration of the audit partner, the existence of the fee would not be expected to influence the conduct of the audit. • As noted above, paragraph 290.218 differs from the text of the current Code (paragraph 290.212) by the deletion of reference to the relative timing of the assurance and non-assurance engagements. This is despite the content of paragraph 290.30. If paragraph 290.30 is to be retained as drafted then for consistency we believe that the reference to the timing of the acceptance of the non-audit (contingent fee) assignment and the audit appointment should be reinstated. 	Grant Thornton	Addressed in IT2

X ref	Par Ref	Comment	Respondent	Proposed Resolution
946.	218	<p>We believe that paragraph 290.218 needs to be replaced by text which addresses the matters described above. We put the following forward for consideration by the Board:</p> <p>"A contingent fee charged by a firm in respect of a non-assurance service may also create self interest and advocacy threats where the maximum fee receivable would represent a significant proportion of the revenue from an individual partner's clients. If the fee arrangement was agreed to, or contemplated, during an audit engagement and the entitlement to a fee would be dependent to a material degree on financial statements that are to be audited by the firm, the threats could not be reduced to an acceptable level by the application of any safeguard. Accordingly, either the audit appointment is not retained or such (contingent fee) arrangements are not accepted."</p>	Grant Thornton	Addressed in IT2
947.	219	We recommend that at least one example of a contingent fee arrangement that falls within the scope of paragraph 290.219 should be provided	Grant Thornton	Addressed in IT2
948.	Compensation and evaluation	We support the inclusion of a section on compensation or remuneration and evaluation policies. This takes a sensible threats and safeguards approach to a potentially important issue.	ICAS	Supportive comment
949.	Compensation and evaluation	We agree with the inclusion of a section discussing threats and safeguards in this area. There is at the very least a clear perception issue and it is appropriate that compensation and evaluation policies should be considered when ensuring independence.	ICAEW	Supportive comment
950.	Compensation and evaluation	We support the inclusion of a section on compensation or remuneration and evaluation policies. This takes a sensible threats and safeguards approach to a potentially important issue	FEE	Supportive comment
951.	Compensation and evaluation	We support the inclusion of a section on compensation or remuneration and evaluation policies. This takes a sensible threats and safeguards approach to a potentially important issue	ACCA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
952.	Compensation and evaluation	In principal, we are of the view that compensation and evaluation, as long as these are part and parcel of the firm's internal policy, do not create self interest threats if the party is a salaried employee. It is un-appropriate for a partner to receive fees for selling non assurance services to an audit client.	ICPAI	Supportive comment
953.	Compensation and evaluation	We agree with the proposed changes that would prevent a key audit partner from being compensated for selling non-assurance services to the audit client. We believe that there may be local enforcement issues with respect to the prohibition from evaluating the key audit partner for selling such services. We would want the guidance to be clear that, notwithstanding this prohibition, partners, and other staff, may be evaluated on their selling skills generally.	CICA	No change – minority comment
954.	Compensation and evaluation	We support the provision that key audit partners should not be evaluated or compensated for selling non-assurance services to an audit client, however, we are concerned that this may lead to inadequate recognition for audit partners who provide a quality service. Providing such quality service, in addition to performing a robust audit, will also involve being proactive in identifying client needs and may include recommending solutions to meet those needs. Accordingly, the Code should clarify that the prohibition should not impede audit partners for being compensated for quality service to their clients. We also understand that the provisions of the Exposure draft are not intended to prohibit normal profit-sharing arrangements between partners of a firm pursuant to their partnership agreement. We believe this is a very important statement, particularly for smaller practices where the limited numbers of partners will result in a more direct correlation between allocated profits per partner and the supply of specific non-audit services Cont'd	E&Y	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
955.	Compensation and evaluation	With respect to the compensation and evaluation of certain other members of the audit team, such as non-audit specialty partners and professionals, there is also a need to strike a balance between the desire to strengthen independence requirements and the delivery of a quality audit service which is further enhanced through the participation of these other team members with specialty skill sets. Generally, non-audit specialty partners may derive a significant portion of their compensation from selling non-audit services. If Section 290.221 is to apply to non-audit specialty partners and one of the stated safeguards proposed in the Code is the exclusion of such members from the audit team, the direct consequence could be to deprive the audit from the value and insight of specialty expertise. Accordingly, it would be important to provide more flexibility and make more allowances for compensation and evaluation of these non-audit specialty partners. This flexibility will be particularly important in a small practice environment. In addition, we believe that the proposed rule should state that the significance of the threat will also depend on the level of involvement of the team member in the audit.	E&Y	Change made – 290.221 expanded to identify factors that influence the significance of the threat
956.	Compensation and evaluation	<p>We believe that, where a person is removed from the audit, there should still be a review of their work because they might only be removed at the end of the audit while their independence may have been compromised during the course of the audit, if the discussions regarding the use of other services were taking place during the audit. We would therefore suggest that the safeguards be worded as follows:</p> <ul style="list-style-type: none"> • Having an additional professional accountant who was not a member of the audit team review the work; <u>and</u> • Removing such members from the audit team, <u>if deemed necessary</u>. 	IRBA	No change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
957.	Compensation and evaluation	<p>The IESBA is proposing that <i>“a key audit partner should not be evaluated on or compensated based on that partner’s success in selling nonassurance services to the audit client. This is not intended to prohibit normal profit-sharing arrangements between partners of a firm.”</i></p> <p>In order to further clarify this requirement and reflect what we believe is the IESBA’s intent, we would recommend the inclusion of the word “directly” before compensated; that is – “a key audit partner should not be evaluated on or <i>directly</i> compensated...”.</p> <p>In addition, while we can appreciate the potential threats to independence when a partner is compensated based on his or her success in selling nonassurance services to an audit client, we believe such a requirement can result in significant costs to small accounting firms that outweigh the benefits of such a provision. As the SEC noted in its February 2003, <i>Strengthening the Commission’s Requirements Regarding Auditor Independence</i>, “some smaller accounting firms may have a relatively small number of partners, available to serve each client. Such firms may not have personnel, other than the partner in charge of the smaller company’s audit with sufficient expertise to market and provide nonaudit services to that company.” To recognize the special issues associated with smaller firms, the SEC provided that accounting firms with fewer than five audit clients and fewer than ten partners may be exempted from the compensation rule.</p> <p>We recommend that the IESBA also provide an exemption and allow for the use of alternative safeguards for small firms. Specifically, in cases where due to the size of the firm, such compensation policies are impractical, we would recommend the firm consider the need for the following safeguards:</p> <ul style="list-style-type: none"> • Having an additional professional accountant who was not a member of the audit team review the work; • Removing such partners from the audit team; or • Disclosing to those charged with governance, the percentage of the key audit partner's total compensation that consists of compensation for selling nonassurance services to the client. 	AICPA	<p>No change – minority comment</p> <p>No change – this would imply that indirect compensation was acceptable</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
958.	220	<p>While we appreciate the potential threats to independence when a partner is compensated based on their success in selling non-assurance services to an audit client, we believe such a requirement can result in significant costs to SMPs that outweigh the benefits of such a provision. SMPs by definition have a relatively small number of partners, available to serve each client, such that they may not have personnel, other than the partner in charge of the SME's audit with sufficient expertise to provide non-assurance services to that client.</p> <p>Hence, we suggest that the IESBA provide an exemption and allow for the use of alternative safeguards for small firms. In particular, where the size of the firm cause such compensation policies to be impractical, we suggest the firm consider the need for the following safeguards: having an additional professional accountant who was not a member of the audit team review the work; removing such partners from the audit team; or disclosing to those charged with governance, the total amount of client fees broken down by audit and non-assurance services.</p>	SMP/DNC	No change – minority comment
959.	Compensation and evaluation	<p>We agree with the requirement for key audit partners not to be compensated or evaluated on the basis of selling non-assurance services to their audit clients. However, we believe that this requirement should be extended to all audit staff working on the engagement. Rewarding success in selling non-assurance services at lower levels could result in an uncomfortable disconnect in the culture of a firm. We suggest that further guidance is added to paragraph 290.221 to the effect that compensation and evaluation policies of other senior personnel (audit partners and managerial employees) should be carefully reviewed so as to ensure that, in circumstances where promotion is being considered, the criteria on which such a decision is based does not include selling non-assurance services to that individual's audit clients.</p>	APB	No change – IESBA of the view that for non key audit partner threats and safeguards is appropriate
960.	221	<p>Section 290.221 states that compensating and evaluating other members of the audit team for selling non-assurance services to an audit client may create a self-interest threat. We are not convinced that such a threat could be eliminated by the safeguards mentioned in the section (having an additional professional accountant who was not a member of the audit team review the work or removing such members from the team). We believe that no distinction should be made between the key audit partner and other members of the audit team.</p>	CEBS	No change – IESBA of the view that for non key audit partner threats and safeguards is appropriate

X ref	Par Ref	Comment	Respondent	Proposed Resolution
961.	221	Paragraph 290.221 states that compensating and evaluating other members of the audit team for selling non-assurance services to an audit client may create a self-interest threat. We are not convinced that such a threat could be eliminated by the safeguards mentioned in the section (having an additional professional accountant who was not a member of the audit team review the work or removing such members from the team). We believe that no distinction should be made between the key audit partner and other members of the audit team.	Basel	No change – IESBA of the view that for non key audit partner threats and safeguards is appropriate
962.	221	Paragraph 290.221 could be read to imply that an individual other than a key audit partner can be on the audit team, sell a non-assurance service to the audit client, be significantly compensated for doing so, then be removed from the team. If that situation arises, we believe that removal by itself would not be an adequate safeguard. When removal is considered necessary, we recommend it be supplemented by an additional review of the work done by the individual.	PwC	No change – safeguards must be adequate to address the threat
963.	Gifts	We agree with the proposals under the above headings	ACCA	Supportive comment
964.	Restricted Use	We agree that providing additional guidance on independence requirements for certain assurance reports that are expressly restricted for use by only the users specified in the report will lead to clearer way to practice.	FAP	Supportive comment
965.	Restricted Use	CGA-Canada concurs with the proposed changes regarding “Restricted Use” non-financial statement audits.	CGA - Canada	Supportive comment
966.	Restricted Use	NIVRA agrees with the introduction of the restricted use concept.	NIVRA	Supportive comment
967.	Restricted Use	We agree that when an auditor is engaged to issue an audit or report for restricted use, it is appropriate certain modifications to the independence requirements when the recipients approve them	FACPE	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
968.	Restricted Use	We agree with the underlying premise that it may be appropriate to deviate from section 290 when the report is intended for a restricted population of users and all these users are aware and agree to the deviations.	BDO	Supportive comment
969.	Restricted Use	We agree that, in the case of restricted use assurance reports, the explicit agreement of the intended users should be required.	CICA	Supportive comment
970.	Restricted Use	We agree with the inclusion of an expanded discussion in this area: the existing wording in respect of restricted use reports was capable of different interpretations as to what modifications could be made. In particular we agree with the requirement in paragraph 500 for the intended users to ‘explicitly agree the application of the modified independence requirements’.	ICAEW	Supportive comment
971.	Restricted Use	We support the approach taken with respect to restricted use reports and the delineation of the independence requirements that apply to such engagements	DTT	Supportive comment
972.	Restricted Use	We agree with the concept of modified rules for limited distribution assignments where the recipients can approve the modified independence rules	E&Y	Supportive comment
973.	Restricted Use	<p>We are supportive of this section and indeed consider that the IESBA could perhaps propose further dispensations in the case of engagements which are genuinely a private matter between the audit firm and the engaging party.</p> <p>However, we suspect that a reader unfamiliar with the Code will struggle to apply this section given the extent of cross-referencing to the general sections of the Code. It may be preferable to use a similar format to section 291 which appears to be an easier read.</p>	KPMG	Changes made to improve clarity

X ref	Par Ref	Comment	Respondent	Proposed Resolution
974.	Restricted Use	I do not agree with the proposal to extend restricted use provisions to certain audit engagements. Even with the explicit agreement of the intended users of these reports to accept a modified standard of independence, I do not believe the average user will be able to distinguish between the various independence requirements in the Code. That is not to underestimate the user's intelligence but rather to acknowledge the realities of "information overload" and the relative complexity of the Code. Thus, I support having the same independence requirements for all types of audit reports, regardless of type and whether their use would be restricted or not.	AC	No change – minority comment
975.	Restricted Use	It is one of the main characteristics of restricted use reports that the matter of the report, the recipients and the application of the modified independence requirements are mutual agreed between the entity and the auditor. Therefore additional independence requirements for Restricted Use Reports seem not to be necessary, as long as all circumstances and relationships which could threaten independence are revealed to the users of the audit report, e.g. by means of disclosure in the audit report.	WpK	No change – minority comment
976.	Restricted Use	<p>These paragraphs include guidance on restricted use reports.</p> <p>In our opinion the guidance in these paragraphs lacks clarity and is confusing. Furthermore, the risks of a professional accountant agreeing to a restricted use report engagement have not been identified - particularly when the professional accountant is not independent. We note that paragraph 17(b)(v) of the International Framework for Assurance Engagements requires the practitioner to be satisfied that there is a rational purpose for the engagement. Similar guidance should also be included with the guidance on restricted use reports.</p>	CAGNZ	No change – Framework for assurance engagements is an overarching requirement for engagement acceptable – it is not an issue for the Code

X ref	Par Ref	Comment	Respondent	Proposed Resolution
977.	Restricted Use	<p>These paragraphs are difficult to understand and overly complex with the number of exceptions and reference to other parts of the document. The message appears to be that an auditor issuing a report expressly restricted for use by only the intended users specified in the report is not required to be independent, provided that the intended user knows in what ways independence has not been met and explicitly agrees to the relaxation of the independence requirements. This would seem to defeat the purpose of requiring ‘independent’ assurance. In that case, it is questionable as to whether such an engagement should even be accepted by a practitioner. Paragraph 17 (b) (v) of the International Framework for Assurance Engagements requires the practitioner to be satisfied that there is a rational purpose for the engagement before accepting the engagement.</p> <p>Accordingly, the PPB does not support the new paragraphs 290.500 to 290.514.</p>	ICANZ	No change – minority comment
978.	Restricted Use	<p>Restricted use – We believe that all audit and examination engagements should have the same underlying independence requirements even if the report is restricted to a certain set of users. To create another independence level is unnecessarily complicated and we believe will result in inconsistencies as the IFAC member bodies adopt the requirements. As drafted the proposed Code, would result in four sets of independence standards, as follows:</p> <ul style="list-style-type: none"> • Independence requirements for audits and reviews for all clients, except for restricted use reports • Independence requirements applicable only to reviews leading to restricted use reports • An additional layer of independence requirements for the audits of entities of significant public interest • Independence requirements for all other assurance engagements <p style="text-align: right;">Cont’d</p>	Grant Thornton	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
979.	Restricted Use	<p>We believe that consideration should be given to re-evaluating the current guidance on restricted use audit and review engagements. As discussed above, we believe that the proposed split between sections 290 and 291 is not appropriate. As such, if the decision regarding the split was revised and review engagement guidance was included in section 291, we would be supportive of including the restricted use provisions in section 291 and removal from section 290.</p> <p>Alternatively, Grant Thornton International would also be supportive of moving the restricted use guidance to an earlier section of the Code with general applicability.</p> <p>Any differences that an accountant would articulate in an audit or examination (as required in paragraph 290.500) will create unwanted confusion for the users of the financial statements and potentially harm their perception of the usefulness or reliability of the independent accountant's report.</p> <p style="text-align: right;">Cont'd</p>	Grant Thornton	See above
980.	Restricted Use	<p>We do not believe that the requirement for explicit agreement or substantial awareness represents either a practicable or, seemingly, viable solution. We do not believe that the accountant should be put into the position of having to identify in writing its justification of the accountant's independence or lack thereof under the Board independence rules for an audit. Conceptually, we do not agree that the accountant's lack of independence due to identified impairments or identified independence threats, where no appropriate safeguard sufficiently mitigates the threat, should be permitted for audit engagements. Knowledge as to the purpose, subject matter information and limitations of the report along with an explicit agreement of the modified independence requirements by the intended users, could not be mitigating factors.</p> <p>International accounting firms operate in litigious and regulated environments, as such risk management policies would not allow for the disclosure of independence impairments in writing to the user of an audit or even a review report, even if immaterial and would not permit entering into an explicit agreement with the intended users. Limited engagements such as agreed-upon procedures, as now discussed in section 291, would be given consideration of such agreements.</p>	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
981.	Restricted use	In the case of restricted use reports, we recognize that an entity engaging the audit firm generally defines the nature and scope of the engagement and that the users of such reports that are not audits of historical financial statements may be knowledgeable of their purpose and limitations. We are not opposed to having certain exceptions to prevailing independence standards specific to certain kinds of restricted-use reports, but we found the Code content in paragraphs 290.500 to 290.514 to be difficult to read and follow. The frequent and broad cross references and statements that seem to be effectively double negatives make it hard to follow what the Code is really intending for these types of engagements.	IOSCO	Change made
982.	Mention in report	<p>A restricted use report is a report, the use of which is expressly limited to users as designated and identified within this report.</p> <p>Such report is used in particular in assurance engagements dealing with items other than historical financial statements¹⁴; the text consents to certain modifications of the provisions of Section 290, provided that the intended users of such report :</p> <ul style="list-style-type: none"> - are knowledgeable as to the purpose, subject matter information and limitations of the report, - explicitly agree with the application of modified independence rules. <p>The proposed text does not precisely state that such mentions should be made in the report; we deem that such mention is essential as regards the professional accountant's liability.</p>	CSOEC	Matter considered by IESBA in June 2007 agreed that content of audit report is within mandate of IAASB. Agreed IESBA would encourage IAASB to consider requiring a reference to the independence framework used but not to make specific reference to whether the restricted use independence provisions had been applied.
983.	Mention in report	NIVRA emphatically urges that the audit report includes the statement that intended users 1) are knowledgeable as to the purpose, subject matter information and limitations of the report, and 2) have explicitly agreed the application of the modified independence requirements. NIVRA believes that, apart from the reporting in the engagement letter, the addressee of the audit report must be explicitly informed about the application of the restricted use rules. Paragraph 290.501 appears to be the appropriate section.	NIVRA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
984.	Mention in report	However, it would be useful to have specific examples of wording of the auditors' report for restricted use to assist the auditors in better understanding how to apply the rule. In addition to that, we believe that the auditors' report for restricted used has to include the independence restrictions and other agreements made between the auditors and their clients.	FACPE	See above
985.	Mention in report	The key requirement for any restricted use engagement where different independence provisions have been applied is that the intended users are aware of and agree to the terms applied. While this is clearly stated, it does not specify that the report should contain this information. In our view, paragraph 290.501 should specify that the terms be made clear in the restricted use report.	ACCA	See above
986.	Mention in report	In order to promote this transparency, we recommend that, in addition to inclusion in the terms of engagement, the facts of these deviations are presented in the final report that is issued.	BDO	See above
987.	Mention in report	The key requirement for any restricted use engagement where different independence provisions have been applied is that the intended users are aware of and agree to the terms applied. While the ED requires this, it does not specify that the report should contain this information. FEE believes that 290.501 should specify that the terms be made clear in the restricted use report. In this case, it should be possible for the terms to be agreed between the auditor and users and the ED does not need to specify in 290.504 onwards, which terms may or may not be varied.	FEE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
988.	General Purpose	The restricted use provisions are presently based on the assurance framework which, in turn, is based on financial reporting frameworks. For example, General Purpose Financial Statements are designed to meet the needs of a wide range of users. While this is correct for the purpose of defining the type of financial statements, we do not believe that it is appropriate to determine when the use of the auditor's report should be restricted. It is accepted that General Purpose Financial Statements may be used by specified groups, such as banks and the Revenue Service. In these situations it is appropriate to limit the use of the financial statements, although they are General Purpose Financial Statements on which reasonable assurance is expressed. We would therefore recommend that, for the purposes of the Code, restricted use provisions should be based on the use or purpose of the financial statements and not the frameworks / regulatory requirements used for determining the range of users	IRBA	Change made
989.	General Purpose	<p>In paragraph 290.500 reference is made to IAASB's assurance framework. However, the references are difficult to follow. It may be more practical to create a link to ISA 800 'Special considerations – Audits of special purpose financial statements and specific elements, accounts or items of a financial statement' and deal with the different types of engagement addressed therein. This would help address the potential confusion caused by the first bullet point in paragraph 290.502 as to what the words 'general purpose' in (a) relate to. As currently presented, the term 'general purpose' could refer to the financial reporting framework (which is suggested by the context in which it is used in paragraph 290.1), or it could refer to the usage of the financial statements (which is suggested by the text in (c) of this paragraph).</p> <p>This would seem to exclude an audit of a set of completion financial statements prepared under IFRS. We would argue that it is the purpose of the financial statements rather than the accounting framework used that should determine whether they are 'restricted use reports'.</p>	APB	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
990.	General Purpose	<p>Paragraph 290.502 states that modifications to the requirements of Section 290 should not be made for, among other things, engagements to "audit a complete set of general purpose financial statements." The term "general purpose financial statements" is defined in paragraph 2 of ISA 700 (Revised), The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements (including the October 2006 conforming amendments approved in finalising the Close Off version of ISA 800), as follows:</p> <p><i>"General purpose financial statements" are financial statements prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users.</i></p> <p>Cont'd</p>	PwC	Change made
991.	General Purpose	<p>Accordingly, the term "general purpose financial statements," as used in the ISAs, does not refer to the purpose and intended use or distribution of the financial statements, which is how that term appears to be used in the ED.</p> <p>In our view, general purpose financial statements, as defined in the ISA, could meet the criteria, which allow modification, set out in paragraph 290.500 (e.g., if a bank requests an audit of the financial statements of a private company solely for its own use in making lending decisions). If the term is retained, we recommend that it be formally defined consistent with the IAASB definition and that paragraph 290.502(a) be amended, if retained, so that an audit (other than a report addressed broadly to shareholders as a user group) of a complete set of general purpose financial statements that is for restricted use and meets the specified criteria in 290.500 would be eligible for the modifications of this sub-section.</p> <p>Cont'd</p>	PwC	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
992.	General Purpose	<p>Additionally, we find the reference in 290.502(c) to "designed for a general purpose" to be confusing. We believe that 290.502(c) is, in fact, a sub-set of 290.502(a) and is unnecessary.</p> <p>Moreover, while audits required by law or regulation are often for public use or for a wide range of users, some audits and reviews can be for the sole and private use of a regulator. An example might be a requirement in a certain EU country that in certain circumstances (e.g., changes of corporate forms, mergers, demergers, liquidations) companies have to prepare a closing balance sheet. The balance sheet has to be audited under that country's GAAS and the auditor's report is for the use of the company and the regulator only. We recommend that the Code recognise that such reports may be for restricted use</p> <p>In summary, we recommend that ideally paragraph 290.502 be deleted. The introduction of 290.500 would need to clarify that modifications cannot be made in respect of an audit of traditional annual financial statements (for example, as referred to in certain jurisdictions as 'statutory accounts'). If any part of 290.502 is retained (as amended), then we recommend that it be moved ahead of (or merged with) 290.500 so as to avoid "an exception to the exception" (which seems to give carry a risk of potential confusion).</p>	PwC	Change made
993.	Examples	<p>However, we believe that it would be useful to have specific examples of typical restricted use audit reports to assist the reader in better understanding where the rule is applied. In addition, while it is clear that the modified requirements cannot be applied to audits of a complete set of financial statements designed for <i>general purposes</i>, it is not clear whether the modified requirements would be applicable to audits of a complete set of financial statements for restricted use.</p>	E&Y	Change made to clarify intent – example of such reports are contained in ISA 800

X ref	Par Ref	Comment	Respondent	Proposed Resolution
994.	500-514	<p>The Code appears to view independence as a stand-alone issue, when, in point of fact, independence should be viewed as a means to an end – namely that of objectivity. It is generally appreciated that there is a distinct differentiation between independence in fact and independence in appearance. In the context of audit and review engagements we believe that it is necessary for an auditor to be independent in fact to a uniform degree, irrespective of whether or not the engagement is a restricted use engagement. However, this does not hold true for independence in appearance, since this is a matter of perception on the part of those relying on the auditor's opinion expressed in an audit or review report. As stated above, this will not affect the auditor's actual objectivity.</p> <p>On this basis, we support the proposals in Sections 290.500 – 290.504 relating to restricted use reports, since the third party to whom the „restricted use“ criterion applies will know how independent in fact a particular practitioner is and therefore be in a position to decide whether the given degree of independence in appearance is acceptable or not. In our view, it would be appropriate for Section 290.500 et seq. to mention that an agreement relating to restricted use is most appropriately dealt with during engagement acceptance procedures.</p>	IDW	Supportive comment
995.	502	<p>Additionally, we do not understand the need for the restrictions in paragraph 290.502. This paragraph contains situations which ordinarily would indicate that restricted use is not appropriate. However, we believe that this is addressed by paragraph 290.500 and there seems to be little logic for their absolute prohibition</p>	BDO	Change made
996.	500-504	<p>However, provided the report is clearly for restricted use and the terms on which the work is undertaken are understood by the intended users, we do not see why it is necessary to bar the application of the restricted use provisions to certain types of financial statement, as listed in paragraph 502. The content may be relevant in determining whether something is capable of being audited, but it is irrelevant in determining whether the report is for restricted use by knowledgeable, etc, users and therefore whether the provisions of paragraphs 500 on should apply.</p>	ICAEW	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
997.	503	Paragraph 290.503 could be interpreted to mean that the auditor can apply different requirements to the restricted use engagement than to the audit engagement. We do not believe that this is intended, but the intent could be made clearer by deleting the words “to that audit engagement” at the end of the paragraph	FEE	Change made
998.	513-514	Given that the ‘default’ position is that the normal provisions should apply, but that paragraph 505 has already permitted the ESPI provisions not to be applied, it is unclear what difference applying paragraph 513 rather than paragraphs 131 to 134 directly, actually makes. A similar point applies to 514, which also confusingly adds ‘subject to paragraphs 505 and 507’, where other paragraphs do not. Does this mean that: a) paragraph 506 does not apply to non-audit service provision? b) paragraphs 505 and 507 (and for that matter 506) only apply to paragraph 514 and not to 513?	ICAEW	Change made
999.	503	However, the proposal does not specifically address the issue of rendering an opinion on internal controls as part of the audit. Would the restricted use reports provisions cover the engagement to report on internal controls if that report is rendered in connection with the audit of general purpose financial statements? The draft language in paragraph 290.503 is not clear.	DTT	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1000.	Other	<p>Under recent service with an audit/assurance client, the following draft sections appear:</p> <p><i>290.139 Self-interest, self-review or familiarity threats may be created if a former director, officer or employee of the audit client serves as a member of the audit team. This would be particularly the case when, for example, a member of the audit team has to evaluate elements of the financial statements for which he or she had prepared the accounting records while with the client.</i></p> <p><i>291.130 Self-interest, familiarity or intimidation threats may be created if a former director, officer or employee of the assurance client serves as a member of the assurance team. This would be particularly true when, for example, a member of the assurance team has to evaluate elements of the subject matter information he or she had prepared while with the assurance client</i></p> <p>In the interests of clarity and simplicity, CGA-Canada holds the view that these paragraphs should be identical except that 290.139 refers to audits and 291.130 refers to assurance engagements. IESBA should clarify why the listed threats are different. We do not see why a difference might exist.</p>	CGA - Canada	No change – more restrictive position for audit engagements intended
1001.	Section 291			
1002.	Section 291	<p>FEE recognises that it is necessary to continue to tie the discussion on assurance engagements in with the IAASB Assurance Framework. However, as we have commented before, that discussion remains difficult to understand and apply in Section 291. The Code should ideally be readable as a stand-alone document and be self-explanatory with relevant definitions or footnotes being imported from the framework.</p>	FEE	Code is aligned to the IAASB Assurance Framework. Comments passed to IAASB for their consideration

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1003.	Section 291	We accept that it is necessary to continue to tie the discussion on assurance engagements in with the IAASB Assurance Framework. However, that discussion remains difficult to understand and apply in section 291. The Code should ideally be readable as a stand-alone document and be self-explanatory with relevant definitions or footnotes being imported from the framework.	ACCA	See above
1004.	Section 291	On the subject of language and drafting, we continue to be concerned about the many uses in Section 291 of the terms “subject matter” and “subject matter information” which we believe are not well understood and which, as a result, may make Section 291 difficult to understand for many readers.	CICA	See above
1005.	Section 291	The discussions on assurance engagements in paragraphs 291.10 to 291.18 are not particularly user friendly. We appreciate that the IESBA is constrained by the need to align with the IAASB assurance framework so it would be helpful if the two bodies could engage in dialogue to arrive at a short, plain English discussion on what an assurance engagement is.	ICAEW	See above
1006.	291	<p>We have expressed concern in the past (not least in response to the ED of the “Assurance Framework”) about the complexity of the definition of an “Assurance Engagement” and the application of the independence requirements currently included in Section 290, and to be included in new Section 291, to non audit assurance engagements. We remain concerned.</p> <p>The independence requirements drive off the definitions and descriptions of such an engagement as included in the Assurance Framework (the “Framework”). The Framework defines an Assurance Engagement and the factors which such engagements exhibit. Amongst these is the requirement for a three party relationship involving a practitioner (the firm), a responsible party, and intended users. Cont’d</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1007.	291	<p>Under Section 291 (and existing 290), independence is required as follows (see extracts from the ED):</p> <p><i>In an assertion-based assurance engagement, the members of the assurance team and the firm are required to be independent of the assurance client (the responsible party, which is responsible for the subject matter information and may be responsible for the subject matter).</i></p> <p><i>In the majority of assertion-based assurance engagements the responsible party is responsible for both the subject matter information and the subject matter. However, in some engagements the responsible party may not be responsible for the subject matter. For example, when a professional accountant in public practice is engaged to perform an assurance engagement regarding a report that an environmental consultant has prepared about a company's sustainability practices, for distribution to intended users, the environmental consultant is the responsible party for the subject matter information but the company is responsible for the subject matter (the sustainability practices).</i></p> <p><i>In assertion-based assurance engagements where the responsible party is responsible for the subject matter information but not the subject matter, the members of the assurance team and the firm are required to be independent of the party responsible for the subject matter information (the assurance client). In addition, consideration should be given to any threats the firm has reason to believe may be created by interests and relationships between a member of the assurance team, the firm, a network firm and the party responsible for the subject matter.</i></p> <p><i>In a direct reporting assurance engagement the members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter).</i></p> <p style="text-align: right;"><i>Cont'd</i></p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1008.	291	<p>These requirements are not easy to understand and implement. Further guidance is given in an “Interpretation” to Section 290, but in fact this further demonstrates the complexities involved.</p> <p>The practical realities of applying the complex considerations and hence these independence requirements should not be underestimated. Application to real life examples can lead to debate about whether an engagement is in fact an assurance engagement and if so, who the intended users are, and in particular who is or are the responsible party or parties from whom independence is required. Whilst it is possible to analyse a set of circumstances and draw reasonable conclusions, there can sometimes be more than one viable answer. This can also vary depending upon whether the engagement is assertion based or a direct report.</p> <p style="text-align: right;">Cont’d</p>	PwC	See above
1009.	291	<p>One of the considerations is, in an assertion-based engagement, which party makes an assertion and thus becomes the party responsible for the subject matter information. Whilst this seems to require some ability to undertake some measurement or evaluation, the extent of this is not discussed in the Framework - could it be just a desk top review, or, more likely in our view, require more in-depth measurement and evidence gathering. Who makes the assertion (and is thus responsible for the subject matter information) determines who is the responsible party from which independence is required in an assertion based engagement, but not in a direct report situation. Thus, determining whether or not an engagement is, in substance, an assertion-based engagement makes a difference from an independence perspective. It might be helpful if the Framework gave guidance on the extent of procedures required in order for an assertion to be made by a party.</p> <p>Given the complexity of the concepts there is a risk that the practitioner may analyse similar situations differently and come to different conclusions on the independence implications. It seems that there will inevitably be some inconsistency in application.</p> <p style="text-align: right;">Cont’d</p>	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1010.	291	<p>Furthermore, the proposed split of Section 290 means that the same considerations ought to apply in new Section 290. In moving the “same” engagement type from what was effectively a “non-audit assurance engagement” to an “audit engagement” (for example, a review of other historical information with multiple responsible parties) the considerations ought to be the same. Yet the ED does not seem to recognise this fact. For this reason, the same concerns regarding the application of the Framework and the resulting independence implications apply to new Section 290, which was we understand intended to be provide <u>clarity</u> regarding the requirements for “audit” of financial statements. Addressing our comments above regarding the split of Section 290 (see 2.1.1 etc) would go some way to alleviating this issue, but probably not completely. Some recognition is warranted in Section 290 that the concepts embodied in Section 291 and the Framework, as regards the definition and elements of an Assurance Engagement, may apply in certain circumstances.</p> <p>We fully recognise that the Ethics Board has made best efforts to apply the Assurance Framework from an independence perspective. The problem remains the complexity of the Framework and we encourage the IESBA to strongly encourage IAASB to review and simplify the Framework, ideally leading to greater clarity therein.</p>	PwC	See above
1011.	291	It would be helpful to have more guidance on when to use section 291 for public reporting engagements.	CEBS	No change
1012.	291	We have not provided detailed comments in respect of Section 291 in the Exposure Draft as we are of the opinion that the provision of separate guidance on other assurance engagements is unnecessary. The reasons for our opinion are set out in our covering letter above.	CAGNZ	No change – Minority comment on Split of Code

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1013.	291	Section 291 does not contain any provision corresponding to Paragraph 290.122 ; the reason is unclear.	JICPA	No change – given the wide range of other assurance engagements not considered necessary to have a prohibition similar to 290.122. Matter is adequately addressed through threats and safeguards approach
1014.	291	<p>We believe that standards of independence for assurance engagements should distinguish between public reporting and private reporting engagements. For public reporting engagements, such as an accountant reporting on financial information in a prospectus, conceptually public interest requires that the same high level standards of independence should apply as on an audit. However, there are practical issues that need to be considered.</p> <p>APB has recently issued an Ethical Standard for Reporting Accountants (ESRA) which applies to engagements that are in connection with an investment circular in which a report from the reporting accountant is to be published. In finalising this standard, we needed to take account of the market characteristics in relation to the role of the reporting accountant. Particular problems were identified in relation to the need to maintain confidentiality in relation to some corporate finance transactions and for the reporting accountant to be appointed quickly. This resulted in:</p> <ul style="list-style-type: none"> • the inclusion of additional guidance on the extent of enquiries that need to be made throughout the network; • narrowing the audience for disclosures of significant facts and matters that bear upon the reporting accountant's objectivity; and • restricting the consideration of threats arising from an engagement where there are two responsible parties, one of which is already an audit client, to those which are known as a result of limited enquiries. <p>Similar issues may be faced in other jurisdictions where there are multiple responsible parties in relation to an engagement where a firm is issuing a report on historical financial information that is included in a prospectus.</p>	APB	No change – Minority comment on the split of section 290

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1015.	291	<p>We support the approach take in respect of section 291, subject to the following comments:</p> <ul style="list-style-type: none"> • A number of our comments in respect of section 290 (particularly those related to scope and some of those re financial interests) have an impact on 291 and should be read across accordingly; • There is an inconsistency within the discussion on ‘Engagement Period’. Paragraph 291.28 categorically states that independence is required both during the engagement period and the period covered by the subject matter information. However, paragraphs 291.29 and 291.30 discuss the situation (quite likely in non-recurring engagements) where the engagement commences during or after the period covered by the subject matter information. The impression given by these paragraphs is that the full independence requirements apply only during the engagement period but any activities/relationships during the period covered by the subject matter information should be assessed to see if there are any threats to compliance with independence during the engagement period. This is a rather more pragmatic approach and seems reasonable, but is not quite the same as is required by 291.28. We recommend aligning the latter with the paragraphs that follow. 	ICAEW	<p>No change for 290 financial interest comments and therefore no change in 291</p> <p>No change – 219.29 and 30 clarify and supplement the general position in 28</p>
1016.	14	<p>With regard to the Assurance Framework, we are not persuaded that the concept of direct reporting assurance engagements is well understood. From an independence perspective, it appears questionable to us whether a professional accountant should ever provide an assurance report after having directly performed the evaluation or measurement of the subject matter without written acknowledgement of responsibility for the subject matter of the report from the responsible party. In the absence of a written assertion, the auditor may be able to obtain such acknowledgement by obtaining a written representation from the responsible party. As currently written, paragraph 291.14 seems to suggest that a representation letter from the responsible party is an option. We recognise that 291.14 is derived from paragraph 10 of the Assurance Framework. We consider this to be primarily a matter for the IAASB to re-examine, preferably with regard to guidance on related topics issued by other bodies, eg AS5 issued by the PCAOB in the US. We would welcome a dialogue between the IESBA and the IAASB to this effect.</p>	KPMG	<p>Code is aligned to the IAASB Assurance Framework. Comments passed to IAASB for their consideration</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1017.	16-17	We do not think it is necessarily the case that the guidance in paragraphs 291.16 and 291.17 could not also apply to certain types of audit engagement, for example an audit report on an acquisition target in a prospectus where the directors of the target may be responsible for the underlying information (“subject matter”) and the directors of the acquirer for the financial statements included in the prospectus (“subject matter information”).	KPMG	Change made
1018.	107-108	In the case of an entity that has a controlling interest in the audit client, and that client is material to the entity, we agree that a clear definition be given to the restriction of the person or firm’s financial interest in that client. The reason is that if the client is not material to the entity, we consider that the absence of a clear definition will have only a small effect on the benefit of maintaining its independence gained at the cost of complying with the restriction.	JICPA	Supportive comment
1019.	121-122	It is desirable that the existing internal consulting rules concerning any problems about independence (as provided for at the end of Paragraphs 137 and 138 of the current Code) be continued.	JICPA	No change – position taken by IESBA is that policies and procedures are not safeguards that would, in themselves, reduce an identified threat to an acceptable level.
1020.	127	Under employment with assurance clients, section 291.127, there appears to be an error. It reads: <i>“In all cases the following safeguard is necessary to ensure that no significant connection remains <u>between the firm and the individual does not</u> continue to participate in the firm’s business or professional activities:</i> The underlined portion seems to be an error. Please see the wording used in 290.132.	CGA - Canada	Change made
1021.	Definitions	We support the IESBA’s decision to align its definitions where appropriate, to those used by other IFAC Boards e.g. the definition of financial statements as used by the IAASB.	ICAS	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1022.	Definitions	The CNCC suggests that the Code could be also clarified as regard several definitions and that some concepts could be accompanied by illustrative examples	CNCC	General comment – specifics dealt with elsewhere in document
1023.	Definitions	<p>A major challenge in facilitating the convergence of international and national ethical standards lies in differences in the definitions used. To illustrate our concern we attach as appendix 4 a summary of the key definitions provided by the December ED of the IFAC Code, the EC (in the EC Recommendation or the Statutory Audit Directive) and the SEC. The APB would like to use definitions that are harmonised internationally and we urge the IESBA to work together with key jurisdictions, in particular with Europe, on this matter. Areas for attention include differences in:</p> <ul style="list-style-type: none"> the terms ‘engagement team’ and ‘audit team’, as well as in the definitions themselves; the terms ‘related entity’ and ‘affiliate’, as well as in the definitions themselves; the terms ‘entities of <u>significant</u> public interest’ (IFAC) and a ‘public interest entity’ (in the EC’s Statutory Audit Directive); and the definitions of ‘firm’ (and whether network firms are included), contingent fee and financial interest. <p>As far as is practicable we suggest that the definitions should be as concise and easily understandable as possible. A number of the existing definitions – such as that of a ‘related entity’ - are likely to be very difficult for auditors to understand and to apply in practice.</p>	APB	<p>Definition of engagement team to be aligned with IAASB</p> <p>No change</p> <p>Change – given revised definition it will be referred to as an “entity of public interest”</p> <p>Definition of network is aligned with EU. Definition of contingent fees to be considered by IT2 TF</p> <p>No change</p>
1024.	Audit client	Audit client. This stipulates: “When the client is a listed entity, audit client will always include its related entities.” Clarity is improved if a provision like this, which affects the purport, is not only included in the definition but also in the relevant provisions themselves.	NIVRA	To be considered under implementation support project

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1025.	Audit Client	<p>The definition of Audit Client has not been modified in the new proposed Section 290 and is as follows: “<i>An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities</i>”. This is further clarified under section 290.24 : “<i>In the case of an audit client that is a listed entity, references to an audit client in this section include related entities of the client (unless otherwise stated). In the case of nonlisted entities of significant public interest, references to audit client will, unless otherwise stated, generally include its related entities</i>”. As a result, Section 290 refers to ESPIs and non-ESPIs while the Definition section refers to listed and non-listed entities. We believe that the Definition section should be updated to reflect the changes of Section 290. More specifically, it should still clarify that listed audit clients always include their related entities but also consider the situation of non-listed ESPIs for which more flexibility, on a facts and circumstances basis, is needed, as we explain above in section 1.5 of this letter.</p> <p>We believe that it is inappropriate that subsidiaries and material investees are systematically excluded from the definition of “audit client” for entities that are not ESPIs. In particular, we believe that when certain financial interests, employment relationships, business relationships and provision of non-assurance services are considered to create a significant independence threat in relation to an audit client, a similar independence threat would also be created in relation to a subsidiary or a material investee of the audit client. For example, a self-review and familiarity threat arising from serving as a director or officer of a material subsidiary audited by another firm would also create an independence threat to the auditor of the parent company’s consolidated financial statements. Consequently, we would recommend to always include subsidiaries and material investees in the definition of Audit Client, whether it is an entity of significant public interest or not.</p>	E&Y	<p>Change made</p> <p>No change made</p>
1026.	Audit partner	The definition of key audit partner includes “other audit partner on the engagement partner”, but the term “audit partner” is not defined. We suggest clarifying that the term mentioned does not include specialty partners such as tax partners and partners who provide consultation regarding technical issues.	FACPE	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1027.	Audit team	A clarification should be brought as regards comparison between the respective fields of the "audit team" and the "assurance team". It appears that the distinction between assurance team and audit team at the level of the chain of command is not always very clear. We are questioning to what extent do we need to have two definitions. In our view, it would be more workable to use the same definitions and to limit the distinction between assurance team and audit team only to the individuals who are members of the network.	CNCC	No change – audit team definition is broader than assurance team definition because assurance team does not capture the chain of command
1028.	Audit team	The respective scopes of the “audit team” and “assurance team” need to be clarified, in particular in terms of the chain of command. We believe that the applicable definitions should be harmonized, so that the only one remaining difference should be limited to the persons within the network.	Mazars	No change – audit team definition is broader than assurance team definition because assurance team does not capture the chain of command
1029.	Clearly insignificant	Sections 290.4 and 290.32 of the Code state: “290.4: <i>The objective of this section is to assist firms and members of audit teams in applying a conceptual approach to achieving and maintaining independence that involves: (a) identifying threats to independence; (b) evaluating whether these threats are clearly insignificant; and (c) when the threats are not clearly insignificant, identifying and applying safeguards to eliminate the threats or reduce them to an acceptable level</i> ”. “290.32: <i>Throughout this section, reference is made to significant and clearly insignificant threats to independence. In considering the significance of any particular matter, qualitative as well as quantitative factors should be taken into account. A matter should be considered clearly insignificant only if it is deemed to be both trivial and inconsequential</i> ”.	E&Y	Discussed by IESBA in June 2007, agreed that matter would be considered by the Drafting TF.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1030.	Clearly insignificant	<p>We fully support the conceptual approach to identifying, evaluating and addressing threats to independence set out in 290.4. However, our experience with the implementation of the Code in recent years suggests that the threshold of "not clearly insignificant" used to determine when safeguards are necessary and documentation is required, is too low. "Clearly insignificant" is defined as "a matter that is deemed to be both trivial and inconsequential". This leads, in practice, to threats being evaluated, safeguards considered and the conclusions documented in too many situations, placing a very significant compliance burden that in many cases is simply unwarranted. If implemented literally, this provision does not strike the right balance between the costs of compliance and serving the wider public interest.</p> <p>We believe that the definition of "Clearly Insignificant" should be expanded to consider materiality when the matter is related to the financial statements of the audit client. Accordingly, we recommend that the definition of "Clearly Insignificant" be changed to: <i>"A matter that is deemed to be both trivial and inconsequential, or a matter related to the financial statements which is deemed to be clearly immaterial"</i>.</p>	E&Y	Discussed by IESBA in June 2007, agreed that matter would be considered by the Drafting TF.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1031.	Clearly insignificant	<p>The ED utilizes the concept of “clearly insignificant” in assessing threats to an auditor’s independence. This term is defined as “a matter that is deemed to be both trivial and inconsequential.” The concept is used throughout the Code, as is the concept of materiality. The use of the “clearly insignificant” concept alongside the traditional and well understood materiality concept is in our view confusing at best and in application, may often be too low a threshold. Although it appears that the notion of materiality is often used to refer to matters that can be quantified, whereas significance covers more of a qualitative assessment (see an example of the distinction in paragraph 290.121 covering business relationships), this distinction is not clear in the Code. In fact, paragraph 290.32 refers to both qualitative and quantitative factors being important in evaluating the significance of a particular matter.</p> <p>Under the Code’s conceptual approach, the auditor is first required to determine if a threat to independence is “clearly insignificant.” If the threat is not “clearly insignificant” safeguards must be put in place regardless of whether, for example in the case of non-audit services, the results of the service will have a material impact on the client’s financial statements. A service that has an immaterial effect on the financial statements should not pose a threat to the auditor’s independence where the threat that gives rise to the concern about the service’s effect on the auditor’s objectivity is self-review.</p> <p>Further confusion is created because of the obvious gaps that exist with the Code’s terminology. What is the difference between a threat that is “clearly insignificant” as opposed to “insignificant?” Moreover, only when the threats are “so significant” does a prohibition exist. Is the auditor in the same position where the threats are “significant,” but not so significant, as when the threats are “insignificant” but not “clearly insignificant”?</p> <p style="text-align: right;">Cont’d</p>	DTT	Discussed by IESBA in June 2007, agreed that matter would be considered by the Drafting TF.
1032.	Clearly insignificant	It might be argued that the use of the word “clearly” raises the threat threshold to such an extent that practically speaking safeguards must be applied in virtually every case. We believe it is appropriate to use the materiality concept for determinations in this area. If the threat is material, safeguards should be applied. If the threat is not material, safeguards would be unnecessary. Alternatively, the language should be turned around and the safeguards applied only if the threat is “significant”.	DTT	Discussed by IESBA in June 2007, agreed that matter would be considered by the Drafting TF.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1033.	Clearly insignificant	The threshold of “not clearly insignificant”, used to determine when safeguards are necessary and documentation is required, is too low. This leads to analyzing the threats and safeguards in practically all situations, which hinders the objective of achieving an appropriate balance between costs and benefits. Thus, so as to avoid this, we suggest that an evaluation process should not be needed in situations where the matter is “clearly immaterial” to the independence of the accounting firm.	FACPE	Discussed by IESBA in June 2007, agreed that matter would be considered by the Drafting TF.
1034.	Engagement Team	<p>We support the removal of the reference to “any experts” in the definition of “Engagement Team”. We acknowledge that experts are already addressed in ISA 620 “Using the Work of Expert”.</p> <p>While we support extending the definition to a broader group than partners of the firm and staff employed by the firm who serve on the team, it may not be clear that the term “firm” also includes “network firms”. More specifically, Section 290.2 states that for audit and review engagements, “<i>Firm</i>” includes network firm except where otherwise stated”. However, in the Definitions section, the term “Firm” does not include “network firm”. Indeed, the definition of “Firm” is: “(a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties; and (c) An entity controlled by such parties”. For the purpose of Section 290, this omission in the Definitions section is misleading and contradicts Section 290.2. Accordingly, we recommend that the network firm statement included in Section 290.2 be incorporated in the Definitions section at the back of the Code for the purpose of Section 290.</p>	E&Y	Discussed by IESBA in June 2007. Agreed that the definition of engagement team should be modified to exclude external experts provided guidance in the revised ISA 620 regarding the assessment of the external expert’s objectivity was sufficiently robust.
1035.	Engagement Team	CGA-Canada concurs with the proposed change to the definition of the engagement team.	CGA - Canada	See above
1036.	Engagement Team	As regards recourse to experts, we understand the purpose of the distinction made between those belonging to the engagement team and those belonging to the assurance team (i.e. acting as consultants), but we suggest that it is a distinction which is liable to lead to difficulties of interpretation when compared with the current exposure draft for a revised and clarified version of ISA 620. The definitions of the two terms would thus merit clarification in particular by the use of illustrative examples	Mazars	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1037.	Engagement Team	We support the IESBA intentions regarding the revised definition of engagement team to distinguish between persons who carry out the audit work (including experts) and those experts consulted with because of their expertise. Whilst we agree that the auditor will need to satisfy himself that the latter group of people are independent we do not believe that the full application of Section 290 to these persons is appropriate. Unfortunately we do not believe that the revised definition achieves the IESBA aims. It is our view that the most appropriate approach is to retain the current definition and include a section on the independence of experts.	CARB	See above
1038.	Engagement team	We understand that the definition of engagement team has been changed with the intention of distinguishing between individuals who carry out audit work (including experts) and experts who are consulted in their capacity as experts. We support the intention but believe “that might otherwise be provided by a partner or staff of the firm” remains capable of misinterpretation. FEE proposes “All partners and staff of the firm and any individuals contracted by the firm that perform the assurance engagement” as an alternative definition. This may benefit from brief guidance on what ‘performing an assurance engagement’ encompasses.	FEE	See above
1039.	Engagement team	We believe there is likely to remain a lack of clarity under the new definition as to which external contractors are to be included, given that an accounting firm may have partners and staff from many different disciplines involved in performing services on an audit engagement. We note that the Experts Task Force of the IAASB is still undertaking work in this area and would encourage continued dialogue between that Task Force and the IESBA with a view to arriving at a definition which is entirely clear and consistent with the IESBA's objectives	FEE	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1040.	Engagement team	<p>We are concerned that including “experts” within the definition of “engagement team” will cause problems in practice.</p> <p>As financial statements and hence audits become increasingly complex, both preparers and auditors increasingly need to draw on experts to prepare and audit, respectively, the financial statements. For this reason, ISA 620 is being revised to update the standard so that it applies the new risk-based audit approach required by ISA 315 and 330 and so the increasing need for experts is addressed.</p> <p>The increasing need for experts in audits means that firms either employ more experts within the firm or the network or contract more experts in connection with engagements. To the extent that experts employed by the firm are involved in an audit, there is no disagreement among auditing or ethics standards setters or regulators that such experts need to be independent of the audit client. Furthermore, such experts, as employees of the firm or network are subject to the firm quality control requirements in ISQC 1 and the audit engagement quality control requirements in ISA 220.</p> <p style="text-align: right;">Cont’d</p>	IDW	See above
1041.	Engagement team	<p>However, there are practical difficulties in extending the independence and quality control requirements to so-called “outside experts” that are contracted by the firm (or network) in connection with an audit, as would be implied by the proposed definitions. These would be particularly problematical in fields where experts are relatively rare. Potentially, this could lead the larger firms to employ experts as part of the firm’s personnel, which in turn would exacerbate the difficulties facing smaller firms seeking specific expertise, leading to further concentration of the audit market towards larger firms and networks.</p> <p style="text-align: right;">Cont’d</p>	IDW	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1042.	Engagement team	<p>We do not agree that experts that are neither employees of the firm nor “perform the engagement” necessarily need to be subject to such stringent independence requirements, since their expertise is provided to the auditor to enable the auditor to perform the engagement in a sufficiently objective manner for the purposes of the engagement: i.e., the auditor’s scrutiny of an expert’s objectivity and work (as required by ISA 620) functions as a safeguard, should there be independence issues. Such experts are not generally performing the engagement to any significant degree, i.e., in an audit of financial statements, for example, they do not generally plan the audit, perform risk assessment, design further audit procedures and draw conclusions from an evaluation of evidence to the extent that they influence the outcome of the assurance engagement. Indeed the expert does not carry responsibility for the audit; rather this responsibility rests solely with the auditor.</p> <p>A new definition of engagement team might read:</p> <p style="padding-left: 40px;">“All partners and staff of the firm, and any individuals contracted by the firm, that perform the audit engagement.”</p> <p style="text-align: right;">Cont’d</p>	IDW	See above
1043.	Engagement team	<p>The IESBA may need to consider how partners and staff of the firm that are not on the engagement team but that provide other services in connection with the audit may need to be included in the definition of audit team.</p> <p>The proposed definition turns on one distinguishing concept as noted in principle (a) in the previous section: the distinction between “performing the engagement” and “providing other services, including expert services, in connection with the engagement”.</p> <p>In our view, “performing an engagement” ought to be defined in terms of planning an engagement, performing risk assessment procedures, designing and performing further engagement procedures, evaluating evidence obtained from engagement procedures, or drawing conclusions thereon. This should be distinguished from expert services, in which expertise is employed to provide advice or conclusions on issues otherwise unrelated to accounting or auditing that have an impact on the preparation of the financial statements or audit thereof, or on specific accounting or auditing issues without direct access to specific client circumstances.</p>	IDW	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1044.	Engagement team	<p>We note that the definition of “Engagement team” has been changed compared to the current Code. We understand the intention to distinguish between the persons who perform the audit work and those external experts that are not part of the team but only consulted in their capacity as experts. We support this intention, but we propose the following definition:</p> <p><i>“All partners and staff of the firm and any individuals contracted by the firm that perform the assurance engagement.”</i></p>	WpK	See above
1045.	Engagement team	<p>We understand that the IESBA is proposing to revise the definition of “engagement team” to clarify that experts and other outside professionals contracted by the firm to provide <i>audit support</i> activities (i.e., to perform services as part of the engagement team working under the direction, control, or supervision of the audit firm) should be considered to be part of the engagement team. We agree with this change but do not believe the revised definition reflects the IESBA’s intent:</p> <p><i>“All partners and staff performing the engagement and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm.”</i></p> <p>Specifically, we believe the definition is unclear and could have the unintended consequence of causing firms to include as a member of the engagement team an external expert, such as a valuation, tax, or actuarial expert, who provides advice that the firm relies on during the audit, merely because the firm has one or more partners or professional employees who could have provided the same advice. We recommend that the IESBA consider the following definition, which is consistent with the AICPA’s definition of “attest engagement team.” [ET section 92.02, <i>AICPA Code of Professional Conduct</i>]</p> <p><i>The engagement team includes all employees and contractors retained by the firm who participate in the engagement, irrespective of their functional classification (for example, audit, tax, or management consulting services). The engagement team excludes external experts contracted by the auditor, as discussed in ISA 620, Using the Work of an Expert, and individuals who perform only routine clerical functions, such as word processing and photocopying.</i></p>	AICPA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1046.	Engagement team	We note the redefinition of the engagement team which we understand was agreed with IAASB in order to exclude experts contracted by the firm from the full rigour of the IFAC Code. We understand the practical reasons for doing this and will comment on the changes to ISA 620 that are intended to ensure that the auditor considers the independence of such experts in due course. We observe that the December ED definition may not achieve this objective. In particular the reference to ‘services on the engagement that might otherwise be provided by a partner or staff of the firm’ could mean that many external experts such as actuaries and lawyers are brought within the definition.	APB	See above
1047.	Engagement team	We support IESBA’s intentions regarding the redefinition of engagement team in relation to experts. However, the proposed definition of engagement team also has unintended consequences since experts involved in the engagement may unnecessarily be subject to the independence provisions. We suggest that the definition of engagement team when using experts needs to distinguish between individuals who carry out audit and review engagements (including experts within the firm) and experts who are consulted. The auditor will need to evaluate the objectivity of experts engaged in the latter capacity but this would not require their compliance with the full requirements of Section 290. In practice, when auditors approach firms of experts, these firms will check whether or not any conflicts of interest exist.	CCAB	See above
1048.	Engagement team	We are not sure with the new definition that the boundaries between who is and who is not in the engagement team are clear and that the implications of this, and how it relates to the proposed exposure draft, ISA 620, Use of Experts, have been fully considered. For example, it is not clear whether an expert providing actuarial services to the engagement team would be considered as part of the engagement team: is this professional considered an expert about a particular matter or is this person providing a service that might otherwise be provided by a partner or staff of the firm? It could also be clarified how the auditor should deal with the independence of external consultants working for the audit team, when they are not considered to be part of the engagement team.	CEBS	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1049.	Engagement team	We support the IESBA's intentions concerning the revision of the definition of engagement team in regard to experts. However, we believe the revised definition has unintended consequences in that experts involved in the engagement may unnecessarily be subject to the independence provisions. In our view, the definition needs to distinguish between individuals who carry out audit and review engagements (including experts within the firm) and experts who are consulted. The auditor will need to evaluate the objectivity of experts engaged in the latter capacity but this would not require their compliance with the full requirements of section 290. In practice, when auditors approach experts, they themselves assess whether or not any conflicts of interest exist.	ACCA	See above
1050.	Engagement team	<p>The exposure draft includes a proposal to revise the definition of engagement team from, "All personnel performing an engagement, including any experts contracted by the firm in connection with that engagement" to "All partners and staff performing the engagement and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm".</p> <p>We note that the International Auditing and Assurance Standards Board (IAASB) is currently addressing the definition of engagement team in connection with its proposed revisions to certain auditing standards (in particular ISA 620 – tentatively re-titled "Using the Work of an Auditor's Expert as Audit Evidence") We would urge the IESBA and IAASB to ensure that the definitions adopted are consistent.</p>	Australia	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1051.	Engagement team	<p>We have two main problems with this definition.</p> <p>(a) Who exactly is it intended to capture?</p> <p>The last part of the definition is ambiguous – <i>individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm</i>. It is not clear whether experts are included in this or not. In a small practice, for example, partners and staff may only have accounting and auditing expertise. Therefore, the use of a taxation expert or a legal expert, or even an expert in a specialised area of accountancy, e.g. financial instruments, would not come under this definition as partners or staff of the firm could not provide these types of services. Hence, these experts would not be required to meet the independence requirements. However, in a large, international firm, any outside expert could be caught in the definition as it is possible that somewhere in the world, this international firm may have an expert in that particular field. In this case, almost all outside experts utilised on a particular engagement would have to meet all the requirements of section 290.</p> <p>The definition needs to be amended so that it is clear which parties it relates to.</p> <p>(b) Experts.</p> <p>If the intention of the definition is to capture outside experts used on an engagement, then this could cause difficulties in practice in obtaining appropriate expert resource. In some countries these difficulties would be insurmountable and this could potentially have an adverse effect on audit quality. ISA 620, Using the Work of an Expert, contains requirements relating to the independence of experts and we would suggest that this is the appropriate place to address this issue.</p> <p>The PPB therefore recommends that the definition be amended to explicitly exclude experts as defined in ISA 620.</p>	ICANZ	See above
1052.	Engagement Team	<p>It is suggested that the persons who are giving less 10 hours in the engagement team may not be included in the definition of Engagement team unless they are partners/ an expert hired by of the firm.</p>	ICAIIndia	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1053.	Engagement Team	<p>We propose the following amendment to the definition of the Engagement Team to make it more comprehensive and effective.</p> <p>The definition of Engagement Team has been revised and now includes:</p> <p>"..... and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm."</p> <p>From this definition would potentially escape individuals who have not directly been contracted but who rather provided services under the firm's contract with some other party etc. The definition may be modified as:</p> <p>"..... and any individuals contracted <u>directly or indirectly through some other party</u> by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm."</p>	ICAP	See above
1054.	Engagement Team	<p>We support the intention of the IESBA regarding its proposed redefinition of "engagement team" in relation to experts and we appreciate the difficulties that the IESBA has faced in attempting to arrive at a workable definition. Despite this, it is our view that the proposed definition of engagement team may have unintended consequences since experts involved in the engagement may unnecessarily be subject to the independence provisions. We believe that the definition of engagement team when using experts needs to distinguish between individuals who carry out audit and review engagements (including experts within the firm) and experts who are consulted (i.e. outwith the firm). It should be the responsibility of the auditor to evaluate the objectivity of experts engaged in the latter capacity but this should not require their compliance with the full requirements of Section 290 as this is likely to be unworkable in practice. In practice, when auditors approach firms of experts, these firms will check whether or not any conflicts of interest exist before accepting the specific engagement.</p>	ICAS	See above
1055.	Engagement Team	<p>Engagement team. NIVRA notes that the part of the sentence "that might otherwise be provided by a partner or staff of the firm" is unclear. We propose the following definition: "All partners and staff of the firm and any individuals contracted by the firm that perform the assurance engagement."</p>	NIVRA	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1056.	Engagement Team	<p>We support the revision to indicate that not all experts form part of the engagement team and should therefore not be subject to the same independence requirements as the engagement team. The proposed definition refers to individuals who provide services that might otherwise be provided by a partner or staff of the firm. However, it is unclear which individuals might fall within this definition, e.g., audit firms often employ the services of legal experts, particularly within the network, but it cannot be contemplated that an external lawyer be part of the engagement team simply because the services of a lawyer could ‘otherwise be provided by ... staff of the firm’ . It may be useful if the definition distinguished between experts which ‘fall under the direction, control and supervision of the audit or engagement partner’ and those who do not. The external lawyer who provides independent legal advice would then fall outside of the definition, while those lawyers working within the firm will fall within the definition</p>	IRBA	See above
1057.	Engagement Team	<p>We agree that the definition of “engagement team” needs to be revised; however, we believe the proposed definition is still too broad. Professionals working on the audit should be subject to the same independence requirements irrespective of their legal relationship with the firm. Thus, if audit staff assigned to an engagement happen to be independent contractors rather than employees, they should be subject to the same requirements as those that apply to staff employed by the firm. We do not believe though that external experts should be swept into the definition.</p> <p>When engaging experts, a firm needs to assess the expert’s qualifications, including objectivity among many other things. It would be extremely difficult and impractical though to require compliance with Section 290 by external experts. Unless the definition clearly excludes external experts from the definition of the engagement team, engagement teams might be discouraged from using such experts, which could negatively impact audit quality.</p> <p>Consideration also needs to be given to the fact that the ultimate definition in the Code will influence other IFAC standards. For example, ISA 220 – <i>Quality Control for Audits of Historical Financial Information</i>, uses the definition of the “engagement team”. Thus, care must be taken that this definition is workable in the context of such other standards as well.</p>	DTT	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1058.	Engagement Team	We believe there is likely to remain a lack of clarity under the new definition as to which external contractors are to be included, given that an accounting firm may have partners and staff from many different disciplines involved in performing services on an audit engagement. We note that the Experts Task Force of the IAASB is still undertaking work in this area and would encourage continued dialogue between that Task Force and the IESBA with a view to arriving at a definition which is entirely clear and consistent with the IESBA's objectives.	KPMG	See above
1059.	Engagement Team	We believe the intent of the proposed definition is to capture individuals contracted by the firm (e.g., temporary staff or individuals with a particular expertise required for the conduct of the audit) who will perform services as part of the engagement team working under the supervision of one or more engagement team members. We believe the intent does not include scoping in an organisation (or the individuals thereof) whose work is not subject to the direction, control, and supervision of the audit firm, such as a legal firm, actuarial firm, or valuation firm, and on whose formal advice or opinion the firm may rely on as "audit evidence." For those types of organisations, the auditor will assess their objectivity and the objectivity of the personnel working on the assignment, which does not require evidence of compliance with the Code. Cont'd	PwC	See above
1060.	Engagement Team	We are concerned that the proposed definition may be interpreted broadly to include the latter group of organisations and individuals described above to the extent the firm has one or more partners or staff who could and might otherwise have provided the same services. Thus, as presently worded the proposed definition may have unintended consequences. For example, a firm may utilise its own in-house counsel to provide legal advice concerning a matter relevant to the audit. This could suggest that external counsel providing similar advice should be treated as a member of the engagement team because that service could "...otherwise be provided by a partner or staff of the firm." The same can be said about actuarial, valuation, tax, and other services. Cont'd	PwC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1061.	Engagement Team	We recommend modifying the proposed definition to explicitly exclude such experts from the definition of “engagement team” in a manner similar to the definition used by the AICPA. The AICPA defines an “attest engagement team” (in part) as “all employees and contractors retained by the firm who participate in the attest engagement...The attest engagement team excludes specialists as discussed in Statement on Auditing Standard No. 73, <i>Using the Work of a Specialist</i> ...”. The adoption of a similar definition, which would, perhaps explicitly, exclude contracted external experts as discussed in International Standard on Auditing 620, <i>Using the Work of an Expert</i> , would alleviate our concerns.	PwC	See above
1062.	Engagement Team	Engagement team – We believe the definition as proposed is not clear and may lead to confusion and inconsistency in its application. Also, it is not clear as to whether the Board intends for a third party expert and/or an external firm of experts to meet the proposed independence requirement.	Grant Thornton	See above
1063.	Engagement Team	<p>We believe that the definition of an engagement team should be clarified. The proposed definition of an engagement team is as follows:</p> <p style="padding-left: 40px;">All partners and staff performing the engagement and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm.”</p> <p>We are not clear about the intended application of the phrase “that might otherwise be provided by a partner or staff of the firm”. Some firms have partners and staff who are able to fulfill a role that other firms can only fulfill by engaging an external expert: examples include valuation specialists, property valuers and actuaries. As drafted, the Code would require accounting firms that have partners or staff who are able to provide the services of an expert to ensure that any third party provider who may be engaged to assist an audit team meets the requirements of the Code, whilst firms without any experts in-house would not. Therefore, we believe that the definition creates confusion and its application would vary from firm to firm. Instead, we believe that experts, as defined by International Auditing Standards (ISA 620.3), contracted by a firm should not be included in the definition of an engagement team.</p>	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1064.	Engagement Team	<p>Questions for the Board to consider:</p> <ul style="list-style-type: none"> • Should the application of this requirement vary by accounting firm or by office in the firm or by what is customary in a particular country of roles normally provided by an accounting firm? • Is it contingent upon what the partners and staff of a particular firm are capable of providing or the services that are normally offered by the firm? • What steps are reasonable for a firm to be expected to take where an expert is from another profession that has ethical practices that are not consistent with those set out in the IFAC Code? <p>Where an expert's firm is engaged to assist the accountant in fulfilling the accountant's responsibilities under the auditing or review standards, does the accounting firm need to ensure that a firm of outside experts meets the Board independence standards or the individuals assigned by the firm of outside experts to assist the firm?</p>	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1065.	Engagement team	<p>We are concerned that including “experts” within the definition of “engagement team” will cause problems in practice, especially for SMPs. Recourse to experts in assurance engagements and thus within firms and networks is increasing, not least as a result of the new risk-based approach required by ISAs 315 and 330. In practice, external experts cannot be compelled to subject themselves to the requirements of ISQC 1 and ISA 220 nor the requirements of the Code. Firms that attempt to require compliance with these on a contractual basis will likely find experts unwilling to take on assignments. This would present acute problems in fields where experts are relatively rare. Potentially, this could lead the larger firms to employ experts as part of the firm's personnel, which in turn would exacerbate the difficulties facing smaller firms seeking specific expertise, leading to further concentration of the audit market towards larger firms and networks.</p> <p>We do not agree that experts that are neither employees of the firm nor “perform the engagement” necessarily need to be subject to such stringent independence requirements, since their expertise is provided to the auditor to enable the auditor to perform the engagement in a sufficiently objective manner for the purposes of the engagement: that is, the auditor's scrutiny of an expert's objectivity and work (as required by ISA 620) functions as an adequate safeguard should there be any independence issues. Such experts are not generally performing the engagement to any significant degree, that is, in an audit of financial statements, for example, they do not generally plan the audit, perform risk assessment, design further audit procedures and draw conclusions from an evaluation of evidence to the extent that they influence the outcome of the assurance engagement. Indeed, the expert does not carry responsibility for the audit rather this responsibility rests solely with the auditor.</p> <p>We suggest, therefore, the definition of engagement team is amended to read something like: “All partners and staff of the firm and any individuals contracted by the firm that performs the assurance engagement.” This definition would also benefit from brief guidance on what ‘performing an assurance engagement’ encompasses</p>	SMP/DNC	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1066.	Engagement team	<p>IESBA proposes amending the definition of 'engagement team' to read: 'All partners and staff performing the engagement and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm.'</p> <p>The IESBA, in the Explanatory Memorandum (EM), indicates it would be inappropriate to treat all experts as members of the engagement team. For example, an expert about a particular matter, such as an external lawyer providing a legal opinion to the engagement team about a particular matter, should not be considered part of the engagement team. However, the IESBA is of the view that the definition of 'engagement team' should be broader than simply including partners of the firm and staff employed by the firm who serve on the team. The EM provides two examples of engaged experts who should be included on the engagement team: an expert in a particular field, such as a valuation specialist, and outside professionals at times of peak activity.</p> <p>The Committee suggests the IESBA clarify whether an expert providing actuarial services would be considered part of the engagement team. The IAASB may want to consider linking this definition in the code of ethics to ISA 620, Using the Work of an Expert to explain how the auditor should deal with the independence of external consultants working for the audit team and whether these consultants should be considered part of the engagement team</p> <p style="text-align: right;">Cont'd</p>	Basel	See above
1067.	Engagement Team	<p>Specifically, would IESBA consider an actuary, who does not belong to the staff of the audit firm but works on an audit, to be an expert about a particular matter or is the actuary providing a service that might otherwise be provided by a partner or staff of the firm? We believe that the proposed definition could be read in such a way that actuaries would not be considered part of the engagement team. Given the importance of the services provided by actuaries and the specialised nature of their services, this would not be acceptable in situations where the actuarial services are significant. To provide additional clarity around this issue, we recommend that the IESBA amend the new definition of 'engagement team' with the foregoing in mind.</p>	Basel	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1068.	Engagement Team	<p>We think it is essential that the IESBA works with the IAASB to ensure that the definitions used in the Code for such matters as “audit engagement team” and “outside expert” are identical with similar definitions in ISA’s. Where different concepts are appropriate, different nomenclature should be used to avoid confusion. We are concerned by apparent differences or conflicts between the way that the engagement team and outside experts will be treated in the Ethics Code and the ISAs.</p> <p>We agree that the definition of an engagement team should not include outside experts in different areas of expertise that are contracted by the firm solely to supply an expert opinion from that different professional speciality. Other professions often have their own highly-developed codes of professional conduct, and we believe the auditor must consider facts and circumstances and the significance of the matter that the expert opinion is on in relation to the audit. As we read the Exposure Draft, it is not fully clear in the proposed Code what is meant by “services that otherwise might be provided by a partner or staff of the firm” in the instance where a firm may have some individuals on the payroll who provide legal expertise within the firm, but the firm’s legal staff is not available and the audit engagement team therefore seeks and obtains a legal opinion on a matter from an external lawyer. In this case, is the advice from the external lawyer a service that might otherwise be provided by a partner or staff of the firm and therefore the provider of that advice is a member of the engagement team with auditor-type independence requirements? Alternatively, if the legal advice required is not in an area of speciality of the legal staff of the firm, but rather than undertaking in-house research in a new area, the firm’s legal staff determines that it would be more efficient to use an external expert, does this advice fall under the definition of services that otherwise might be provided by the partner or staff of the firm?</p> <p>We understand that the IAASB has a task force looking at the ISA on Using the Work of an Expert, and believe that the IESBA and IAASB should work closely together to ensure an appropriate interaction between the Code and all relevant ISAs, including the ISAs on Group Audits/Using the Work of Another Auditor and Using the Work of an Expert.</p>	IOSCO	Discussed by IESBA in June 2007. Agreed that the definition of engagement team should be modified to exclude external experts provided guidance in the revised ISA 620 regarding the assessment of the external expert’s objectivity was sufficiently robust.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1069.	Financial statements	<p>The proposed Section 290/291 defines financial statements in the following manner:</p> <p><i>A structured representation of historical financial information, which <u>ordinarily includes explanatory notes</u>, intended to communicate an entity's <u>economic resources or obligations</u> at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.</i></p> <p>Two issues the APESB would like to raise are:</p> <ul style="list-style-type: none"> • In addition to notes why doesn't the definition state the key financial statements? (i.e. balance sheet, a statement of revenue and expenses, cash flow) • In terms of historical financial information shouldn't the balance sheet state an entity's economic resources and obligations <p>Thus a proposed revised definition would be as follows:</p> <p><i>A structured representation of historical financial information, which ordinarily includes <u>a balance sheet, a statement of revenue and expenses, a statement of changes in equity, a cash flow statements and explanatory notes</u>, intended to communicate an entity's economic resources <u>and</u> obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement or revenues and expenses, and related explanatory notes.</i></p>	APESB	No change – definition is consistent with that used by the IAASB contained in the glossary

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1070.	Financial statements	It is unclear what the IESBA <i>precisely</i> understands by “single financial statement” and “one or more specific elements, accounts or items of a financial statement”. There is a need for clarification, for instance, by giving examples.	NIVRA	Change – In considering the split of Section 290, the IESBA concluded that audit and review of full set f/s and single f/s should be addressed in 290 and a single line item in 291. Examples of single line items added in Section 291
1071.	Firm	<p>The proposed standard uses the term ‘Firm’ when referring to the entity responsible for conducting assurance engagements. The term ‘Firm’ is defined as:</p> <ul style="list-style-type: none"> (a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties, and (c) An entity controlled by such parties. <p>We acknowledge this term is appropriate when addressing audits conducted of listed entities. However, as the scope of this standard has expanded to address ‘entities of significant public interest’ including public sector entities we believe the definition of this term should be reviewed to be applicable for public sector auditing.</p> <p>As indicated previously, the audits of Australian public sector entities are conducted by the Auditor-General of the respective jurisdiction who is appointed by legislation. The definition of ‘Firm’ with regard to public sector auditing within Australia would represent the Auditor-General’s office or department. To address this difference relating to public sector auditing the term ‘Firm’ used in the Australian equivalent standard APES 110 – Code of Ethics For Professional Accountants is defined as:</p> <ul style="list-style-type: none"> (a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties; (c) An entity controlled by such parties; and (d) An Auditor-General’s office or department. <p>We suggest that the IESBA expand the definition of the term ‘Firm’ to include reference to the relevant public sector auditor (ie. the Auditor-General’s office or equivalent).</p>	ACAG	Matter to be considered by TF addressing Accountants in Government

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1072.	Immediate family	‘Immediate family’ is defined to include, inter alia, “spouse (or equivalent)”. This clearly intends to capture the notion that someone can be a spouse in substance, even if not in legal form. However there can be situations where someone who is legally a spouse is not one in substance (for example, when separated). This is of particular relevance in the context of the financial interest requirements, where knowledge of shareholdings etc. by immediate family is presumed. Clearly in the circumstances outlined above this is unrealistic and should be addressed.	ICAEW	Minority comment – professional judgment needed in the application of the definition to such situations

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1073.	Independence	<p>We are concerned that the definition of "independence in appearance" does not establish a sufficiently high standard for this important dimension of independence.</p> <p>We note that the definition of "independence in appearance" in the Exposure Draft has been amended to read:</p> <p><i>"The avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's or a member of the audit team's integrity, objectivity or professional skepticism has been compromised."</i></p> <p>Despite the changes, we are concerned that the definition is not sufficiently robust to ensure that independence in appearance is adequately considered.</p> <p>The inclusion of the highly subjective term <i>"so significant"</i> does not establish a sufficiently high or rigorous threshold to, ensure that independence in appearance is maintained. Those applying the <i>"so significant"</i> test are required to discount all facts or circumstances unless they meet a level of significance that exceeds <i>"normal"</i> significance. This interpretation can be taken from the term <i>"so significant"</i>.</p> <p>It is our opinion, apart from the subjectivity in applying the <i>"so significant"</i> test, that this test will mean that many significant facts or circumstances will be eliminated and hence not considered as impacting on independence in appearance.</p> <p>The definition also requires that a reasonable and informed third party <i>"would be likely to conclude"</i> that integrity, objectivity or professional skepticism has been compromised. The <i>"would be likely to conclude"</i> test is a relatively low standard in that the facts and circumstances must be persuasive before those applying the test would conclude independence in appearance had been impaired. In our opinion, the <i>"would be likely to conclude"</i> test does not establish a sufficiently high standard to ensure appropriate consideration is given to independence in appearance. Cont'd</p>	CAGNZ	No change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1074.	Independence	<p>We agree in principle that the "appearance of independence" needs to be assessed from the perspective of a reasonable and informed third party. In the case of some of the specific examples considered in the Exposure Draft and the safeguards outlined in paragraphs 200.10 to 200.15 of the Code of Ethics, the informed third party would not have access to information about the safeguards which had led a firm to conclude independence in appearance had been not been impaired. To properly reflect the "appearance" dimension, we believe the focus should be on a third party <u>informed with publicly available information</u>.</p> <p>The question of audit independence was considered in an April 2003 report of a Royal Commission in Australia following the collapse of HIH, a large Australian based insurance company. The report challenges the definition of independence in appearance and recommends that the standard to be met is whether a reasonable and informed third party <u>might</u> conclude that the auditor <u>might be</u> impaired. In our opinion, this is a more appropriate standard and we would, therefore, commend the IESBA to take account of the findings in the report. A copy of the section of the report that discusses the audit function is included as Attachment 3.</p>	CAGNZ	No change
1075.	Independence	There is a small change in the definition (and in paragraph 290.7) of "independence" from that in the existing Code. There is a danger that any change of wording is likely to lead to an assumption by some readers that a change of meaning has been intended and therefore we believe that the IESBA should either reinstate the current definition or clarify the position	ICAS	No change
1076.	Independence	We note that there a number of changes in wording and definitions, for example, the definition of independence of appearance (paragraph 290.7) no longer makes reference to knowledge of all relevant information including safeguards applied. IEASBA should consider whether this and other changes in wording are intended to change the substance of the guidance.	CCAB	No change

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1077.	Independence	We note a slight change in the definition (and in 290.7) of independence from that in the existing Code. We hope that this is a matter of tidying up wording: we would be very concerned if the removal of the reference to knowledge of all relevant information including safeguards applied were intended to be a change of substance. Any change of wording is likely to lead to an assumption by some readers that a change of meaning has been intended and we believe the previous wording should be reverted to or the position clarified.	FEE	No change
1078.	Independence	<p>We note a change in the definition (and at paragraph 290.7) of independence from that in the existing Code. We hope that this is a matter of tidying up wording; we would be very concerned if the removal of the reference to knowledge of all relevant information including safeguards applied, was intended to be a change of substance.</p> <p>This is because the definition would then be inconsistent with the Code, which is written on the basis that the knowledge of the 'reasonable and informed third party' includes knowledge of all relevant safeguards, including those created by the profession, legislation or regulation.</p> <p>By removing the reference to safeguards, the definition no longer makes this explicit and the revised definition is open to the interpretation, therefore, that such matters should be ignored. In this instance, the 'tidying up' is detrimental to clarity and we suggest that the extant definition be retained.</p>	ACCA	No change
1079.	Key audit partner	CGA-Canada concurs with the proposed addition of “key audit partner” as a defined term and with the proposed definition.	CGA - Canada	Supportive comment
1080.	Key audit partner	Key audit partner: NIVRA agrees.	NIVRA	Supportive comment
1081.	Key audit partner	We agree with the proposals in this respect.	IRBA	Supportive comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1082.	Key audit partner	<p>The definition in the ED of key audit partner is quite wide since it includes the engagement partner, the individual responsible for the engagement quality control review and other audit partners on the engagement team, such as lead partners on significant subsidiaries or divisions, who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.</p> <p>In the EC directive on statutory audits of annual accounts and consolidated accounts the definition of key audit partner only includes the statutory auditor(s) designated by a firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the firm, or in case of group audit, at least the statutory auditor(s) designated by an audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries, or the statutory auditor(s) who signs(sign) the audit report.</p> <p>In such small countries as Sweden with a limited number of professionals, rotation rules for other partners than the partner primarily responsible for carrying out the statutory audit may create practical problems. FAR SRS also believes that rotation will have a negative impact on the professional development for auditors. For instance when an auditor has been lead partner on a significant subsidiary or division it will not be possible for him or her to advance and become key audit partner for the parent company and the group because then it is time to rotate from the engagement. This will lead to, especially if the auditor is specialized, an involuntary interruption if there are no other similar engagements to accept. FAR SRS thinks this will affect the desire to make a career as an auditor. According to this and since FAR SRS does not believe that there is any evidence to support a need for a stricter rule on partner rotation than the one outlined in the directive FAR SRS does not agree to an extension of partner rotation requirements to key audit partners other than the engagement partner.</p> <p>Furthermore, from a SNIP point of view, it has become evident that the proposed stricter rule on partner rotation, will even further underline the consequence to those practitioners, of firm rotation in fact - resulting in a risk of potential damage to audit quality</p>	FAR	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1083.	Key audit partner	In general the PPB agrees with the definition. However, the requirement to rotate key audit partners every 7 years in the audit of an entity of significant public interest may create difficulties in practice. It creates the possibility that the engagement quality control reviewer and the lead audit partner may both come up for rotation in the same year. In this case, all client knowledge will be lost and this may create a greater risk than the potential loss of independence. Firms will need to manage this carefully, and it may be appropriate to include some discussion of this in the section beginning at paragraph 290.147.	ICANZ	No change – this relates to implementation
1084.	Key audit partner	Key audit partner. Article 2.16 of the 2006 Directive defines a key audit partner in different terms comparing with that in page 91 of the new section 290. In order to avoid misunderstandings as to the scope of the independence rules we suggest an alignment with our definition.	EC	No change
1085.	Key audit partner	<p>The proposed definition of “key audit partner” seems to imply that “lead partners involved in the audit of significant subsidiaries or divisions” are viewed as “responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion”.</p> <p>In view of the above, it is suggested that the definition of “key audit partner”, be amended to read as follows:</p> <p>“The engagement partner, the individual responsible for the engagement quality control review, and other audit partner on the engagement team, such as lead partners on significant subsidiaries or divisions, who are responsible for key decisions or judgments on significant matter with respect to the audit of the financial statements on which the firm will express an opinion”.</p>	MIA	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1086.	Key audit partner	‘Key audit partner’ is unclear in respect of partners in charge of significant subsidiaries or divisions. Are all such partners to be considered key audit partners or is the statement at the end of the definition: “who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion” intended to restrict the scope to those dealing with group level matters? We believe the latter interpretation should be the correct one as a) it is such relationships which are most likely to generate familiarity threats and b) becoming partners in charge of subsidiary audits, not involved at group level, are often an important stage in developing future group audit partners. This is especially important in large groups where the group level audit engagement partner and other partners need a depth of industry knowledge. The absence of such knowledge would result in a significant threat to audit quality. It would be helpful to include the phrase “at group level”, which was included in the key audit partner definition in the European Commission Recommendation on Auditor Independence.	ICAEW	Change made
1087.	Key audit partner	We believe that the definition of key audit partner needs to be clarified to refer to group or consolidated accounts rather than financial statements on which the firm expresses an opinion. It is the relationship between the auditor and the client at the group level which is likely to raise the familiarity threat and this appears more in line with what is being described in the final sentence of the second last paragraph on page 8 of the explanatory memorandum.	ICAS	Change made
1088.	Key audit partner	The definition of key audit partner needs to be clarified to refer to group or consolidated accounts rather than financial statements on which the firm expresses an opinion. It is the relationship between the auditor and the client at the group level which is likely to give rise to the familiarity threat.	ACCA	Change made
1089.	Key audit partner	The definition of key audit partner needs to be clarified to refer to group or consolidated accounts rather than financial statements on which the firm expresses an opinion. It is the relationship between the auditor and the client at the group level which is likely to raise the familiarity threat.	CCAB	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1090.	Key audit partner	We believe that it is at group level that the familiarity threat is likely to arise therefore we believe that the definition of key audit partner should be clarified to refer to group or consolidated accounts rather than financial statements on which the firm expresses an opinion.	CARB	Change made
1091.	Key audit partner	The definition of key audit partner could be enhanced by setting it in the plural, to emphasise that more than one partner on an engagement can be considered to be key.	FEE	Change made
1092.	Key audit partner Comment also appears under partner rotation above	<p>The definition in the ED of a <i>key audit partner</i> is quite wide, since it includes the engagement partner, the individual responsible for the engagement quality control review, and other audit partners on the engagement team such as lead partners on significant subsidiaries or divisions who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the audit firm will express an opinion.</p> <p>In the EC Directive on Statutory Audits of Annual Accounts and Consolidated Accounts (2006/43/EC) the definition of <i>key audit partner</i> only makes it mandatory to include (apart from the statutory auditor who signs the report, in the unlikely event that he or she is not one of the following):</p> <p>the statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm</p> <p>in the case of a group audit, the statutory auditor(s) designated by the audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries.</p> <p>Cont'd</p>	NRF	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1093.	Key audit partner	<p>NRF agrees that a legal standard that has been established in such an important capital market as the European Union is a natural benchmark that has to be considered in the efforts to achieve global harmonisation. But NRF fails to see the wisdom in introducing even more restrictive standards without very good reasons.</p> <p>Introducing rotation rules for other partners than those primarily responsible for carrying out the statutory audit will create practical problems of a nature that, if the rules are applied indiscriminately, will lead to a reduction in audit quality. This is true particularly, but not exclusively, in small countries with a limited number of professionals. The rotation of other partners, such as those engaged in quality review and in divisions, may visibly improve the appearance of independence, but if the effect is to remove from the global team an industry specialist or another expert who contributes strongly to a high audit quality, the potential negative impact on audit quality is significant and may increase the risk of audit failure. These risks are not limited to small or medium-sized audit practices, although the lack of specialist resources in such practices will make them particularly serious. Cont'd</p>	NRF	No change
1094.	Key audit partner	<p>NRF would also like to point out that excessive rotation could have a negative impact on the professional career opportunities for auditors. When an auditor has been lead partner on a significant subsidiary or division he or she will not be able to advance and become key audit partner for the parent company and the group due to the rotation requirement. Especially if the auditor is specialised and no other similar engagements are available, this will mean an involuntary interruption in his or her career. This will inevitably affect the image of a career as an auditor, and thus the profession's ability to attract the right people.</p> <p>Instead of simply extending and applying the rotation rule NRF would support an extension of the "threats and safeguards" approach, where audit partners of subsidiaries and divisions and partners engaged in quality review of the work performed are subject to stringent and documented safeguard procedures.</p>	NRF	No change – IESBA is of view key partners should be rotated for PIES

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1095.	Key audit partner	We consider there is likely to be some confusion as to the meaning of “key audit partner” based on this definition and, therefore, in particular how it applies to the partner rotation rules. In order to clarify that it is audit partners responsible for audit judgments who are required to rotate, we would recommend including the word “audit” after “key” and before “decisions” in the third/fourth lines of the definition.	KPMG	No change – matter is clear it is key decisions or judgments with respect to the audit of the financial statements
1096.	Key audit partner	<p>We support the introduction of the concept of “Key Audit Partner” in recognition of the importance that some audit partners, other than the engagement partner, may have on the outcome of the audit. However, we believe that some modifications and clarifications are needed.</p> <p>The definition refers to “other audit partners on the engagement team”. However, the term “audit partner” is not defined. It would be helpful to clarify that “audit partners” do not include specialty partners such as tax partners or actuaries who participate in the audit engagement, nor partners “<i>who provide consultation regarding technical or industry specific issues, transactions or events for the engagement</i>”. Otherwise they would be subject to the provisions on employment relationships, partner rotation and compensation, which we believe is inappropriate.</p> <p style="text-align: right;">Cont’d</p>	E&Y	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1097.	Key audit partner	The definition of Key Audit Partner refers to “lead partners on significant subsidiaries or divisions, who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion”. As currently worded, the definition could suggest that lead partners on <i>all</i> subsidiaries and divisions that are “in-scope” for the audit of the consolidated financial statements are key audit partners because all in-scope locations could be considered “significant”. This would result in an excessive number of partners being subject to the rotation considerations increasing costs for the audit firm and audit client in exchange for uncertain benefits for audit quality. Further, the Explanatory Memorandum to the Exposure Draft appears to clarify that a key audit partner is one who is responsible for key decisions or judgments on significant matters in the context of the <i>consolidated</i> financial statements, but this concept is not expressed in the Code itself. We believe that the definition of Key Audit partner should be supplemented to clarify that (a) the lead partners of only the larger subsidiaries would typically be making key decisions or judgments and (b) the significance of key decisions or judgments are to be evaluated against the consolidated or group financial statements.	E&Y	Change made
1098.	Key audit partner	<p>It is our understanding that the reference to "other audit partners" in the definition is not intended to include, quite correctly, non-audit partners on the engagement (such as the tax or other specialist partner) who provide input and advice to the audit partner(s) that the audit partner(s) may consider when making audit judgments. Further, we understand that lead partners on significant subsidiaries or divisions are included in the definition if indeed they are "responsible for key decisions or judgments on significant matters" with respect to the group audit. To promote consistency in the interpretation of this definition, we recommend that the Board clarify this, perhaps by way of a “basis for conclusions” or “feedback” document when the Code is issued. The Board also may wish to consider the following clarification to the definition itself:</p> <p><i>The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team, such as lead partners on significant subsidiaries or divisions, who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.</i></p>	PwC	Change made

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1099.	Key audit partner	<p>We believe this requirement needs to be more specific in order for the requirement to be applied consistently. The potential impact of the requirement in relation to employment relationships, partner rotation and audit partner compensation restrictions for significant public interest entities, is too significant to be based on terms which are vague and lack clarity.</p> <p>Therefore, we disagree with the introduction of a new definition of a key audit partner for the following reasons:</p> <ul style="list-style-type: none"> • The criteria are too subjective and therefore they will not be applied consistently by the member bodies of IFAC. The terms “key decisions”, “significant matters” or “significant subsidiaries” are critical to the appropriate application of the Code so they need to be defined in order to ensure that the requirements associated with key audit partner can be consistently understood and applied. • We agree that the engagement partner bears the responsibility for key decisions or judgments on significant matters. However, we do not agree that an “other audit partner” including the concurring partner, on the engagement team has an equivalent ultimate responsibility in relation to the firm’s audit opinion, so we question why they should be treated as equivalents through inclusion within the definition of “key audit partner”. 	Grant Thornton	Change made – to those who make key decisions or judgments

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1100.	Key audit partner	<ul style="list-style-type: none"> We also do not agree that the individual responsible for the engagement quality control review (often referred to as the concurring partner), should be subject to the requirements currently reserved for audits of listed clients, namely partner rotation and cooling off period. As discussed above, under our partner rotation comments, concurring partner is a voluntary appointment outside of listed companies. The ED is not consistent in this respect with either auditing standards or quality control standards promulgated by Board or other regulatory bodies. We would like to confirm our understanding of the definition as proposed that there is no intent on the part of IFAC to include national office partners that perform consultation services to a client engagement as part of the key audit partner definition. National office partners spending hours of service consulting on a significant issue should not be subject to any of the proposed requirements for key audit partners, specifically partner rotation and the cooling off period. Greater clarity is needed regarding the intended meaning of “partners on significant subsidiaries or divisions”. As written, it could be interpreted as applying to partners who are responsible for local audits of subsidiary entities but who have no involvement at the group audit level. This interpretation would then interact with the partner rotation requirement so as to require the rotation of audit partners who are only responsible for subsidiaries. Not only would this not be practicable but we also believe that it would not be necessary: partners operating solely at subsidiary level do not bear the same responsibility as partners operating at the group accounts level. As such the requirements surrounding key audit partners, namely the partner rotation requirement should be imposed only at the group level. 	Grant Thornton	<p>No change – IESBA of view rotation is necessary for the EQCR</p> <p>No change</p> <p>Change made</p>
1101.	Key audit partner	Key audit partner – We believe that the “key audit partner” definition needs to be clarified and more clearly defined, specifically when including a “concurring partner” in the scope of the proposed definition. As currently proposed, we do not support the definition or the requirements surrounding employment relationships, partner rotation and compensation	Grant Thornton	See above

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1102.	Key audit partner	We note the definition of 'key audit partner' within the Code is not precisely the same as that used in the 8 th Directive. To encourage greater convergence in this area, we would suggest the Code should use the same definition as that in the 8 th Directive	CEBS	No change – IESBA of view that for a Global Code the 8 th directive definition would be too broad
1103.	Key audit partner	The ED should clarify in the definition of “key audit partner” that a tax partner in the audit firm who has participated in the tax aspects of the audit engagement does not fall into the category of “other audit partners on the engagement team” and should not be considered as a “key audit partner” for purposes of rotation.	DTT	No change
1104.	Key audit partner	The definition of Key Audit Partner should be limited to those partners who have direct and substantial contact with the client. The issue is the "familiarity threat" from having a close or longstanding relationship with the client. Other partners, whose involvement is only reviewing the tax provision or those responsible for significant matters with respect to the audit (those reviewing complex issues for example,) should not be included in this definition. We believe by including these other limited contact partners in the definition of Key Audit Partner, which would then require rotation, audit quality would suffer and the client's bill would increase substantially. These other partners are involved due to their special knowledge in an industry or on an accounting, legal or tax matter. The reason they are involved is due to the complexity of the area and by requiring rotation, a partner with less experience and less knowledge of the client will need to be involved.	CoCPA	No change – IESBA of view rotation is necessary for the EQCR

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1105.	Key audit partner	<p>DnR do not consent to the definition of key audit partner in the ED, as the definition is an extension compared with the definition in the EC Directive on Statutory Audits of Annual Accounts and Consolidated Accounts.</p> <p>In the ED a key audit partner is defined as: “The engagement partner, the individual responsible for the engagement quality control review, and other partners on the engagement team, such as lead partners on significant subsidiaries or divisions, who are responsible for key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion”.</p> <p>In the EC Directive the definition is: “key audit partner(s)’ mean(s):</p> <ul style="list-style-type: none"> a) the statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on the behalf of the audit firm; or b) in the case of a group audit, at least the statutory auditor(s) designated by an audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries; or c) the statutory auditors(s) who sign(s) the audit report”. <p>We suggest the definition of a key audit partner in the ED should be in compliance with the definition in the EC Directive. In our opinion this will be sufficient to provide for the auditor(s) independence.</p> 	DnR	No change – IESBA of view rotation is necessary for the EQCR
1106.	Management employee	The term "managerial employees" that is used in paragraph 290.109 should be defined.	Grant Thornton	No change
1107.	Network	We welcome the fact that the 8 th European directive and the IFAC Code propose identical definitions of networks but we nevertheless wish to draw the IESBA’s attention to the fact that there is a risk of diverging interpretations, and thus of difficulties of application, within Europe. Close attention should therefore be paid to the manner in which different countries are liable to apply this definition of networks.	Mazars	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1108.	Related entity	‘Related entity’ includes at (e): "an entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity". The sections on non-audit services include a "not subject to audit" exemption at 290.154. However, the following parts of section 290 still apply to "sister" entities of audit clients: Financial interests; Family/Personal Relationships; Employment with an audit client; Secondments; and Serving as a Director or Officer of an audit client. A number of these are effectively restricted to the entity subject to audit by the wording used (e.g. family/personal relationships, employment with an audit client) but not all (secondments for example). If the greater part of section 290 is exempt from having to apply requirements to non-audited entities under common control, we believe IFAC should consider removing item (e) from the definition.	ICAEW	No change – minority comment
1109.	Related entity	<p>Related entity - Similar to the U.S. Securities and Exchange Commission definition of an “affiliate of an audit client,” we believe that any related entity definition in the application of independence requirements only enhances the difficulty of applying these standards.</p> <p>Although the definition of related entities has not changed from the current Code, a result of the proposed expansion of the definition of significant public interest entities the auditor will now have a responsibility to monitor its network firms’ relationships with any entity that is a material affiliate of the consolidated entity, as is currently required for listed entities. It would also require a firm auditing a subsidiary of a significant public entity to apply the independence requirements associated with the significant public interest parent to the subsidiary being audited, even if it is not in of itself an entity of significant public interest. This creates an undue burden on the entity and the accountant and requires complex global centralized databases of clients’ group structures.</p> <p>In the event that the Board concludes that such a definition is required, certain terms should be more clearly defined and correspond to definitions found in current professional literature, such as the international accounting standards. Clarity is needed to promote consistency in the subsequent development of independence standards by the IFAC member bodies</p>	ICAEW	No change – minority comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1110.	Senior personnel	The notion of “senior personnel” as addressed in section 290.146 seems to include potentially a too wide range of people. Therefore, we believe that the notion of "senior personnel" should be illustrated and we would favour to retain as a criterion those who are responsible for key decisions, their responsibilities over the audit file, or those who are in position to exert a significant influence on the expression of the audit opinion rather than a mere precedence over the file (See in this respect our answer on question 2, page 5 hereafter).	CNCC	No change – the paragraph requires consideration of whether senior personnel should be rotated
1111.	Senior personnel	We would like the concept of “senior personnel” to be clarified and suggest that it be based on the criterion of the degree of responsibility for an engagement, or of significant influence on the formation of the audit opinion, rather than simply on the length of involvement in the engagement (cf. in this respect our response to question 2 of the IESBA).	Mazars	No change – guidance is provided in 290.146 on factors that would be considered in determining significance of threat created by using senior personnel on an engagement over a long period of time.
1112.	Significant subsidiary	The needs to be defined. The Code uses the term ‘significant subsidiary’ in different sub- section. it is suggested that maternity level may be defined to remove ambiguity.	ICAIIndia	No change – the term “significant subsidiary” is not used in Section 290 or 291 it was provided as an example in the explanatory memorandum
1113.	Staff	We suggest that the term “staff” be defined in the Code, as this would avoid having different interpretations of the scope of this term. For example, we believe that administrative staff or IT support staff should not be included.	FACPE	No change – the term staff is used in the definition of engagement team and in the paragraphs dealing with temporary staff assignments. In the definition of engagement team the reference is to “staff performing the engagement” – this would not capture administrative and IT support staff.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1114.	Staff	We also note that the term “staff” should be defined in the Code. Without a definition, it is unclear whether administrative staff or IT support staff are included or not. We believe they should not be included.	E&Y	See above
1115.	Effective date	<p>The IESBA has proposed that its revisions generally be effective one year after the approval of the final Code, with transitional provisions for partner rotation, entities of significant public interest, and the provision of non-assurance services. For non-assurance services, the IESBA has proposed that a firm will have six months after the effective date to complete any ongoing services that were contracted for before the effective date.</p> <p>This requirement could pose an undue hardship on audit clients that have retained their auditors to provide a permissible (under the current Code) non-assurance service of a long-term nature (e.g., a contract for a long-term IT project). Assuming the client is willing to allow its auditor to break the long-term non-assurance service contract, the client would need to find another service provider to complete the project. A replacement service provider in this circumstance would likely come at a significant cost, depending on variables such as the stage of completion the project is in and the ability of the new provider, the audit firm, and the client to agree on the point at which the new provider would be responsible for the quality of the project results and associated risks. The alternative is that the client would need to find a new auditor; an alternative that carries its own potentially significant costs for the client and which may not serve the public interest.</p> <p>We recommend transitional provisions be included in the final Code that would permit the completion of engagements for permissible non-assurance services that were entered into before the revised Code’s effective date without prescribing a completion date, where the project is long term in nature and where early termination would have a significant adverse impact on the client.</p>	PwC	See discussion in October 2007 Agenda Paper 5

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1116.	Effective date	<p>Although IESBA proposes a strict timetable, NIVRA agrees with the ambition to revise the independence rules as quickly as possible.</p> <p>NIVRA believes that a transition period of half a year for the rounding off of current non-assurance services is too short to properly terminate the current assignments. NIVRA proposes a transition period of one year.</p>	NIVRA	See discussion in October 2007 Agenda Paper 5
1117.	Effective date	We urge the Board to consider postponing the proposed implementation date for the Code. There needs to be sufficient time to allow auditors to adjust their systems relating to practice organization, which we believe may require more than the six months foreseen by the Board. There also needs to be sufficient time to allow for translation of the Code and development and implementation of educational measures as to the changes in requirements.	IDW	See discussion in October 2007 Agenda Paper 5
1118.	Effective date	We would prefer that the new requirements become effective “in respect of accounting periods commencing one year after approval of the final requirements”, a formulation which is more appropriate to the performance of audit engagements.	Mazars	See discussion in October 2007 Agenda Paper 5
1119.	Effective date	The implementation and transition periods referred to in the explanatory memorandum are the very shortest periods that should be envisaged. While we understand a desire to be seen not to be dilatory once the decision to implement has been taken, an attempt to rush will result in compliance at a patchy rate around the world as member bodies and regulators struggle to implement all the standards expected to become effective in 2009. This would not enhance harmonisation.	ICAEW	See discussion in October 2007 Agenda Paper 5
1120.	Effective date	The timetable is clearly ambitious as it needs to include time for translation, implementation and education. If the revision to the Code is not approved and publicised in the time anticipated, it will be important that the effective date be moved sufficiently to accommodate such translation, implementation and education	FEE	See discussion in October 2007 Agenda Paper 5

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1121.	Effective date	We note that it is intended that “firms will have six months after the effective date to complete any ongoing services that were contracted for before the effective date”. We do not believe that six months is sufficient time to allow contractual undertakings to be adhered to. The period should be at least one year.	FEE	See discussion in October 2007 Agenda Paper 5
1122.	Effective date	Additionally, given the magnitude of the changes provided for by the Exposure Draft, and the determinations on ESPIs to be taken by the member bodies, we recommend extending the transitions provisions for rotation of all key audit partners at least to three years.	FACPE	See discussion in October 2007 Agenda Paper 5
1123.	Effective date	The timetable is clearly ambitious as it needs to include time for translation, implementation and education. If the revision to sections 290 and 291 are not approved and issued within the timeframe anticipated, the IESBA will need to ensure that any subsequent effective date is moved sufficiently to accommodate such translation, implementation and education. Also, we do not believe that six months is sufficient time to allow contractual obligations to be met; it should be at least twelve months.	ACCA	See discussion in October 2007 Agenda Paper 5
1124.	Effective date	We agree that the improvements to the Independence standard should become effective as soon as practicable. Due to the time needed in Canada for important due process requirements in every province and the translation of new standards which must appear in both official languages, we would suggest that an effective date of July 1, 2009 would be more realistic in our circumstances.	CICA	See discussion in October 2007 Agenda Paper 5

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1125.	Effective date	<p>We believe the description provided in the Explanatory Memorandum as to when the proposed standards would become effective (i.e., on a particular date) is confusing. We recommend that the effective date(s) be stated in relation to the assurance report, for example, “applicable to assurance reports dated on or after [insert date].”</p> <p>In addition, we believe that the six months transition period after the effective date, relevant to the provision of non-assurance services is not sufficient for member bodies to implement their own due process procedures (e.g., development and exposure of proposed standard) and for firms to educate their personnel and implement the new standard into the firm’s policies and procedures. Accordingly, we would recommend that the IESBA provide a one year transition period after the effective date.</p>	AICPA	See discussion in October 2007 Agenda Paper 5
1126.	Effective date	<p>The current proposed transition provisions are set for three areas, namely partner rotation, ESPIs and provision of non-assurance services.</p> <p>We are of the view that on partner rotation and ESPIs, the proposed two-year transitional period after the approval of the proposed standard is insufficient. We consider that a four-year transitional period after the approval of the proposed standard should be the minimum time for transition. This is because, it is envisaged that recruiting new partners or arranging another firm for rotation would need to be carefully considered and this is time consuming.</p> <p>In relation to the provision of non-assurance services, the proposed six-month transitional period is insufficient for handing over such services. Responsible professional accountants are likely to require longer to manage a smooth and clear hand-over arrangement without unnecessarily inconveniencing their clients. With this in mind, it was considered that a three-year transitional period would be more appropriate.</p>	HKICPA	See discussion in October 2007 Agenda Paper 5

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1127.	Effective date	<p>We definitely support that it is significant and critical in maintaining the independence and professional ethics in the profession. However, no matter the proposed requirements are finally issued in the current proposed context or in a revised context, the new requirements would definitely have significant impact on the profession around the world, in particular to the small and medium firms. In order to have sufficient transitional and educational arrangements, sufficient time is absolutely required to allow the profession to accommodate the new requirements.</p> <p>The current proposed transition provisions are set for three areas, namely partner rotation, entities of significant public interests and provision of non-assurance services.</p> <p>In view of the necessary arrangements on the former two areas, for example recruiting new partners or arranging another firm for rotation, two-year transitional period after the approval of the proposed standard is insufficient. We suggest that a four-year transitional period after the approval of the proposed standard should be the minimum time for transition.</p> <p>Before the proposed new requirements, the provision of non-assurance services should have been provided and is being provided. Thus, they may not be ceased immediately or within a short period of time. A six-month transitional period is definitely not enough in handing over the services. As a responsible professional accountant we believe that a smooth and clear hand-over arrangement should be used. It would also be necessary for the firm to complete the services already started before the hand over in order not to create cost burden to the clients. In this respect, we consider that a three-year transitional period would be more appropriate.</p> <p>In order to comply with the proposed new requirements, some practices would no doubt be required to cease or dispose of the whole or part of their practices. Then, they would require time and effort to hand over clients and cases, lay off employees, negotiate and agree with the appropriate counterparts, and complete the necessary cessation arrangements. The above suggested time and transitions periods, if taking consideration of these issues, would be required and in certain circumstances may need to be further extended for more than three years.</p>	SCAA	See discussion in October 2007 Agenda Paper 5

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1128.	Effective date	<p>The timetable is clearly ambitious as it needs to include time for translation, implementation and education. If the revision to the Code is not approved and publicised in the time anticipated, it will be important that the effective date be moved sufficiently to accommodate such translation, implementation and education.</p> <p>In addition, we believe that it would be better to state that the Code is applicable to any audit period starting one year after its final approval.</p>	CNCC	See discussion in October 2007 Agenda Paper 5
1129.	Effective date	<p>The proposed timetable of application seems to us to be ambitious when it includes time for translation, implementation and education regarding the new requirements. It is foreseen that the firms will have six months available after the effective date to complete any ongoing services that were contracted for before the effective date.</p> <p>We believe that such period is too short and should be at least one year.</p>	CSOEC	See discussion in October 2007 Agenda Paper 5
1130.	Effective date	<p>Some of the proposed changes of the Code have effects on non-audit services performed by the auditor. With the effective date of the Code auditors shall not accept new service agreements with audit clients and finalise current service agreements within six months. Therefore the relating requirements shall be effective six months after the effective date of Section 290 and 291. In our opinion this period is too short by far. Instead we suggest to apply a period of one year just as it is proposed for all other cases.</p>	WpK	See discussion in October 2007 Agenda Paper 5

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1131.	Effective date	<p>The SMP Committee notes the IESBA's sense of urgency in wishing to conclude this project, but wonder whether this is necessary. From an SMP perspective there is no crisis of confidence in the profession. A number of surveys spanning several jurisdictions indicate a high level of confidence and trust in the profession while others stress the fact that SMPs are often the business advisors of choice for many SMEs and that SMEs prefer, and sometimes rely on, an SMP to act as the so called 'one stop shop' for various regulatory and business services. Hence, we see little justification for proceeding according to the ambitious proposed timetable.</p> <p>The timetable is ambitious, especially when one considers the time needed for translation, implementation and education. If the revision to the Code is not approved and publicized in the time anticipated, it is vital that the effective date be deferred sufficiently to accommodate such translation, implementation and education. In addition, we note that it is intended that "firms will have six months after the effective date to complete any ongoing services that were contracted for before the effective date". We believe that six months is insufficient time to allow existing contractual commitments to be fulfilled. We suggest the period is at least twelve months. In the event that the proposals in the ED are largely preserved then there is a case for granting SMPs and SMEs even more time to adapt to the new regime.</p>	SMP/DNC	See discussion in October 2007 Agenda Paper 5
1132.	Effective date	<p>If a small firm exemption is not to be retained, we would recommend that the Board evaluate the inclusion of a transitional period for small firms and for those firms in developing countries in their application of rotation. As a general consideration, an extension of the rotation period by two years could be applicable for smaller firms in general and by four years for those firms in developing nations.</p>	Grant Thornton	See discussion in October 2007 Agenda Paper 5

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1133.	Response date	<p>The Accounting and Audit Committee of the MA Society of CPAs want to comment on the exposure draft issued by the International Ethics Standards Board for Accountants. The impact of adopting this exposure draft will have a drastic impact on how the MA Certified Public Accountant are able to service their small and medium sized clients. It will in essence change the entire way we work with our clients.</p> <p>The Accounting and Auditing Committee consists of a diverse group of members. Most of our members service small and medium size client.</p> <p>However the comments period spans the US tax season. This is the busiest time of the year for CPAs. The tax season started 1/1/07 and ended only on Tuesday 4/17/07. It is the toughest period of time to ask the Massachusetts CPAs to respond to this vital and critical matter. The effected CPAs, who desire to express their views on this extremely urgent matter, are still in the process of formulating their position for communication to the IFAC.</p> <p>The A&A committee is thus because of the above requesting that the comment period be extended in order that the Massachusetts CPAs can formulate it's thoughtful position.</p> <p>An additional 90 days would be must helpful.</p>	MACPA	Comment on response date
1134.	Response date	We agree with the IESBA's comments on the significance and long-term impact of the proposed independence standards. With that in mind, we believe that the comment period, which lasts for only four months - coincidentally, the four busiest months within the accounting and auditing profession - should be extended for at least 90 days. At a minimum, we encourage you to receive and include in Your deliberations any comments that are received after the April 30, 2007 deadline.	MaCPA2	Comment on response date
1135.	Response date	We also recommend extension of the comment period for the exposure draft, given the initial release of the draft during the busiest months for the accounting profession.	OCPA	Comment on response date

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1136.	Response date	We agree with the IESBA's comments on the significance and long-term impact of the proposed independence standards. With that in mind, we believe that the comment period, which lasts for only four months – coincidentally, the four busiest months within the accounting and auditing profession – should be extended for at least 90 days. At a minimum, we encourage you to receive and include in your deliberations any comments that are received after the April 30, 2007 deadline.	Wolf	Comment on response date

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1137.	Other	<p>We note from the Memorandum that the ED does not represent a wholesale rewrite of the independence requirements and that there will be subsequent revisions. We understand the resources required for wholesale revisions and understand that issues need to be prioritised. Subject to our overall comments on the frequency of changes in paragraphs [x-y] above, we draw attention to a number of matters that might be considered in the next iteration:</p> <ul style="list-style-type: none"> • The Code refers to threats which are ‘clearly insignificant’ (defined as ‘trivial and inconsequential’). This implies that threats lie at either end of a spectrum of significance, either being significant, or trivial and inconsequential. In practice we think there will be threats the whole way across the spectrum with, for example, some mid way that need to be considered but could perhaps be dealt with by general safeguards alone. This merits some further consideration. • The inclusion of all network firms in all of the audit/review requirements amplifies significantly the impact of every additional requirement imposed. The APB ESs focus on network firms in the same country as the audit firm, and other network firms involved in the audit. In addition the Institute’s Audit regulations contain requirements for audit firms to have arrangements so that those qualified to carry out audits cannot be influenced by others not so qualified. IFAC should consider such an approach, which in our view offers a practical alternative, while achieving the same end result. • There has been no change in the requirements relating to financial interests held as a trustee. Accordingly the inconsistency in treatment of corporate trustees remains: if a trustee (non-beneficial) were an individual partner in the audit firm, who was not a member of the assurance team, the trusteeship would potentially be permitted as he is not within the scope of the introduction to the relevant paragraph, but if the firm were to be appointed as a corporate trustee, with the actual work being carried out by the exactly the same person, the trusteeship would be prohibited as the firm is within the scope of the paragraph. The legal identity of the trustee is irrelevant to determining threats to independence: it is the substance of control/influence that matters and that will be exercised by an individual. 	ICAEW	<p>Matter to be considered by Drafting Conventions TF</p> <p>Matter may be considered as a future project depending upon response to Strategic Plan ED</p> <p>Matter may be considered as a future project depending upon response to Strategic Plan ED</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1138.	Other	Further, in the definition of “key audit partner” and throughout the Code the term “financial statements on which the firm will express an opinion” is used. We understand that in this definition and also in particular when used in connection with entities of significant public interest (290.166, 290.167, 290.173, 290.178, 290.197 and 290.207) it is intended to mean the consolidated financial statements of the entity. However, we do not think that this is necessarily clear. We would, therefore, recommend use of a term which clarifies beyond doubt that the consolidated financial statements are intended.	KPMG	Change made
1139.	Communications with those charged with governance	We believe that there should be a requirement that those charged with governance of all audit entities should be appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor’s objectivity and independence. The encouragement for regular communication between the firm and those charged with governance in paragraph 290.26 represents a different approach to the previous requirement of the current 290.30 for firms to establish policies and procedures and, in the case of listed entities, to communicate orally and in writing at least annually. Whilst we recognise that there is a communication requirement for auditors of <u>listed companies</u> in Proposed ISA 260 (Revised and Redrafted), we believe that this should be a requirement for <u>all</u> audit clients.	APB	No change – 290.26 was changed to bring it in line with ISA 260 which was not in existence at the time Section 290 was initially released. Requirement to communicate is a matter for ISAs and not the Code.
1140.	EU Statutory Audit Directive	Undue influence. Article 24 of the 2006 Directive requires that owners, shareholders as well as members of administrative, management, or supervisory bodies of the audit firm do not interfere in the statutory audit in such a way that they may jeopardize the independence and objectivity of the statutory auditor. We have not found anything similar in the revised 290 section. The European Commission attaches a lot of importance to this topic and therefore requests at least the alignment of your text with that of the 2006 Directive	EC	No change – matter is addressed in paragraphs 110.4 and 200.12 of the Code

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1141.	EU Statutory Audit Directive	The EU Statutory Audit Directive has a number of specific requirements relating to auditor independence. To the extent that these are not already reflected in the December ED it would be helpful to give consideration to adding them. An example is the specific requirement in Article 24 that Member States shall ensure that the owners or shareholders of an audit firm, as well as the members of the administrative, management and supervisory bodies of such a firm, or of an affiliated firm, do not intervene in the execution of a statutory audit in any way that jeopardises the independence and objectivity of the statutory auditor who carries out the statutory audit on behalf of the audit firm. This issue is of particular importance in the context of discussions in some countries about liberalising the ownership of audit firms to widen the choice of audit firm available to the largest companies.	APB	No change – matter is addressed in paragraphs 110.4 and 200.12 of the Code
1142.	Firm wide safeguards	<p>The IESBA acknowledges that certain parts of the existing Section 290 have not yet been updated. We urge the IESBA to complete its work on areas such as economic dependence, contingent fees and internal audit services expeditiously so that a complete new Section 290 can be issued as soon as possible. We have not commented on these areas as part of this response but look forward to being able to do so in the near future.</p> <p>There is, however, another area in which we believe the December ED is incomplete. This concerns the status and positioning of the so called firm-wide safeguards set out in paragraph 200.12 of the IFAC Code. While we do not believe these are ‘safeguards’ we do believe that the factors listed are very important aspects of the necessary control environment within audit firms. We recommend that the policies and procedures which are listed as possible safeguards in paragraph 200.12 are converted to specific requirements within Section 290. This would emphasise the importance of the leadership of the firm in establishing a culture of integrity through setting an appropriate ‘tone at the top’ of an audit firm. It would also recognise that consistency in the application of ethical requirements is important and professional accountants in public practice cannot afford to have differing standards in respect of such fundamental aspects of their business.</p>	APB	<p>ED on these matters issued in July 2007</p> <p>No change – ISQC1.14-27 contains requirements regarding policies and procedures related to ethical and independence requirements.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1143.	Standalone section	<p>APESB believes that independence is an <i>outcome</i> of applying fundamental principles rather than a fundamental principle in itself. Thus it may be argued that it is not necessarily a part of the code of ethics. It is a state of being that only the auditor can fully appreciate and cannot be properly observed by an outsider. Thus the rules and guidance refer to relations and activities that give an indication of independence but cannot guarantee it. Further, it relates to auditors who are only one specialist group of professional accountants. For example the investing public does not expect an employed accountant to be fully independent, or a tax practitioner to be fully independent because their opinions are not relied upon by them (investing public) and are limited to the authorities that they deal with.</p> <p>APESB is of the view that there should be an overarching judgment rule based on fundamental principles. APESB note that the revision is silent on this but propose that this should be the basis of a principles-based approach.</p>	APESB	Matter may be considered as a future project depending upon response to Strategic Plan ED
1144.	Threats	<p>We would observe that the examples are limited to relationships or interests between the audit or assurance client and the firm and its personnel. Threats to independence can also arise when, for example, the firm engages with an entity that is unrelated to the audit or assurance client when that entity is contemplating entering into a significant transaction with the audit or assurance client. A typical example is when an audit client is disposing of a significant business unit. A member of the network firm may be asked to act for an entity that is contemplating purchasing the business unit. If such an engagement is entered into, the network firm will be conflicted because of its requirement to audit the vendor entity on one hand and of its obligation to maximize the economic benefits to the purchasing entity on the other hand. In our opinion, this is a situation that threatens independence in appearance to the extent that no safeguards could mitigate the threat.</p> <p>In our view the Exposure Draft should be enhanced to alert the professional accountant that threats to independence may arise from circumstances and events that do not directly flow from relationships with, or interests in, the audit or assurance client.</p>	CAGNZ	Matter may be considered as a future project depending upon response to Strategic Plan ED under a conflicts of interest project

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1145.	Whistleblowing	<p>APESB would like to raise the issue of whistle blowing in respect of unethical conduct and/or unethical business practices of clients. At what point should the auditor say – enough, and blow the whistle rather than just resign ? Where can the auditor demonstrate that they are operating in the public interest? These questions immediately raises the issue of client confidentiality and how to deal with conflict of interest. APESB notes that proposed Section 290 & 291 are silent on this issue (a principles-based issue)</p> <p>APESB is of the view that there needs to be a better system of information feedback loops through the auditor – client – regulator to keep the system operating in the public interest, in circumstances where it has come to the auditor's attention that the client is involved in unethical conduct and/or unethical business practices.</p>	APESB	Matter may be considered as a future project depending upon response to Strategic Plan ED as part of a Fraud and Illegal Acts project
1146.	Ethics partner	We believe that there would be merit in the IESBA introducing a requirement for audit firms which audit, listed or significant public interest entities, to have an ethics partner. From comments we have received, this has enhanced the ethical decision making process within UK audit firms in recent years and has resulted in them dealing with ethical issues on a more informed and consistent basis.	ICAS	No change – IESBA has considered this matter and is of the view that such a requirement would not be appropriate for a global code
1147.	Independence objectivity	Finally, we note that the IESBA appears to be emphasizing independence beyond the 5 fundamental principles. Independence is a component of objectivity. Independence cannot guarantee a high quality audit without integrity, objectivity, professional competence and due care, confidentiality and professional behavior. We recommend that the revised Section 290 note that independence contributes to objectivity and the threat and safeguards approach should be interpreted in this light. That is, it should be clearly stated that, despite the high proportion of the Code being devoted to independence, the aim of being independent is to enhance objectivity. Independence is not an aim in isolation	HKICPA	No change – linkage between independence and objectivity is provided in 280.2
1148.	Other	NIVRA values the explanatory memorandum that was useful for the studying of the exposure draft. However, to implement this text proposal, as soon as it is finalised, an extremely detailed overview of the intended differences compared to the current independent decisions is required. NIVRA requests the IESBA for such an overview in order to support the implementation by the member bodies.	NIVRA	The paragraph to paragraph mapping that was prepared informally for IESBA members will be updated and publicly available.

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1149.	Editorial	<ul style="list-style-type: none"> - After 290.116 delete "Close Business Relationships" heading. Heading is incorrect here, given that 290.117 up to and including 290.120 relates to loans and guarantees. - Re 290.128 respectively 290.129: for the sake of legibility, place the letters a) and b) in the text, as is also the case in 291.123 respectively 291.124 (note: ninety-one!). - Re 291.1. reference is made here to 290.25. This must be 291.25 (ninety-one). - From 291.100 onwards: definitions not in bold. This is not consistent compared to section 290. - - Re 291.102: state where interpretation 2005-1 is found. - - Re 291.127: the text following the summary (a) up to and including (d) does not read well and the summary of guarantees is also missing. This could mean that the summary of section 290.132 should be followed. - Re 291.128: third line: the threats <i>are</i> - - Bring lay-out definition of assurance team, audit team and review team into line with one another. 	NIVRA	<p>Heading deleted in subsequent version</p> <p>Change made</p> <p>Change made</p> <p>No change - Definition in bold first time they appear in Code</p> <p>No change - Included in Code but not ED</p> <p>Change made</p> <p>Change made</p> <p>Change made</p>
1150.	Editorial	<p>In most cases we note a list of 2-4 safeguards is presented. In most cases these are linked with 'or' but in a few rare cases, such as Section 290.138, they are linked with 'and', and on others, such as Sections 290.113, 290.146 and 290.181, the first two bullets are linked with nothing. We wonder whether it is appropriate to use 'or' throughout S290-291. In certain cases where the safeguard is not an absolute, it might be more appropriate to say: "Such safeguards might include a combination of one or more of the following:" We also note the use of (a), (b) etc. in place of bullets in some cases, such as Section 290.223.</p>	SMP/DNC	<p>Sections 290 and 291 reviewed to ensure appropriate use of and/or.</p>

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1151.	Structure of 290/291	Both section 290 and 291 are divided in two parts: one general section and one section that relates to specific topics, preceded by a table of contents. This arrangement is unclear and also not logical. The table of contents encourages you to read from that point, which can lead to the general section being missed. NIVRA proposes, in relation to both sections, that the general section and the specific section be included in just one chapter, with the table of contents being brought to the front and obviously modified accordingly.	NIVRA	Table of contents to be moved to front of Sections 290 and 291
1152.	Structure of Code	Lastly, as stated earlier, we are concerned about the increased complexity of the Code of Ethics, both with regard to language and concepts, as well as the increased length of some of the provisions, which does not facilitate a relatively quick and easy search for guidance to solve ethical dilemmas. A suggestion in this regard would be to have an abbreviated Code of Ethics in which the conceptual framework approach, fundamental principles, together with threats and safeguards are dealt with in a fair amount of detail, complete with a brief section on the application of the above to specific examples. The current version of the Code of Ethics could then be expanded further, to act as an authoritative reference guide of the application of the fundamental principles to specific examples.	SAICA	Matter may be considered as a future project depending upon response to Strategic Plan ED

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1153.	Structure of Code	<p>With reference to the function of the current Code, which may be identified in brief with that of a valid "handbook of rules on behaviour" for professionals, we deem appropriate to issue a "concise code" which should be easily comprehensible for the end-users of the activities (of whatever kind) performed by professionals. Users could understand the ethical obligations to which the professional (who is providing a service) is subject and would know what to expect, what to demand and what are the rules of the correct professional behaviour, based on the fiduciary relationship and on the intellectual nature of the service supplied.</p> <p>Ethics inhere each and every activity that may be performed and as such can neither be added to professional competence, nor easily be taught. You may teach single rules, and demand to respect them, but true ethics is within us.</p> <p>Taking into consideration a strategic prospective, we deem important to consider if, beyond presenting commonly accepted rules, the Code achieves the objective of presenting, to the general public, professional accountants and the ethical principles they are required to comply with. We should consider the initiatives undertaken by IFAC to present to users of professional services and to third parties that rely on these, the nature of the professional activity, the added value of audit, the quality of the service based on a set of control procedures and on the selection for the access to the profession, and finally the "natural" and "legal" limitation of the professional service. It is important to consider the Code as a potential instrument for communication (or marketing) of the profession towards the public. The current Code, if appropriately modified, may perform its function as a handbook of rules for professionals, justifying the complexity of the analysis of the various situations examined and the fact that section 290-291 are devoted solely to the audit function. It is a "code of ethics for professional accountants" which goes beyond ethical issues and the traditional concept of "code", as it proposes an additional or supplementary regulation to that of the countries. The strong value of these rules is that they are shared at an international level. It may well be the right answer to the main mission of IFAC as a standard setter. As mentioned above, even professionals, to whom the Code is directed, need a simplification and clarification (and this might in some part regard the structure itself) of the Code, so as to allow the consideration of issues common to all professionals and entities FIRST, and only thereafter the additional provisions for big audit engagements and audit firms. We are aware of the fact that the change we have just proposed might require not only a scientific work but also a cultural revolution.</p>	CNDC CNRPC	Matter may be considered as a future project depending upon response to Strategic Plan ED

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1154.	Structure of Code	The provisions, and the Code which collects them, are meant to safeguard firstly the users of professional services and third parties, so the Code should be able to address them. If ethics is a rather internal dimension of the professional in a given historical and cultural context, the coding should make a photo of it and show it to external parties. Ethics do not originate from the existence of a code, brief or long as it may be; on the contrary, the code may be a useful instrument to make order, present to third parties the professional that is going to receive the engagement. Beside the request to make a technical work on the current code, we deem useful to propose the adoption of a document (which can also be called code) that pursues the objective of communication with third parties and adopts a concise and simple style in its language. We would recommend that references to single activities are as few as possible, so that IFAC might really represent the whole accounting profession, as it is intended to do.	CNDC CNRPC	See above
1155.	Structure of Code	<p>The presentation to third parties of the ethics of the profession may follow a scheme which can be different from the single relationships that the professional has during his or her activity. The code may be structured as follows:</p> <ul style="list-style-type: none"> - issue of general principles, which are also provided by the new audit directive; - relationship between the professional and the client, including technical competence, independence, quality of the performance; - relationship between the professional and the firm on whose behalf he is working; - relationship between the professional and other professionals, following the principle of correct competition and free circulation; - relationship between the professional and other professions, respecting the professional competence of each one and the interdisciplinary cooperation; - relationship with supervisory and public authorities; - relationship with the organizations that represent the profession at a national and international level. 	CNDC CNRPC	See above
1156.	Structure of Code	We welcome the split of Section 290 into audit and other assurance engagements, although we are concerned about the growing length of the Code as a direct consequence. In this respect, we believe there is a clear need for the IESBA to carry out a full scale review of the Code to see where it can reduce its length without impacting on the overall substance of the content.	ICAS	Matter may be considered as a future project depending upon response to Strategic Plan ED

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1157.	Regulators	<p>Many of the proposals appear to be driven by the need to be seen to be responsive to concerns expressed by regulators. Regulators, eager to avert high profile audit failures of large listed companies, seem to view independence in appearance as a surrogate for audit quality. Consequently, the threats identified concentrate on independence in appearance with prohibitions and/or safeguards designed accordingly. Unfortunately, these prohibitions and/or safeguards impact most directly and adversely the SME audit and SMP, for whom the same threats either do not apply or do apply but to a lesser extent. The end result is an ED that is more suited to the larger firms and larger clients than SMP/SME. This is despite the fact that there is differentiation of rules in a number of areas between ESPI and other entities.</p> <p>Hence, we feel that there is a strong case for more differentiation throughout S290 both between ESPI and other clients as well as large and small practices if it is to be fair, proportional, practical, and, above all, serves the public interest by improving audit quality and supporting the SME sector. This is explained more fully below.</p> <p>Finally, we consider it important that changes to the Code are not simply based on emulating what a minority of large regulators have done. This reactive stance is evidenced by the benchmarking exercise. This inevitably indicates a case for additional restrictions but does not of itself provide evidence of a need for these restrictions in an international code, to maintain public confidence. We feel that the IESBA needs to take a leadership role and, equipped with the appropriate evidence from consultation and research, seek to persuade regulators, what it considers is in the public interest. In this way it should lead, not lag, so that national codes are benchmarked to the IFAC one.</p>	SMP/DNC	General comment

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1158.	Implementa- tion guidance	<p>We are concerned that many SMPs will have difficulty understanding and hence effectively and consistently implementing the provisions of S290-291. We would, therefore, encourage the IESBA, with our assistance, to develop non-authoritative explanatory guidance to assist with its implementation.</p> <p>Guidance would ideally be directed primarily at SMPs and SMP networks - large firms and networks have sufficient in-house resources to develop guidance of their own which they will no doubt do. Such guidance would be particularly useful and our committees would gladly lend their support to its development. Guidance should be written in non-jargon plain English so as to ensure it can be easily understood and consistently applied. The use of illustrations, such as case study scenarios, would be especially welcome.</p> <p>Guidance could take many forms. First, it could help with the practical application of the new network firm definition in respect of S290-291 by SMP networks. Second, it could assist with the implementation in the area of the preparation of accounting records and financial statements and management responsibilities. Finally, it could conceivably outline appropriate strategies for SMPs to adopt to ensure compliance with S290, including timely partner recruitment, collaboration with other practices and joining networks. This would help them adjust to the new requirements</p>	SMP/DNC	Strategic Plan proposes a project on implementation support
1159.	MDP	The Code does not appear to recognize and accommodate the incidence of multi-disciplinary practices. For example, in many countries SMPs are often partnerships of lawyers and accountants. These types of practices stand to particularly severely affected by the revisions relating to non-assurance services. We suggest, therefore, that some consideration be given to these types of practices so that the Code does not undermine their existence and viability.	SMP/DNC	Matter may be considered as a future project depending upon response to Strategic Plan ED
1160.	Ownershi p	We note that the Code does not address the issue of ownership of audit firms and the potential for owners to exercise influence over the audit. In the European Union there are certain provisions relating to this issue in both the EC Recommendation on Auditor Independence and in the Statutory Audit Directive. For example, owners of audit firms are not permitted to interfere in the audit and auditors are not permitted to audit those who own the audit firm. In addition, the ownership structure should be considered (e.g., prohibition of minority shares held by commercial – as opposed to professional – enterprises).	IDW	Matter may be considered as a future project depending upon response to Strategic Plan ED

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1161.	Other	We note that the Code has hitherto dealt primarily with threats and safeguards pertaining to specific isolated activities on a case by case basis. We are concerned that the proposed revised Section 290 shows a marked tendency towards dealing with threats and safeguards pertaining to entire areas of service, rather than certain individual activities falling within these areas. In our opinion, this is not appropriate in many cases, since the respective levels of the individual threats pertaining of individual activities are not necessarily the same for each activity falling within a service area. We provide examples within our detailed comments relating to the provision of certain services in section 2 of this letter.	IDW	General comment
1162.	Other	<p>IFAC provisions are mainly directed to "firms" or "audit teams". In our view, and consistently with what has been said above, IFAC provisions should be directed in first instance to the single professional (auditor/accountant or professional) and not to firms. Definitions state that "audit firm" also means a legal person, but from a psychological and theoretical point of view this is not quite the same and may also imply interpretation difficulties as to the legal meaning of the term "firm". This consideration must be made also with reference to the applicability of the Code to SMPs and to the adoption of the "think small first" approach. All in all, the single person comes first, with his or her ethics and decision ability and to him should also the "independence in mind" be referred; only then come structure, firms, teams and networks, and these should be subject to rules that derive from the first ones. The one who decides first is the single person or the single professional.</p> <p>Consistently with what has just been said, we would like to remark what has been proposed by art.24 of the Directive (auditors should be independent from the client and also from the firm on whose behalf they perform the audit engagement). This principle shows the importance of the professional opinion of the single person and the independence of mind that he/she must safeguard, in order to ensure the ethics of his/her activity as a professional, and not only as an auditor.</p>	CNDC CNRPC	No change – proposals are directed at the firm and also at all members of the team
1163.	Other	Finally, we would welcome a dedicated section dealing with the relevant ethical issues applicable to trainees, to be included in the Code.	CNDC CNRPC	No change – Section 290 and 291 applies to trainees that are part of the engagement team as they would be staff

X ref	Par Ref	Comment	Respondent	Proposed Resolution
1164.	Other	In some jurisdictions, the audit client definition includes a specific set of criteria for entities that are part of an “Investment Company Complex.” We understand that the IESBA intends at some future date to consider whether the definition for “related entities” should include separate criteria for investment companies. We encourage the IESBA to pursue this issue, given the unique relationships that exist amongst entities affiliated with investment companies.	IOSCO	Matter may be considered as a future project depending upon response to Strategic Plan ED
1165.	Other	<p>First of all, I want to introduce myself: I am born 1947, Austrian and I was working as an auditor for Arthur Andersen in Austria, Switzerland and Germany in the early seventies when AA& Co was one of the finest firms. I am now practising in Austria as an independent Auditor since 1980.</p> <p>My opinion is that all audit firms do a lot in good education and practise and the (inter)national bodies as well. The reason for the catastrophes lies in the understanding and living of independence of the auditors themselves. To really create independence I suggest basic changes:</p> <ol style="list-style-type: none"> 1. Install a national independent body (near to the SEC for instance) with the only purpose to choose, order and pay the auditor on a 5-year's basis. 2. The selection of the auditor and the fee are based on strictly objective criteria. 3. The fee is being charged back by the authority without involvement of the auditor. 4. To open the market of classified auditors the underwriting auditor (or audit firm) should come into the position to "buy" the basic audit work from whatever audit team that is on the market and composes his special audit team from what companies ever if he wants. This idea is based on the evidence that independence finally and only cristallizes in the signature of the final audit opinion while the basic audit work of assistants, seniors and managers usually are equal and interchangeable. <p>The main obstacle is:</p> <p>The companies nor the audit firms do not like their long-term connections being interrupted. These long-term connections often are one of the main reasons of lacks of independence. There will be great resistance of the audit and the audited industry against such measures.</p> <p>The main advantages will be for the public through increased independence and reliance of an audit. The measures will cause no additional costs for the industry.</p> <p>Thank you for reading this. If more ideas, historical and theoretical backgrounds of this suggestion are needed, please give me a message.</p>	MWK	Minority comment

Legend

AC	Audit Conduct (US)
ACAG	Australasian Council of Auditors General
ACCA	Association of Chartered Certified Accountants (UK)
AICPA	American Institute of Certified Public Accountants
APB	Auditing Practices Board (UK)
APESB	Accounting Professional and Ethical Standards Board – Australia
Australia	Australian Member Bodies – CPA Australia, The Institute of Chartered Accountants in Australia and National Institute of Accountants
Basel	Basel Committee on Banking Supervision
BDO	BDO
Bliden	Mervyn Bliden (US practitioner)
CACPA	California Society of Certified Public Accountants (US)
CAGNZ	Controller and Auditor General of New Zealand
CARB	Chartered Accountants Regulatory Board – Ireland
CCAB	Consultative Committee of Accountancy Bodies (UK)
CEBS	Committee of European Banking Supervisors
CGA – Alberta	Certified General Accountants - Alberta
CGA - Canada	Certified General Accountants – Canada
CICA	Canadian Institute of Chartered Accountants
CIMA	Certified Institute of Management Accountants (UK)
CMA	Society of Management Accountants of Canada
CNCC	Compagnie Nationale des Commissaires aux Comptes
CNDIC CNRPC	Consiglio Nazionale dei Dottori Commercialisti Consiglio Nazionale dei Ragionieri e Periti Commerciali (Italian Member Bodies)
CoCPA	Colorado Society of Certified Public Accountants (US)
Constantine	Constantine Assoices
CSOEC	Conseil Supérieur de l'Ordre des Experts-comptables
DnR	The Norwegian Institute of Public Accountants
DTT	Deloitte Touche Tohmatsu
EC	European Commission
E&Y	Ernst & Young
EFAA	European Federation of Accountants and Auditors for SMEs
FACPE	Federacion Argentina de Consejos Profesionales de Ciencias Economicas
FAP	Federation of Accounting Professionals (Thailand)
FAR	The Institute for the Accountancy Profession in Sweden
FEE	Federation des Experts Comptables Europeens
FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of State Authorized Public Accountants)
GAO	Government Accountability Office (US)
GSH	Grabel, Schnieders, Hollman & Co (US accounting firm)
GT	Grant Thornton
Hogan Hansen	Hogan Hansen (US accounting firm)

HKICPA	Hong Kong Institute of Chartered Accountants
HRH –CR	Hare, Russell & Holder – Claire Russell (US practitioner)
HRH – DH	Hare, Russell & Holder – David Holder (US practitioner)
IBR-IRE	Institut des Reviseurs d'Entreprises (Belgium)
ICAEW	Institute of Chartered Accountants of England and Wales
ICANZ	Institute of Chartered Accountants of New Zealand
ICAP	Institute of Chartered Accountants in Pakistan
ICAS	Institute of Chartered Accountants of Scotland
ICAIIndia	Institute of Chartered Accountants in India
ICJCE	Instituto de Censores Jurados de Cuentas de España
ICPAI	Institute of Certified Public Accountants in Israel
ICPAS	Institute of Public Accountants in Singapore
IDW	Institut der Wirtschaftsprüfer (Germany)
IRBA	Independent Regulatory Board for Auditors (South Africa)
IOSCO	International Organization of Securities Commissions
JICPA	Japanese Institute of Certified Public Accountants
KICPA	Korean Institute of Certified Public Accountants
KPMG	KPMG
KyCPA	Kentucky Society of Certified Public Accountants (US)
Lorenzi	David Lorenzi CPA (US practitioner)
MACPA	Massachusetts Society of Certified Public Accountants (US)
MACPA2	Massachusetts Society of Certified Public Accountants second response (US)
Maresca	Joseph S. Maresca (US)
Mazars	Mazars
MIA	Malaysian Institute of Accountants
MWK	Mag. Wolfgang Korp
NASBA	National Association of States Boards of Accountancy (US)
NIVRA	Nederlands Instituut Van Registeraccountants (Netherlands)
NRF	Nordic Federation of Public Accountants
OCPA	Ohio Society of Certified Public Accountants (US)
PAOC	Public Accountants Oversight Committee (Singapore)
PwC	PricewaterhouseCoopers
SAICA	South African Institute of Chartered Accountants
SCAA	Society of Chinese Accountants and Auditors
SMP/DNC	IFAC Small and Medium Practices Committee and Developing Nations Committee
Wolf	Wolf & Co (US accounting firm)
WPK	Wirtschaftsprüferkammer (German member body)

Appendix From APB Letter
Key definitions used in auditor independence requirements

IFAC Code – Dec 2006 ED	EU – SAD/EC Recommendation	SEC requirements
<p><i>Engagement team</i> All partners and staff performing the engagement, and any individuals contracted by the firm who provide services on the engagement that might otherwise be provided by a partner or staff of the firm.</p> <p><i>Audit team</i></p> <ul style="list-style-type: none"> • All members of the engagement team for the audit engagement; and • All others within a firm who can directly influence the outcome of the audit engagement, including: <ul style="list-style-type: none"> (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent); (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and • All those within a network firm who can directly influence the outcome of the audit engagement. 	<p><i>Audit team</i> All audit professionals who, regardless of their legal relationship with the Statutory Auditor or audit firm, are assigned to a particular Statutory audit engagement in order to perform the audit task, such as audit partner(s), audit manager(s) and audit staff. <i>(from EC Recommendation)</i></p> <p><i>Engagement team</i> All persons who, regardless of their legal relationship with the Statutory Auditor or audit firm, are directly involved in the acceptance and performance of a particular statutory audit. This includes the audit team, employed or sub-contracted professional personnel from other disciplines involved in the audit engagement (e.g. lawyers, actuaries, taxation specialists, IT specialists, treasury management specialists), and those who provide quality control or direct oversight of the audit engagement. <i>(from EC Recommendation)</i></p> <p><i>Independence requirements apply to:</i> The Statutory Auditor and those in a position to influence ... <i>Those in a position to influence are:</i></p> <ul style="list-style-type: none"> • The engagement team • All persons, who form part of the Chain of Command for the Statutory Audit within the Audit Firm or within a Network ... • All persons within the Audit Firm or its Network who, due to any other circumstances, may be in a position to exert influence on the Statutory Audit. <i>(from EC Recommendation)</i> <p><i>Chain of command</i> All persons who have a direct supervisory,</p>	<p><i>Audit engagement team</i> All partners, principals, shareholders and professional employees participating in the audit engagement, including those conducting concurring or second partner reviews and all persons who consult with others on the audit engagement team during the audit engagement regarding technical or industry-specific issues, transactions, or events.</p> <p><i>Covered persons in the firm</i></p> <ul style="list-style-type: none"> • The audit engagement team • The chain of command • Any other partner, principle, shareholder or managerial employee of the firm who has provided ten or more hours of non-audit services to the audit client during the fiscal year • Any other partner, principal or shareholder from an ‘office of the firm in which the lead audit engagement partner primarily practices in connection with the audit. <p><i>Chain of command</i> All persons who:</p> <ul style="list-style-type: none"> • Supervise or have direct management responsibility for the audit, including at all successively senior levels throughout the accounting firm’s chief executive; • Evaluate the performance or recommend the compensation of the audit engagement partner; or • Provide quality control or other oversight of the audit.

	management, compensation or other oversight responsibility over either any audit partner of the audit team or over the conduct of the statutory audit at office, country or global levels. This includes all partners, principals and shareholders who may prepare, review or directly influence the performance appraisal of any audit partner of the audit team or otherwise determine their compensation as a result of their involvement with the audit engagement. <i>(from EC Recommendation)</i>	
<p><i>Audit client</i> An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities.</p> <p><i>Audit engagement</i> A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether historical financial information is prepared in all material respects in accordance with an identified financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation.</p>	<p><i>Audit client</i> The company or firm whose annual accounts are subject to Statutory Audit, or the parent undertaking in the meaning of Article 1 of the 7th Company Law Directive whose consolidated accounts are subject to Statutory Audit. <i>(from EC Recommendation)</i></p>	<p><i>Audit client</i> The entity whose financial statements or other information is being audited, reviewed, or attested and any affiliates of the audit client, other than ... entities that are affiliates of the audit client only by virtue of parts (ii) and (iii) of the definition of affiliates.</p>
<p><i>Close family</i> A parent, child or sibling who is not an immediate family member.</p> <p><i>Immediate family</i> A spouse (or equivalent) or dependent.</p>	<p><i>Close family member</i> Parents, siblings, spouses or cohabitants, children and other dependents. <i>(from EC Recommendation)</i></p>	<p><i>Close family members</i> A person's spouse, spousal equivalent, parent, dependent, non-dependent child and sibling.</p> <p><i>Immediate family member</i> Spouse, spousal equivalent and dependents.</p>
<p><i>Contingent fee</i> A fee calculated on a predetermined basis relating to the outcome or result of a transaction or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.</p>	<p><i>Contingent fees</i> Fee arrangements in which the amount of the remuneration is contingent upon the results of the service provided. <i>(from EC Recommendation)</i></p>	<p><i>Contingent fee</i> Any fee established for the sale of a produce or the performance of a service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such product or service. A fee is not a contingent fee if it is fixed by courts or other public authorities. Fees may vary, for</p>

		example, on the complexity of services rendered.
<p><i>Financial interest</i> An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.</p>	<p><i>Financial interest</i> Includes:</p> <ul style="list-style-type: none"> • Direct or indirect shareholding • Holding or dealing in securities • Accepting pension rights or other benefits <p>(from EC Recommendation)</p>	
<p><i>Director or officer</i> Those charged with the governance of an entity, regardless of their title, which may vary from country to country.</p>	<p><i>Key management position</i> Any position at the audit client which involves the responsibility for fundamental management decisions at the audit client, e.g. a CEO or CFO. This management responsibility should also provide influence on the accounting policies and the preparation of the financial statements of the audit client. A key management position also comprises contractual and factual arrangements which by substance allow an individual to participate in exercising this management function in a different way, e.g. via a consulting contract. (from EC Recommendation)</p>	
<p><i>Firm</i> (a) A sole practitioner, partnership or corporation of professional accountants; (b) An entity that controls such parties; and (c) An entity controlled by such parties. In S290, firm includes network firm.</p>	<p><i>Audit firm</i> A legal person or any other entity, regardless of its legal form, that is approved by the competent authorities of a Member State to carry out statutory audits. (from EU Statutory Audit Directive)</p>	<p><i>Accounting firm</i> An organisation that is engaged in the practice of public accounting and furnishes reports or other documents filed with the Commission or otherwise prepared under the securities laws, and all of the organisation's departments, divisions, parents, subsidiaries and associated entities, including those located outside of the US.</p>
<p><i>Key audit partner</i> The engagement partner, the individual responsible for the engagement quality control review, and other audit partners on the engagement team, such as lead partners on significant subsidiaries or divisions, who are responsible for key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion.</p>	<p><i>Key audit partner</i></p> <ul style="list-style-type: none"> • The statutory auditor; or • In the case of a group audit, at least the statutory auditor(s) designated as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries; or • The statutory auditor(s) who sign(s) the audit report. <p>(from EU Statutory Audit Directive)</p>	

<p><i>Network</i> A larger structure:</p> <ul style="list-style-type: none"> (a) That is aimed at co-operation; and (b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources. 	<p><i>Network</i> The larger structure:</p> <ul style="list-style-type: none"> • which is aimed at co-operation ...; and • which is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, a common business strategy, the use of a common brand-name, or a significant part of professional resources. <p><i>(from EU Statutory Audit Directive)</i></p>	
<p><i>Office</i> A distinct sub-group, whether organized on geographical or practice lines.</p>	<p><i>Office</i> A distinct sub-group, whether distinguished along geographical or practice lines. A main criterion for identifying this sub-group should be the close working relationship between its members ... <i>(from EC Recommendation)</i></p>	<p><i>Office</i> A distinct sub-group, whether distinguished along geographical or practice lines.</p>
<p><i>Related entity</i> An entity that has any of the following relationships with the client:</p> <ul style="list-style-type: none"> (a) An entity that has direct or indirect control over the client if the client is material to such entity; (b) An entity with a direct financial interest in the client if that such entity has significant influence over the client and the interest in the client is material to such entity; (c) An entity over which the client has direct or indirect control; (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity. 	<p><i>Affiliate</i> An undertaking that, together with the audit client is required to be included by consolidation in consolidated accounts. The term affiliate will include any undertaking, regardless of its legal form, which is connected to another by means of common ownership, control or management. <i>(from EC Recommendation)</i></p>	<p><i>Affiliate of the audit client</i></p> <ul style="list-style-type: none"> (i) An entity that has control over the audit client or over which the audit client has control, or which is under common control with the audit client, including the audit client’s parents and subsidiaries; (ii) An entity over which the audit client has significant influence unless the entity is not material to the audit client; (iii) An entity that has significant influence over the audit client unless the audit client is not material to the entity; and (iv) Each entity in the investment company complex when the audit client is an entity that is part of an investment company complex.

Appendix 2

Table 1: IESBA Proposal for Determining Entities of Significant Public Interest

	Listed entities	Regulated financial institutions	Pension funds, government agencies, government- controlled entities, not-for- profit entities
Is the entity of significant public interest?	Always	Normally	May be of significant public interest
IFAC proposed process for determining whether the entity is of significant public interest	Always	1. Law or regulation 2. IFAC member bodies/national auditing standards setters make determination if no applicable law or regulation makes the determination.	

Table 2: GAO’s Proposed Model for Determining Entities of Significant Public Interest

	Regulated financial institutions and pension funds	Government agencies, government-controlled entities, not-for-profit entities
Process for determining applicability of enhanced independence safeguards	1. Law or regulation 2. Regulators make determination if no applicable law or regulation makes the determination	1. Law or regulation 2. Appropriate government entities, such as the national and state audit offices, make determination if no applicable law or regulation makes the determination
	3. Regulators and appropriate government entities coordinate with IFAC member bodies/national auditing standards setters.	

Appendix 3

Extract from *Institute of Chartered Accountants Australia (ICAA) and CPA Australia (CPAA) Independence Guide*

Q4.4.2: My audit client has requested assistance in applying AASB 112 - Income Taxes and I am concerned about the potential threat to independence. What can my audit team and the firm's tax division do to assist the client?

- A:** Para 290.168 allows audit and accounting firms to provide technical advice on complying with accounting standards to their audit clients without it being considered a threat to their independence. The reason is that this kind of work is an integral part of the audit process in order to ensure the fair presentation of the annual report. However the extent of the work required to assist the client will need to be assessed on a case by case basis to ensure it does not become a situation of the auditor reviewing his or her own work. This is because Section 290 assumes that management is conversant with the changes being proposed and can and will still take responsibility for the final financial statement.

Further guidance on what constitutes acceptable "accounting work" for clients is contained in Paras 290.170 to 290.173. Note that the requirements are more stringent for listed entities than they are for unlisted entities.

If the client's only knowledge of Tax Effect Accounting issues comes from its auditors, then their effective exercise of this responsibility over the financial statements will prove difficult.

Accordingly, within the context of Section 290, the auditor may advise audit clients on the accounting principles involved and may provide examples of the formal journal entries required. However, the actual journal entries must not be prepared by the audit team, or any other professional staff members within the firm providing non-audit services to the client.

The auditor may then propose adjusting journal entries for the audit client's consideration.

Section 290 permits the firm to provide taxation services to an audit client, as such services [including tax compliance, planning, provision of formal taxation opinions and assistance in the resolution of tax disputes - Para 290.180, Provision of Taxation Services to Audit Clients] are generally not seen to create threats to independence, however this permitted scope of services does not extend to the calculation, determination or preparation of the tax effect accounting journal entries.

However, the audit client may also request the assistance of the firm in providing software to generate such information, which as it then forms part of the client's financial report may create a self-review threat (Paras 290.187 to 290.191 Provision of IT Systems Services to Audit Clients). Such self-review threat is likely to be too significant unless appropriate safeguards are put in place, such as:

- The audit client acknowledges its responsibility
- The audit client accepts responsibility by designating a competent employee with responsibility for the meaningful review of the output
- Such software is available to a broad market, and not specifically tailored by the firm for the audit client

An appropriately worded and discussed letter of engagement setting out the scope of work between the client and the auditor would help clarify these issues.

Accordingly, while the firm may provide such discrete tax effect accounting software and the audit team may subsequently review the suitability of the software applied without creating a self review risk, the audit client **must** apply the software, accept responsibility for the choice of software, the assumptions and inputs, and the results of the software in determining the tax effect accounting journal entries.

APPENDIX 4 Suggested wording for tax paragraphs

Assistance in the Resolution of Tax Disputes 290.183-5

Proposed re-wording of these paragraphs follows:

183 An advocacy and self-review threat may be created or augmented when the firm represents an audit client in the resolution of a tax dispute once the tax authorities have made it known that they have rejected the audit client's arguments on a particular issue and are referring the matter for determination in a proceeding accessible to the public. The significance of the threat will depend upon factors such as:

- Whether the firm has provided the advice which is the subject of the tax dispute;
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion;
- The extent to which the matter is supported by tax law or regulations, other precedent, or established practice;
- Whether the proceedings are conducted in public; and
- The role management plays in the resolution of the dispute.

The significance of any threat should be evaluated and if the threat is not clearly insignificant, safeguards should be considered and applied as necessary to eliminate the threat or reduce it to an acceptable level. Such safeguards might include:

- Using professionals who are not members of the audit team to perform the service;
- Having an additional tax partner or senior tax employee who is not involved in the provision of the tax services to the client advise the audit team on the services and review the financial statement treatment; or
- Obtaining advice on the service from an external tax professional.

184 Where the taxation services involve representing an audit client before a proceeding accessible to the public in the resolution of a tax matter and the amounts involved are material to the financial statements, the advocacy threat is considered so significant that no safeguard could eliminate or reduce the threat to an acceptable level. Therefore the firm should not perform this type of service for an audit client.

What constitutes a "proceeding accessible to the public" should be determined by the member bodies in that jurisdiction.

185 The firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analysing the tax issues) for the audit client in relation to the matter that is being heard before a proceeding accessible to the public.

Appendix 5

Management Responsibilities Suggested wording and rationale

Our proposals for the re-wording of these paragraphs are set out below with rationale.

290.156

The first sentence has been revised to give a clear statement of management’s responsibilities and includes reference to ‘activities’ rather than ‘many functions’, which ties in with the language used in the ED in the first sentence of 290.157. A new third sentence introduces the ideas that are developed in paragraph 290.159 (that not all activities are “management functions”).

Two new sentences have been added to introduce the language used in the section. These are “management responsibilities” as the noun and “acting as management” as the verb (in place of “performing management functions”).

290.157

Suggested changes to the sentence to clarify that judgment is required *in order to determine* what is or is not a management responsibility. A new third bullet has been added to cover management’s responsibility to supervise staff; this picks up on the idea of deployment of human resources in the last sentence of ED paragraph 290.156 (the first sentence of 290.157 in our revised draft).

290.158

Suggested changes to this paragraph are merely consequential on suggested changes to paragraphs 290.156 and 290.157.

290.159

We have suggested some additional examples in paragraph 290.159 of activities that do not involve acting as management. These are completing a regulatory return, and drafting an information memorandum or similar, that in either case will be reviewed and approved by management. We have also added an example based on paragraph 290.193 of the ED.

Proposed revised paragraphs

Management Responsibilities

290.156 It is management’s responsibility to lead, direct and control an entity in the best interests of the entity and its stakeholders. Discharging its responsibilities involves management participating in a wide variety of activities. However, not everything that is done by the management of an entity is necessarily done in its capacity as management. In this Section, a “management responsibility” is something that should be done by a member of management of an entity in discharging management’s responsibilities to lead, direct and control the entity. Further “acting as management” means carrying out any activity (or discharging any responsibility) that is a management responsibility.

- 290.157 Management's responsibility to lead and direct and control an entity involves members of management in making significant decisions regarding the acquisition, deployment and control of the entity's human, financial, physical and intangible resources. Whether an activity is a management responsibility depends on the circumstances and judgment is required to distinguish management responsibilities from other activities. Examples of activities that would generally be considered management responsibilities include:
- Setting policies and strategic direction;
 - Authorising and/or formally committing the entity to the terms of a transaction;
 - Directing and taking responsibility for the actions of the entity's employees;
 - Deciding which recommendations of the firm or other third parties should be implemented;
 - Taking responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; and
 - Taking responsibility for designing, implementing and maintaining internal control.
- 290.158 Acting as management of an audit client creates threats to independence. For example, deciding which recommendations of the firm should be implemented is a management responsibility and would create self-review and self-interest threats if those decisions are made by a partner or staff member of the firm. Further, acting as management creates a familiarity threat because the firm becomes inappropriately aligned with the views and interests of management. If a firm acts as management of an audit client, no safeguards could reduce the threats to an acceptable level. Accordingly, a firm that provides professional services to an audit client should not act as management.
- 290.159 Some activities do not involve acting as management because they are routine and administrative activities or are otherwise insignificant. The following are examples of such activities that would not be considered to involve acting as management:
- executing an insignificant transaction that has been authorised by management;
 - reminding an audit client of dates for filing statutory returns as they fall due;
 - completing a regulatory return that is approved and adopted by the client before it is submitted;
 - drafting an information memorandum, or similar document, that will be reviewed, amended and ultimately adopted by the client.
- Further, providing advice and recommendations to assist management in meeting its responsibilities would not involve acting as management. For example, a firm would not be acting as management if it evaluated and made recommendations with respect to a system designed, implemented or operated by another service provider or the client, or provided elements of a client's internal training program.
- 290.160 To avoid the risk of acting as management when providing non-assurance services to an audit client, the firm should be satisfied that a member of management with a sufficient level of understanding of the service, and an ability to evaluate the results, has been designated to make all significant judgments and decisions connected with the services, and to accept responsibility for the actions to be taken by the entity arising from the results of the service. This reduces the risk of the firm inadvertently making any significant judgment or decision on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues."

Consequential amendments

Amending paragraphs 290.156 to 290.160 would require changes to the language of other paragraphs which refer to management functions. Section 291 would require amendment as well.

For example, 290.193

Certain IT systems services are not considered to create a threat to independence (as long as firm personnel do not also act as management). Such services include the following:

- Design or implementation of IT systems that are unrelated to or do not form a significant part of the accounting records or financial statements;
- Implementation of “off-the-shelf” accounting or financial information reporting software that was not developed by the firm if the customisation required to meet the client’s needs is not significant; and
- Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.

Appendix 6

Table 1: Summary of Restrictions for Taxation Services

Category of Tax Service	Type of Audit Client	
	Entities of <u>no</u> significant public interest	Entities of significant public interest
Tax return preparation (Sec. 290.176)	→ no general threat to independence	
Preparation of tax calculations to be used as the basis for the accounting entries in the financial statements (Sec. 290.177 – 290.178)	self review threat application of safeguards	→ <u>prohibition</u> , if material to the financial statements
Tax planning and other tax advisory services (Sec. 290.179 – 290.182)	self review threat no general threat by advisory services where the advice is supported by tax authority, by established practice or has a basis in tax law application of safeguards if threat is not clearly insignificant → <u>prohibition</u> , if <ul style="list-style-type: none"> Effectiveness of the advice depends on a particular accounting treatment There is reasonable doubt as to the appropriateness of the treatment The outcome of the advice will have a material impact on the financial statements	
Assistance in the resolution of tax disputes (Sec. 290.183 – 290.185)	advocacy threat if tax authorities have rejected the client's arguments on a particular issue and referred the matter to a tribunal or court application of safeguards if the threat is not clearly insignificant → <u>prohibition</u> , if taxation services involve acting as an advocate before a public tribunal or court and the amounts involved are material to the financial statements → no preclusion from having a continuing advisory role in relation to the matter being heard before a public tribunal or court	