

Proposed revisions to clarify the applicability of provisions in Part C of the extant Code to professional accountants in public practice

An exposure draft issued for public consultation by the International Ethics Standards Board for Accountants (IESBA)

Comments from ACCA
April 2017

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Further information about ACCA's comments on the matters discussed here may be requested from:

Ian Waters
Head of Standards
ian.waters@accaglobal.com
+ 44 (0) 207 059 5992

Sundeep Takwani
Director - Regulation
sundeep.takwani@accaglobal.com
+ 44 (0) 207 059 5877



ACCA welcomes the opportunity to comment on the proposals.

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GENERAL COMMENTS

It is essential to be clear about the status of the various elements of the Code, and the status of the Code itself. Fundamentally, a professional accountant who is a member of an IFAC member body is required to comply with the fundamental principles and to safeguard those ethical principles. If this is to be made absolutely clear, it must be stated concisely in Part 1 of the restructured Code (as it is in paragraphs R110.2 and R120.3 of the agreed-in-principle text). It follows that Part 1 is the area from which it is important to direct the professional accountant to the other parts of the Code that are relevant to the professional accountant's role. This cannot be achieved by inserting the proposed text as paragraphs R120.4 and 120.4A1.

Instead, Part 1 should conclude by directing the reader to the other parts of the Code that are relevant to them. This cannot be done effectively without explaining thoroughly, at that point, what is meant by a professional accountant in business (PAIB). Secondly, the professional accountant in public practice (PAPP) must be reminded in Part 3 that the contents of Part 2 may be relevant to the PAPP's circumstances. If that reminder is to be effective, the meaning of PAIB must be explained again.

Parts 2 and 3 of the restructured Code will provide guidance that explains how Part 1 might be complied with in a number of given situations. Although some sections of Parts 2 and 3 will include clear requirements, if those sections did not exist, a competent accountant would nevertheless be able to determine the appropriate course of action from the principles set out within Part 1.

Therefore, the requirements within Part 1 are paramount, and Part 1 is where a PAPP or PAIB will expect to gain an understanding of the importance and context of Parts 2, 3 and 4. It follows that care should be taken in drafting the Guide to the Code, as there is a risk that it could undermine the importance of the Code itself.

The above comments are consistent with the response that we provided to the phase 1 consultation on improving the structure of the Code, in April 2016. That response is provided in the appendix to this document.



AREAS FOR SPECIFIC COMMENT:

In this section, we set out our response to the specific questions set out on page 11 of the consultation document.

Do respondents agree with:

- (a) The proposed applicability paragraphs; and**
- (b) The proposed location of those paragraphs in Sections 120 and 300 of the proposed restructured Code?**

If not, why not?

We have set out already our concerns regarding the positioning of the applicability paragraphs. We believe they are of such importance that they should appear at the end of Part 1 of the restructured Code, so that they lead the PAPP clearly to the other sections of the Code that are relevant to their role. In addition, the applicability paragraphs should be accompanied by a full explanation of what is meant by PAIB.

In Part 3 also, we believe the proposed positioning of the applicability paragraphs is inappropriate, and will fail to alert many PAPPs to the relevant material in Part 2 of the restructured Code. The logical and more prominent place for the applicability paragraphs would be within (or immediately following) paragraph 300.2.

With regard to the proposed drafting of the applicability paragraphs, we believe it lacks clarity. The important message is that Part 3 concerns a PAPP's relationship with his or her firm's client, and Part 2 concerns ethical issues arising within an organisation. Therefore, a PAPP who is not a sole practitioner must be aware that he or she also works within an organisation, and so much of Part 2 is relevant.

The application material – paragraphs 120.4A1 and 300.5A1 – is very specific. We recommend that a list of relationships and roles within a firm (making clear that it not exhaustive) would better illustrate the range of situations that might be relevant to the professional accountant, and so encourage a more open mind to recognising ethical challenges. For example, requirements and application material in Part 2 of the Code might be relevant to a PAPP in respect of:

- the PAPP's line management responsibilities
- pressures placed upon the PAPP by senior management
- dealing with third parties arising out of the PAPP's stewardship role (eg with the bank or taxation authorities).



General comments

Small and Medium Practices (SMPs)

PAPPs in SMPs have always been regarded as important stakeholders in the project to restructure the Code. It is within organisations with more limited resources (including fewer personnel) where improvements in behaviours can best be achieved through enhanced understandability and streamlining. However, we believe that the current proposals, as drafted, fall short of the clarity required in order to achieve meaningful improvements.

Regulators and audit oversight bodies

We have no comment in this area.

Developing nations

We have no comment in this area.

Translations

Although, as drafted, the proposed paragraphs would be unlikely to present translation issues, we believe the sentences should be made shorter and more assertive. Given that Part 2 of the restructured Code will almost certainly contain material relevant to a PAPP who is not a sole practitioner, we suggest that the words ‘... there might be requirements and application material in Part 2 that are also applicable ...’ are inadequate.



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Appendix

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+44 (0)20 7059 5000



info@accaglobal.com



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The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

Improving the structure of the Code of Ethics for Professional Accountants – Phase 1

An exposure draft issued by the International Ethics Standards Board for Accountants

Comments from ACCA

April 2016

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ACCA welcomes the opportunity to comment on the proposals issued by the International Ethics Standards Board for Accountants (the IESBA). The ACCA Global Forum for Ethics has considered the matters raised, and the views of its members are represented in the following.

OVERALL COMMENTS

We support the objectives of this IESBA project, and agree that appropriate restructuring will improve the understandability and usability of the Code, and so improve implementation and enforcement. A logical and well-structured Code, which is not of excessive length, will enhance the Code's transparency and usefulness. ACCA believes that this will lead to higher standards of ethical behaviour among professional accountants, in the public interest.

The increased prominence of the requirements throughout the Code is important to achieving clarity. However, inconsistencies and ambiguities remain. Paragraph 6 of the Guide to the Code states 'The Code requires professional accountants to comply with the fundamental principles of professional ethics.' However there is no overall requirement in the Code itself that states this. The status of the Guide to the Code itself is unclear. Although paragraph 4 states that it is part of the Code, it would seem illogical that a guide to the Code can also *be* the Code. The confusion is compounded by the numbering of the paragraphs in the guide that do not conform to the convention throughout the Code itself.

In highlighting the requirements throughout the Code, care must be taken not to undermine a professional accountant's ability to exercise professional judgement. In this respect, we believe that explicitly requiring compliance with the conceptual framework (R120.3) may be inadvisable. The requirement should be to comply with the fundamental principles and to safeguard them when they are threatened. The conceptual framework should be seen as a tool for achieving compliance, and so to require compliance in the manner proposed may obstruct true engagement with the framework at the right time and for the right reasons.

We also believe that Part A is undermined by referring to it as the '*Introduction* to the Code and fundamental principles' (emphasis added), when it is, in fact, the essence of the Code. We suggest that an appropriate title for Part A would be 'The Code and Fundamental Principles', or simply 'The Code'. This would also have the advantage of making the status of the Guide to the Code clearer.

We are pleased that steps have been taken to streamline the Code, including appropriate cross-referencing back to the conceptual framework. This serves to avoid unnecessary repetition, and also to uphold the importance of the conceptual framework. Nevertheless, we remain concerned that the length of the Code is still a barrier to its navigation and understanding. Essentially, it may discourage users from reading and understanding the Code's fundamental requirements.

We believe that the proposed title is confusing as it combines the terms 'code' and 'standards', which are very different things. The Code is designed to influence behaviours, and not to

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provide standards that are enforceable when a particular benchmark is not reached. While it is important for professional accountants to demonstrate and document compliance with the requirements, we believe the Code should primarily focus on behaviours, and standards should be clearly set apart. Therefore, we suggest that the current title of the Code should be retained. We also advocate completely separating the independence standards from the Code, in order to reinforce the importance of both and the differences between them.

SPECIFIC ISSUES

In this section of our response, we answer the six questions set out in the consultation paper section *Request for Specific Comments*.

Refinements to the Code

Question 1: Do you agree with the proposals, or do you have any suggestions for further improvement to the material in the ED, particularly with regard to:

- (a) **Understandability, including the usefulness of the Guide to the Code?**
- (b) **The clarity of the relationship between requirements and application material?**
- (c) **The clarity of the principles basis of the Code supported by specific requirements?**
- (d) **The clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code in particular circumstances?**
- (e) **The clarity of language?**
- (f) **The navigability of the Code, including:**
 - (i) **Numbering and layout of the sections;**
 - (ii) **Suggestions for future electronic enhancements; and**
 - (iii) **Suggestions for future tools?**
- (g) **The enforceability of the Code?**

Understandability, including the usefulness of the Guide to the Code

We agree that the restructured Code is more understandable and the addition of a 'Guide to the Code' has some merit. However, some general information still remains in Part A 'Introduction to the Code and fundamental principles' (particularly in section 100), and we believe that

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repetition could be reduced significantly. In addition, the importance of Part A is undermined by referring to it as the 'introduction'. It is, in fact, the essential part of the Code.

Within Part A, the subheading of 'Introduction to the Code' serves no purpose. Section 100 requires compliance with the Code, and this should not be obscured. Therefore, the text of section 100 should be streamlined to retain only paragraphs 100.1 and R100.3, but to include a clear explanation of the status of the requirements and the application material. Paragraphs 100.2 and 100.4A1 add nothing to the understanding; 100.3A1 would be more useful in section 115; and R100.4 would be better placed at the start of section 110 (together with the explicit and overarching requirement to comply with and safeguard the fundamental principles).

In respect of the guide to the Code, we have the following comments:

- The status of the guide is unclear. In our opinion, it is informative, but we regard it as nothing more. Any requirements within the guide should be moved to Part A and clearly identified as such.
- Under paragraph 4, the words 'Part C includes requirements for all accountants in public practice' are repetitious, and the last sentence on page 16 of the exposure draft adds nothing, namely:

'Each part of the Code contains sections which introduce topics. Sections might have subsections dealing with specific aspects of the topic.'

- The explanation, in paragraph 4, of the *Glossary* is verbose and unclear. We suggest it should simply state: 'The *Glossary* applies to the entire Code'.
- In paragraph 5, 'The content within each of the sections of the Code ...' could simply be replaced with 'Each section of the Code ...'.
- Given that requirements are designated with an 'R' in the paragraph numbering, the explanation of the use of the word 'shall' (paragraph 7) is redundant. It also presents a risk that contradictions may arise as the Code develops.
- Paragraph 9 adds no value to the guide.
- Paragraph 12 is unclear. Where documentation is to be a requirement, it should be within the Code itself (rather than guidance), and clearly highlighted as such.
- The reference to 'additional non-authoritative guidance' (paragraph 13) is open to interpretation so long as the status of this 'guide to the Code' remains unclear. We suggest that the 'guide to the Code' should not form part of the Code itself, and there is no need to refer to any further guidance. However, all guidance endorsed by the IESBA should be prominent on the IESBA website.

We welcome the creation of a 'Glossary', which applies to the entire Code, and includes definitions and explanations that were previously included within the body of the Code. This aids understandability and streamlining, and helps to reduce the length of the Code.

Clarity of the relationship between the requirements and application material

In our opinion, the relationship between the requirements and application material in the exposure draft is generally clearer. Application material is now distinguishable from the requirements due to the 'R' prefix to each requirement number and the 'A' suffix to each application material number. However, we feel that the use of both prefixes and suffixes is confusing and, as a minimum, the system would be improved by denoting the requirements with a suffix, rather than a prefix. This would appear more consistent, and make it easier to navigate through each section of the Code.

Moreover, it appears that, with the exception of section 100, each section separates its introduction from the requirements and application material. Therefore, outside of the introductions, *all* paragraphs that are not requirements carry the 'A' suffix. Therefore, the suffix is redundant.

Clarity of the principles basis of the Code supported by specific requirements

The IESBA must seek to achieve an appropriate balance between requirements and application material in order to maintain a principles-based Code. Throughout the Code, requirements should be kept to a minimum. However, there is a risk that users of the Code may tend to disregard application material. This risk will remain so long as users fail to engage fully with the Code and the use of the conceptual framework. Therefore, the risk is best addressed by identifying opportunities to streamline the Code, and eliminate repetition and unclear text.

Overall, we believe that improvements have been made in setting out more clearly the fundamental ethical principles and the framework for safeguarding them. The requirement to apply the conceptual framework is reiterated throughout the Code, and this will serve to increase its perceived importance, and encourage professional accountants to consider the framework and the underlying principles. However, care must be taken to avoid the framework appearing to users as a rigid procedure to be followed inflexibly. We also feel that the inclusion of a reminder in the header of each page of the Code is unnecessary, and is unlikely to have an impact on attitudes or behaviours.

There are areas of the restructured Code in which clarity may be enhanced by examples. In this respect, we suggest the Code could illustrate circumstances in which the result of applying a specific requirement of the Code might be disproportionate or not in the public interest (paragraph 10 of the guide to the Code). The IESBA should also seek to include examples of circumstances in which compliance with one fundamental principle would conflict with one or more other fundamental principles (paragraph 11).

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Clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code in particular circumstances

We support the increased clarity of responsibility of individual accountants and firms, including greater use of the active voice throughout, and the reference to ISQC1 and ISAs in paragraph 400.7.

Clarity of language

We believe that the ability of the restructured Code to influence behaviours and improve decision-making will be improved through the use of clearer language, including shorter sentences and the use of the active voice. Avoiding the use of the word 'shall' within the application material also enhances clarity and readability. However, in this response we have already commented on areas in which we believe clarity could be further improved (for example, redundant text, verbose and unnecessary explanations, and confusing numbering).

Navigability of the Code

(i) *Numbering and layout of the sections*

As already stated, the use of 'R' to denote a requirement is an improvement to clarity, although we believe that navigation of the Code would be enhanced if this was used as a suffix, rather than a prefix. We would also prefer that the 'A' suffix for application material is not used, as it would impede usability more than enhancing it. The use of appropriate cross-referencing helps to reduce the length of the Code, and so improves clarity, and clear and simple paragraph numbering makes cross-referencing more effective.

(ii) *Suggestions for future electronic enhancements*

While it is important to think ahead, we believe that the primary source of the Code should be a paper (or pdf) version. Indeed, in some jurisdictions it is necessary to have a paper/pdf version as the official version for publication. We believe that the proposed new structure of the Code would help position the Code for electronic enhancements to navigability. However, it is more important to have a Code that has broad application, achieved through a 'think small first' approach, by which the principles are made clear to individual professional accountants, and then applied to firms and specific situations through a principles-based understanding.

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In the future, it would be possible to develop an electronic version with features to enhance usability, including windows or 'hover text' to instantly provide definitions and highlight cross-references.

(iii) *Suggestions for future tools*

The preparation of tools to assist users of the Code would be welcomed. These might include, for example, lists of frequently asked questions, the guide to the Code, case studies and other examples to aid understandability. Examples and case studies can also help make the Code more relevant to specific users such as SMPs, auditors of PIEs and others. The IESBA might also signpost professional accountants to additional learning resources including, for example, webinars and videos.

Enforceability of the Code

We believe that the most important outcome of the project to restructure the Code should be better understanding of, and compliance with, the Code, in which the fundamental ethical principles and the use of the conceptual framework to resolve ethical dilemmas are central. Thus, the restructuring project aims to influence behaviours and mindsets, which is advanced by the removal of independence standards from the main Code. All professional accountants (including those employed by large organisations) are responsible for demonstrating and, where appropriate, documenting compliance with the Code. However, the primary purpose of the Code is not to provide a set of enforceable provisions. This is more appropriate to the independence standards, within which the enforceable requirements must be carefully identified. Nevertheless, a clear and streamlined Code makes it easier for regulators to identify cases where a professional accountant has not shown due regard for the Code's provisions.

Question 2: Do you believe the restructuring will enhance the adoption of the Code?

The restructure aims to improve the readability and usability of the Code for all users, including those whose first language is not English. Restructuring and reordering the Code makes it more accessible and understandable, which makes implementation and compliance easier. However, we question the extent to which adoption of the Code by national bodies and regulators will be enhanced as a result of the proposed changes. The focus should be on understanding and compliance by professional accountants, rather than wider adoption of the Code by organisations.

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Question 3: Do you believe that the restructuring has changed the meaning of the Code with respect to any particular provisions? If so, please explain why and suggest alternative wording?

We have already referred to areas in which the proposed restructured Code might be rather ambiguous, and other aspects of the restructure that will provide greater clarity. Inevitably, the restructuring will change emphasis and highlight specific requirements within the Code, and so the meaning of the Code will change. However, we are not aware of any significant changes to meaning arising out of the current proposals in relation to any particular provisions.

Other Matters

Question 4: Do you have any comments on the clarity and appropriateness of the term “audit” continuing to include “review” for the purposes of the independence standards?

The requirement to demonstrate independence as a measure of objectivity applies equally to an audit and a review engagement, and the drafting of the independence standards and the glossary set this out accurately. However, it is essential that professional accountants referring to the Code do not lose sight of the fact that ‘audit’ includes ‘review engagement’ and ‘audit team’ includes ‘review team’. It should be remembered that the objective of the restructuring is to clarify and raise the visibility of the Code’s requirements. Therefore, in the independence standards, the use of the term ‘audit’ throughout should be explained and highlighted up front. In this context, a foot note is not sufficient.

Question 5: Do you have any comments on the clarity and appropriateness of the restructured material in the way that it distinguishes firms and network firms?

There is the need for a professional accountant to identify network firms in order to be able to identify threats to independence. We welcome the clear distinction between ‘firms’ and ‘network firms’ in the body of the Code. This approach is consistent with the objective of the restructuring to clarify and raise the visibility of the Code’s requirements, and is also consistent with our recommendation, under question 4 above, in respect of audits and review engagements.

Title

Question 6: Is the proposed title for the restructured Code appropriate?

The IESBA is proposing to change the name of the Code to one that ‘emphasizes both the principles-based foundation and the inclusion of specific requirements’.¹ We believe that this aim is neither necessary nor achievable within the greater aims of enhanced clarity, effective

¹ Exposure draft, page 10

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+44 (0)20 7059 5000



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implementation and wider enforcement. Therefore, we consider the proposed title for the restructured Code of 'International Code of Ethics Standards for Professional Accountants' to be inappropriate.

Codes and standards are very different tools. A code is designed to influence behaviours, rather than to provide standards that are enforceable when a particular benchmark is not reached. We believe that Part A of the restructured Code will, to a great extent, be effective in achieving the desired improvements. The structure of the remainder of the Code (most of Parts B and C) is also likely to be effective, but would be more so if the independence standards (C1 and C2) were completely separate documents. This would help to reinforce the importance of both documents (the Code and the standards), and clarify the differences between them. It would also allow the IESBA to retain the existing title of the 'Code of Ethics for Professional Accountants', which we would support.

GENERAL COMMENTS

ACCA has developed this response following an internal due process, and we have attempted to reflect the opinions of a wide range of stakeholders represented, in part, by members of our Global Forum for Ethics. We make the following further observations, relevant to specific groups of stakeholders.

Small and Medium Practices (SMPs)

We believe that the proposals represent a significant improvement with regard to the impact they are likely to have on the understanding of professional accountants within SMPs. The reduction of duplication, and the effective use of cross-referencing, will make the Code more accessible. However, we believe more can be done in these respects. As a guiding rule, we would advocate a 'think small first' approach, so that the Code is applicable to all professional accountants, and equips them to respond to any situation – on their own behalf or on behalf of their firms.

We also believe it is important that those working within SMPs have easy access to more detailed information when they need it. However, we would not be supportive of increasing the length of the Code, as conciseness aids understanding and implementation. Supporting guidance and tools, such as case studies and frequently asked questions, would greatly enhance understanding and engagement with the Code, especially among professional accountants within SMPs.

Developing Nations

Member bodies in different parts of the world operate within a range of cultural environments and clarity and conciseness are important in this respect. The simplicity of the proposed structure of Part A (subject to comments we have previously made in respect of misleading

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titles, surplus text and complex numbering), which remains principles-based, can help to provide a clearer framework, while providing the flexibility for tailored implementation guidance by professional bodies, including those in developing nations. There remains, however, a responsibility of the IESBA to provide detailed guidance for those who might benefit from it, which would aid consistency of understanding and interpretation across all IFAC member organisations.

Translations

Ease of translation is of great importance to a global standard-setter, and it appears that the restructuring of the Code has paid due regard to this. In our opinion, the proposals include clarified language, consistent definitions and (subject to our comments above) a logical structure. While we are not aware of any potential translation issues, the IESBA should remain alert to this in proposing further changes to the existing wording.

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The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom