

CONSULTATION

INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

IMPROVING THE STRUCTURE OF THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS— PHASE 1

ABOUT AIA

The Association of International Accountants (AIA) was founded in the UK in 1928 as a professional accountancy body and from conception has promoted the concept of 'international accounting' to create a global network of accountants in over 85 countries worldwide.

AIA is recognised by the UK government as a recognised qualifying body for statutory auditors under the Companies Act 2006, across the European Union under the mutual recognition of professional qualifications directive, as a prescribed body under the Companies (Auditing and Accounting) Act 2003 in the Republic of Ireland and an Awarding Organisation by the Office of Qualifications and Examinations Regulation (Ofqual). AIA also has supervisory status for its members in the UK under the Money Laundering Regulations 2007 and is an accredited organisation by The Commonwealth.

AIA promotes and supports the advancement of the accountancy profession both in the UK and internationally. The AIA exams are based on International Financial Reporting and International Auditing Standards and are complimented by a range of variant papers applicable to local tax and company law in key jurisdictions together with an optional paper in Islamic accounting.

AIA members are fully professionally qualified to undertake accountancy employment in the public and private sectors.

AIA RESPONSE

SUMMARY

The AIA broadly welcomes the first phase of improvements proposed by the IEASB in this exposure draft and is happy to provide the following detailed comments responding to the specific requests below. We would however observe that, in its current format, the Code is not presented in a user friendly manner and as yet does not empower users to readily access specific sections, nor readily distinguish between requirements and application. As such an important embodiment of the values of the accounting profession we would welcome a more dynamic and stimulating presentation to encourage its assimilation into the living documents of the practitioner and student.

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?*

Improving the understandability of the code is key to ensuring compliance for all professional accountants and for those training to join the profession. Including a guide to the code should help with this.. It is therefore important to signpost the user that this is a guide through the use of appropriately designed presentation – perhaps embracing use of colour and diagrams or other tools to orientate the user. The overall understandability has improved but the presentation of the Code is still very dry and dull. The use of consistent fonts, spacing, formatting and colour obfuscates the differences in the type of information contained within each paragraph and the document does not invite exploration. Given the level of presentational sophistication in many of the documents that members and students access daily it seems a missed opportunity not to redesign this vital aspect of the profession to bring the Code to life.

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

We agree that clarification of the relationship between requirements and application of those requirements will greatly aid the application of professional judgement to the use of the Code and should emphasise the principle based nature of the code and the requirement for application of these principles. This should prevent the applications taking on the appearance of rules and this driving compliance with the applications explored rather than the principles required. It might be helpful to emphasise this core notion through the use of visual tools. The current technique of identifying requirements with the use of a capital R is not, however, in our opinion, sufficiently clear. We would prefer the use of coloured background or bold text to denote the requirements and perhaps a change in font size or positioning on the page.

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

We agree that this is an excellent improvement to the Code and fully support this.

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

We agree that this clarification is helpful and contextualising these is excellent. We would observe that the individual responsibility of the accountant should be emphasised as pre-eminent to the responsibility of the firm and that this cannot be delegated to the policies of the firm. By ensuring that individual professional ethical judgement is core to the lived reality of an ethical profession, and reflecting the pride that accountants have in their ethical values, the moral hazard presented by the anonymity of large professional service organisations and business should be reduced. We believe that the role of the firm in promoting ethical behaviour in its staff is to provide the social consensus through its policies, codes and culture to enable individual accountants to practice ethically. However, the compliance with these policies and codes is the responsibility of the individual accountant and this should be emphasised. As independence has been an area of such contention in practice we would encourage the Code to emphasise the importance of independence in fact in the mind of the individual accountant and the importance of supporting this through appropriate independence structures within the Firms.

(e) *Clarity of language?*

We support the improvements to the clarity of language proposed in the Exposure Draft. We are strongly in favour of the reduction in complexity of language to support the increasing number of practitioners using the Code for whom English is a second language. In common with other professional bodies, our membership and students are increasingly diverse and it is essential that the Code is accessible to this diverse group. We would note however that the use of cross references to other paragraphs within the Code does not always help with the clarity of language and it might be better to use words as well as the cross reference to support understanding.

We strongly support the reduction in the use of passive voice in the code as a tool to emphasise the personal nature and responsibility for Code compliance.

(f) *The navigability of the code, including:*

(i) *Numbering and Layout of Sections*

The ideas to improve navigability through numbering and layout of sections appear sensible although we would prefer that the use of sub sections numbering be kept to a minimum. In our opinion the use of such numbering can reduce readability by disrupting the flow of information and artificially breaking up ideas to a level of disaggregation that compromises the ability of the reader to follow the discussion. We would be in favour of the inclusion of side headings with the numbering system to signpost the reader more clearly and to either use the numbers more sparingly or refrain from the use of such short (one sentence in places) paragraphs. In its current format the relative importance of paragraphs within sections is not supported by the numbering system adopted.

(ii) *Suggestions for future electronic enhancements*

We are very supportive of electronic enhancements being used to navigate the reader through all of the material of the Code. It will be helpful to allow users to directly access key areas of the Code and to link key ideas together. We would be very happy to comment on the usefulness and navigability of any electronic versions of the Code as they are piloted.

(iii) Suggestions for future tools

Within the navigability of the Code, we would be very supportive of the use of visual aids, including colour coding for sections and repetition of key ideas and summary sections in different styles from the main text. We would also like to see the Code brought to life through the use of quotes from the profession and its practitioners to promote the importance of this to the everyday working life of the professional. It might be possible to insert video links to short debates regarding application of the code and case study vignettes to bring this to vary the communication medium and provide different methods for professionals to access the information.

(g) *The enforceability of the Code?*

We believe that a principle based Code of Ethics represents the virtues valued by our profession. The virtuous practitioner is developed within a virtuous profession following virtuous leadership within virtuous organisations. The enforceability of the Code is therefore not only through sanction or punishment but rather through the development of a shared view of the fit and proper professional conduct of the accountant. The developments within this first phase should indeed support such development.

QUESTION 2

DO YOU BELIEVE THE RESTRUCTURING WILL ENHANCE THE ADOPTION OF THE CODE?

We believe that any steps which improve the ability of the professional membership, and in particular its students, to understand the Code of Ethics will enhance their ability to adopt the Code into their daily behaviour. However, we also recognise that it is the cultural environment in which our members practice which is most likely to compromise the real compliance with the Code. To that end it is not restructuring the Code which will necessarily enhance adoption unless this is supported by the firms and the professional bodies.

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 do not think that the meaning of the Code has been altered materially.

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 support the inclusion of review within the term audit for the purpose of the independence standards.

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 believe that the restructured material does clearly and appropriately distinguish firm and network firms.

QUESTION 6

IS THE PROPOSED TITLE FOR THE RESTRUCTURED CODE APPROPRIATE?

We believe that the proposed title for the restructured Code is appropriate.

FURTHER INFORMATION

The above replies represent our comments upon this consultation document. We hope that our comments will be helpful and seen as constructive. AIA will be pleased to learn of feedback, and to assist further in this discussion process if requested.

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