

International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue - 6th Floor
New York, New York
10017

18 April 2016

Dear Sirs

Response to Exposure Draft – Improving the structure of the Code of Ethics for Professional Accountants – Phase 1

PKF International Limited administers the PKF network of legally independent member firms. The PKF International network consists of member firms and correspondents in 300 locations operating in 150 countries providing assurance, accounting and business advisory services. PKF International Limited is a member of the Forum of Firms - an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide. This letter represents the observations of PKF International Limited, but not necessarily the views of any specific member firm or individual.

We welcome the opportunity to comment on the IESBA Exposure Draft “Improving the structure of the Code of Ethics for Professional Accountants – Phase 1” (“the ED”). We are supportive of the IESBA’s continued efforts to clarify and improve its Code of Ethics for Professional Accountants (“the Code”).

We believe that the proposed changes significantly clarifies and enhances the usability of the Code, although some details around the numbering of paragraphs, the convention used to denote requirements and other materials, and some content of the proposed Guide to the Code could be improved with some limited changes.

These and additional comments are further discussed in response to the IESBA’s specific questions in the appendix attached to this letter.

If you would like to discuss any of our comments, do not hesitate to contact me.

Yours sincerely



Theo Vermaak
Chairman: PKF International Professional Standards Committee
PKF International Limited

Overall Comments

Referring to Part A as the 'Introduction to the Code and Fundamental Principles' implies that it is not part of the Code while it is in fact the core of the Code. We suggest that an appropriate title for Part A would be 'The Code of Ethics'.

Request for Specific Comments

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?

In principle the Guide to the Code does add clarity on how the Code is to be used. There is however a risk that material that should be part of the Code itself is in fact contained in the Guide, e.g. paragraphs 10 and 11 of the Guide should rather be included in the Code to allow for proper application and dealing with exceptional circumstances.

Further, paragraph 11 contains what appears to be two separate points (confidentiality breaches and a statement that guidance obtained during consultation does not relieve the accountant from responsibility). Combining these in one paragraph de-emphasises the latter point.

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

Using the "R" prefix to denote requirements aids significantly in clarifying the Code. However, the combination of prefixes (R) and suffixes (A) proved to be difficult to understand upon first read by some reviewers. The introductory paragraphs contain neither an R nor an A, which in itself creates confusion.

We suggest that it would be best to simply use R paragraphs denoting requirements and have all other paragraphs without any prefix/suffix and include in the Guide to the Code that R paragraphs are requirements and all other provisions are additional application material (with the exception perhaps of introductory paragraphs) to aid in the professional accountants understanding of and compliance with the R paragraphs. In order to "group" application material logically with the relevant requirement, the numbering system could be revised to show e.g.

R100.3 – denotes requirement
100.3.1 – denotes first paragraph of application material

This would logically link items together, and be easier to read than a mix of numeric and alphanumeric numbering.

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

As long as the requirement paragraphs are limited in number and written in such a way that they really prescribe the application of the ethical principles and the approach of evaluating threats to compliance with the principles and implementing appropriate safeguards, we believe that the clarity of the principles basis of the Code will not be undermined. Care should be taken to ensure that there are not requirements which do not lead the user back to this principles-based approach. We have no comments with regards to specific requirements as currently drafted in the ED.

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

We support the move towards clarifying the respective responsibilities. However, some issues may emerge only once put into practice. We suggest the IESBA allow for some minor

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improvements to be made periodically once the proposed revisions to the Code are released and effective.

(e) The clarity of language?

This has been greatly improved.

(f) The navigability of the Code, including:

The uniform structure of introduction, requirements and application aid in navigability allowing users to move efficiently to the exact content they are looking for.

(i) Numbering and layout of the sections;

Please see our comments on the numbering of the paragraphs in (b) above.

Further, we support a section numbering and layout that enhances navigability. The current application of sections and sub-sections is however confusing. While Section 110 precedes sub-section 111,112, etc., the same does not apply to 320, 321, etc. which are all individual sections. This does not make it obvious to the reader that certain numbers are sub-sections. It is also not clear why the increment between section numbers is one, five or 10 in certain cases.

We understand the need to reserve certain numbers for future use, but consistency and logic should prevail. As there are not many subsections, we suggest simply using an increment of 10 between section numbers, and an increments of one for sub-sections.

(ii) Suggestions for future electronic enhancements; and

The current suggestions for enhancements to the electronic Code are welcomed. In addition to hyperlinks being included, having examples, illustrative material and the glossary definitions appearing when hovering over defined terms or requirements may further aid in understanding and application of the Code.

(iii) Suggestions for future tools?

We support the development of the tools suggested in paragraph 24 of the explanatory memorandum to the ED, particularly the suggested matrix. In addition, we suggest illustrative examples and frequently asked questions which could be appended to the Code.

(g) The enforceability of the Code?

A clear, understandable Code greatly enhances understanding and compliance. By extension, enforceability should then be easier.

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

A clear, understandable Code should, if not actively promoting adoption, at least not serve to discourage adoption. Clear requirements will also aid jurisdictions in understanding what they are adopting and what they can enforce.

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?

While not the intended consequence, there is always a risk that by distinguishing the provisions into requirements and application material, users may read and interpret the Code differently. This may however only become evident when the revised Code is implemented and applied in practice. We have no comments on the current provisions in the ED.

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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?

We understand the need for brevity in the Code, but do not support the use of “audit” where it is intended to also refer to reviews. Although the fact that “audit” refers to both an audit and a review engagement is clearly stated in the Guide to the Code (as an example), the glossary, titles used in Part C1 and in the footnotes, we remain concerned that if an infrequent user were to read only Part C1 they will have not read the definition of audit, or may believe that the same is true for other parts of the Code. The repetition of footnotes is more cumbersome than simply using the words “audit and review” each time that is intended. We therefore suggest simply using ‘audit and review’ in each case where this is the intention.

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?

We support these proposed changes as it significantly enhances the clarity of the provisions related to network firms.

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

We believe that the introduction of ‘standard’ into the title of the Code undermines the principles basis of the Code, and while intended to address the fact that it contains specific requirements, is not necessary. Such a change may also have unintended consequences with regards to enforcement and monitoring. We believe a possible alternative could be ‘International Code of Ethics and Standards on Independence for Professional Accountants’ to clearly distinguish that the term “Standards” applies specifically to the Independence requirements. However we acknowledge that this title is cumbersome and if not adopted, the current title should be retained.

A further consideration as a consequence of the apparent need to address this matter is that it may be appropriate to have two separate documents: The Code of Ethics and The Independence Standards.

Request for Specific Comments

Small and Medium Practices (SMPs) and Developing Nations

We believe that the proposals in the ED, subject to our comments above, will significantly aid small and medium practices (SMPs) and developing nations in understanding and applying the Code. Of particular importance are our suggestions for further supporting materials such as illustrative examples, case studies and frequently asked questions.

Translations

Clarity, consistency of terms and logical structuring significantly enhance the ability for accurate translation, and subject to our comments above, we support the changes in the ED and believe these will assist in this regard.