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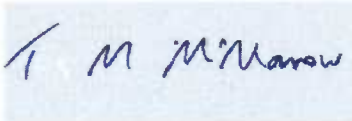
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15 April 2016

Dear Mr Siong

Consultation: Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1

We are pleased to enclose our firm's response to the questions asked in the above consultation, for your attention.

A handwritten signature in blue ink that reads 'T M McMorrow'.

T M McMorrow
Ethics Partner

Note referred to above:

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?

The Guide will, in time, prove indispensable and it is appropriate that due prominence is given to the Fundamental Principles (FPs). We would add, though, that compliance with the FPs will seldom be a standalone Requirement: in other words, where it is clear that the firm or individual concerned has complied with the Requirements in any given set of circumstances, then it cannot be said that there has been a failure to fulfil the relevant FP.

Whereas, on the other hand, there is no corresponding Requirement, then it would be perfectly possible for a breach of the FPs to be made out: for example, although there is nothing in the Requirements about defalcation of clients' monies by professional accountants, such an act would be a clear breach of the FP of Integrity.

It should, somewhere in our view (perhaps at para 6, under 'How to Use the Code'), be explicitly stated that fulfilment of a requirement will, in almost every conceivable sense, ensure that the FPs have been complied with - this would deal with what we believe is important to users' understanding of the hierarchy of FPs and Requirements.

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We also question whether it will confuse (particularly, new or inexperienced) readers and users of the Code that there is a Guide, followed by an Introduction. In our view, it would have been better to conflate the two in a more seamless way.

We also believe [please see our answer to Q1(b) below] that there should be a much earlier reference to the threats and safeguards approach, and specifically that it should be made in the Guide.

(b) The clarity of the relationship between requirements and application material?

We think that it would make a clearer distinction in the mind of readers and users between a Requirement and Application Material for the *whole* text of a Requirement to be emboldened, not just the initial letter 'R'.

In para 8, it might be helpful, when referring to the 'conceptual framework', to make a tie-up with the importance of threats and safeguards to the workability of the framework: perhaps by adding the following [underlined] in the 6th line – "*..., including application of the conceptual framework and the threats and safeguards approach underpinning it.*"

There is a hierarchy of FPs, Rs, and Application Material, which the threats and safeguards approach is central to, so it has a right to its own place in that hierarchy, especially given that in Section 120 – the Conceptual Framework – there is substantial reference to the threats and safeguards approach which we do not believe has been trailed earlier in the revised Code, though, in our view, it should be.

(c) The clarity of the principles basis of the Code supported by specific requirements?

There is very little said in the revised version about the Code being principles-based: all such allusions are to the 'conceptual framework' or to the FPs. If IESBA believes that it is important to make express reference to the principles-based nature of the Code (and we believe it should), then it could usefully be done in the new Guide.

We wonder whether IESBA needs to carry out more work on the ethical advice it gives to professional accountants on what the FP of Integrity (Section 111) means. In a number of jurisdictions, it is virtually self-evident, as is the necessary course of action to take when one is confronted by breaches of it. In such jurisdictions [particularly those in which English is the first language], the bulk of ethical advice and norm-specification is given over to describing what Independence means and how it is to be preserved – that tends to be the predominant professional issue with which professional accountants working in those jurisdictions have to wrestle.¹

This is not, though, true of other jurisdictions where bribery, corruption, and other contexts in which NOCLAR is a very real and pressing issue. Professional accountants working in those jurisdictions are much more focused on and hungry for guidance on what compliance with the FP of Integrity looks like 'on the ground'.

Although the revised Code is perhaps not the place to be providing much-needed additional specification, there is a need, in our view, for Section 110 to make express reference to why the preservation of professional integrity is such an important issue.

We comment adversely on the inclusion in Subsection 112 – Objectivity – at 11.2A1 of 'Examples of safeguards'. This is the only instance in the FPs' Subsection where safeguards are mentioned and they are something of a distraction for that reason, especially given that no prior reference, so far as we can see, has been made in the revised Code.

In the same sort of connection, we refer to subsection 114 – Confidentiality. There is a great deal of additional text about what this FP means and the parcel of rights and duties that come with it. We think the reason for this is that, in terms of jurisprudential analysis, Confidentiality, though undoubtedly an

¹ In this respect, we support the moving of the Sections on Independence to the end of the revised Code.

essential norm of professional conduct to which accountants must subscribe, is not truly a Fundamental Principle: all the other FPs constitute absolutes of professional behaviour, whereas Confidentiality is subject to a number of derogations and departures which detract from the characteristic of absoluteness. Moreover, the sheer volume of text accompanying this section tends to detract from penetration of the essential message that the duty of Confidentiality is an FP and what it means, which is the essential purpose of this part of Part A.

(d) The clarity of the responsibility of individual accountants and firms for compliance with requirements of the Code in particular circumstances?

We think that this is quite well made out. ICAS' consultation paper entitled *The Power of One* presents an interesting perspective of the obligations that bear on individual professional accountants, as the capacity to influence the tone-at-the-top of an entity often begins with their devotion to implementing the ethical norms their training inculcated in them in the context of their particular working environments. This is true both of professional accountants in business and in public practice.

(e) The clarity of language?

It is always difficult to express often quite complex concepts in plain English but the revised Code is a credit to those who have drafted it. It should lend itself quite readily to translation and to the day-to-day usefulness to practitioners and others who are English-speaking.

(f) The navigability of the Code, including:

We do not discern any particular problems with the revised Code in this regard. We support the intention to bring the guidance on Conflicts of Interest to a place of prominence (Section 310) and the terms of the new Requirement at section 310.9.

(i) Numbering and layout of the sections;

Whereas we support the new navigability, we find the numbering ponderous and unclear.

(ii) Suggestions for future electronic enhancements;

We look forward to the creation of an enhanced Search function, enabling users to find a particular Section or Subsection without the need to look laboriously through the whole Code.
And

(iii) Suggestions for future tools?

Perhaps the development of an 'App' for users who work remotely from office or home laptop facilities might prove helpful.

(g) The enforceability of the Code?

Enforceability has little to do with the content and layout of the Code but with unevenness on the part of regulators in applying it. Education of users is also an issue and it would be helpful, as part of IESBA's rolling programme of work in the ethics field if some thought was to be given, particularly to Independence, Integrity and network issues.

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

It will be helpful in that respect but we believe that the degree of adherence, and in particular, *uniformity* of adherence to the Code, is so variable across the breadth of the jurisdictions in which it applies will need a more rounded educative approach on the part of IESBA.

contd.

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 do not discern changes in the meaning of any of the specific provisions but we recommend that a technical advisory group monitor for that potential.

Other Matters

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?

We found an unhelpful lack of specification to attach to ‘review’ and recommend some more work be done in this respect.

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?

We have nothing to add in this respect.

Title

6. Is the proposed title for the restructured Code appropriate?

We would propose the International Code of Ethical Standards for Professional Accountants.