



Grant Thornton

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

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (GTIL) appreciates the opportunity to comment on the December 2015, Exposure Draft (ED) Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

GTIL is an umbrella organisation that does not provide services to clients. Services are delivered by GTIL member firms around the world. Representative GTIL member firms have contributed to and collaborated on this comment letter with the public interest as their overriding concern.

We support the Board's proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high-quality standards that will enhance the profession.

General Comments

GTIL supports the Board's work on improving the structure of the Code and believes the restructuring will help enhance the clarity and usability of the Code. We also believe the Board's proposals will enhance compliance with the fundamental principles and the Code and establish a clearer delineation between threats and safeguard, allowing Professional Accountants to better correlate the relationship between the two, enabling stronger, more effective safeguards to be put in place.

However, we note that the threats listed in Section 300.2 A1 and the safeguards listed in Section 300.2 A9 almost exclusively address objectivity and independence related threats (self-interest and self-review). There does not appear to be clear threats and safeguards guidance and examples that address threats to the fundamental principles of integrity, professional competence and due care, and professional behavior.

In order to strengthen the Code, we would recommend the Board consider adding examples of threats and safeguards to the Code that address the fundamental principles of integrity, professional competence and due care, and professional behavior.

Request for Specific Comment

Refinements to the Code

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?*

GTIL agrees that the proposal to the Code will help make it more understandable to an international community whose first language may not be English. We believe that the writing style is similar to that of international auditing standards and will be helpful and familiar to many of the stakeholders. We believe the proposal will help clarify the meanings of the concepts in the Code.

We also believe the Guide to the Code provides a better understanding of the way to navigate and apply the concepts of the Code.

- (b) The clarity of the relationships between requirements and application material?*

GTIL agrees with the Board's proposal to clarify the relationships between requirements and the application material, but would suggest to the Board to include prominent headings for "Requirements" and "Application Material" similar to how the International Standards on Auditing are written.

Furthermore, we believe the Code would be strengthened and enhanced if the Board included all the requirements in a section upfront and then proceeded with the corresponding application material. We believe this approach will clearly identify all requirements in a given section of the Code and reduce confusion for users.

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

GTIL agrees the proposal supports the clarity of the principles basis of the Code which is supported by specific requirements that Professional Accountants must adhere to.

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

The respective responsibilities of firms and individual accountants is not always clearly established in the extant Code. GTIL agrees that Section 400.7 of the proposal clarifies the responsibility of individual accountants and firms regarding compliance with requirements of the Code in particular circumstances.

Further the proposal in Section 400.7 clarifies the requirement similar to that in ISQC1 that a firm should have policies and procedures in place to ensure the firm and its personnel comply with professional standards and applicable legal and regulatory requirements.

(e) The clarity of the language?

As discussed above, GTIL agrees that the proposal clarifies the language in the Code which we believe will help clarify contextual issues for an international community whose first language is not English.

(f) The navigability of the Code, including?

i. Numbering and layout of the sections,

GTIL agrees that the proposed numbering and layout of the sections will make the Code more navigable.

ii. Suggestions for future electronic enhancements, and

We have no comments or suggestions for future electronic enhancements to the Code.

iii. Suggestions for future tools?

We have no comments or suggestions for future tools.

(g) The enforceability of the Code?

GTIL believes by separating the requirements from the guidance and including a requirement to apply the conceptual framework's threats and safeguards approach, the Code provides a balanced framework for Professional Accountants in fulfilling their responsibility to comply with the fundamental principles and to act in the public interest.

We agree that the restructured Code will be enforceable and promote and facilitate adoption and effective implementation of the Code in many jurisdictions.

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

As discussed in 1(g) above, GTIL believes that the restructured Code will promote and facilitate adoption and effective implementation of the Code in many jurisdictions.

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.*

GTIL believes the restructuring of the Code has changed the requirements in the Code for network firms as it relates to employment relationships with an audit client.

Section 290.13 in the extant Code states *“If a firm is deemed to be a network firm, the firm shall be independent of the audit client of the other firms within the network (unless otherwise stated)”*.

Accordingly, the term “firm” in the extant Code includes network firms unless the guidance states otherwise.

Sections 290.132-290.139 in the extant Code discusses employment relationships with audit clients and the threats associated with these relationships. The guidance in the extant Code refers to firm, which includes network firms.

In the current proposal, Section 524 Employment with an Audit Client only discusses the requirements as they apply to firms and excludes any reference to the network firms’ requirements.

It is clear in this instance that the restructuring of the Code has in fact changed the meaning of how the independence requirements are applied to network firms when analysing employment relationships with audit clients.

We would encourage the Board to review the use of the term “firm” in proposed Section 524 to ensure it is consistent with the application in the extant Code. Furthermore, we recommend the Board review all sections in the proposal to ensure the proposal has not changed the requirements for network firms that currently exist in the extant Code.

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?*

GTIL believes it is appropriate for the term “audit” to continue to include review engagements. As the independence requirements are the same for both audits and reviews, it is much easier for the user to read the sections without continually stating audit and review throughout the sections. In addition, the use of the term audit to include review has been in existence and understood by users for some time.

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

In light of the Board's objective to simplify the Code, it is curious as to why there would be a desire to separate network firm from firm. As one reads the Code now, the repetitiveness of the term network firm does the exact opposite of the Board's objective. It would be more impactful if the board left the definition as is and only noted exceptions to its use. For example, wording such as the following could be considered, "*the firm, excluding network firms*". These situations are limited and would clearly highlight the differences to the users. Now, the user needs to make sure they are aware of any situations where the term network firm is not included and then understand that the requirement is not applicable for network firms in that instance. To highlight, in section 410.8, the term firm is used and in 410.9 firm and network firm are used. Why is there a difference? The user now needs to try and understand the Board's rationale for not including network firm.

The Board did not decide to separate review from audit, presumably because of the repetitiveness. One would think a similar thought process would be put in place for firm and network firm. In addition, similarly to the use of the term audit to include review, firm including network firm has been in existence and understood by users for some time.

6. *Is the proposed title for the restructured Code Appropriate?*


GTIL believes the proposed title change reflects the Board's commitment to create quality standards that enhance the profession and serve the public interest.

However, because the Code includes independence standards as well as ethical standards that apply to Professional Accountants, we would like the Board to consider the following change to the title:

*"International Code of Ethics and **Independence** Standards for Professional Accountants"*

GTIL would like to thank the IESBA for this opportunity to comment. As always we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek, Director - Global Independence at gina.maldonado-rodek@gti.gt.com.

Sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive, flowing style.

Kenneth C. Sharp

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