

ASSIREVI  
*Associazione Italiana Revisori Contabili*

*Il Presidente*

International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

12 May 2016

**Exp. Draft: Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1**

Dear Sirs,

Assirevi is the association of Italian audit firms. Its member firms represent the majority of the audit firms under the oversight of CONSOB (*Commissione Nazionale per le Società e la Borsa*) and are responsible for the audit of almost all of the companies listed on the Italian stock exchange. Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for its members. It collaborates with Governmental bodies, CONSOB, the Italian accounting profession and other bodies in the development of auditing and accounting standards.

Assirevi is pleased to submit its comments on the Exposure Draft “*Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*” issued by IESBA in December 2015.

Our detailed comments are set out in the attached document.

Should you wish to discuss our comments, please do not hesitate to contact us.

Yours faithfully,



Mario Boella  
*Chairman of Assirevi*

**COMMENTS ON THE IESBA CONSULTATION PAPER***Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1*  
(December 2015)

Assirevi is grateful for the opportunity of this Consultation Paper and contributes the following remarks on the project described in the Paper.

In the first paragraph we will make some general comments, some of which are answers to the questions at pages 11 and 12 of the Exposure Draft and in the second paragraph we will make some more detailed comments on specific issues.

**1. General comments***1.1 Comments on the content, which is not merely formal, of some amendments proposed in the Exposure Draft*

This Association believes that the purpose of “*enhancing the understandability and usability of the Code*” is one that it entirely agrees with.

In general, as already mentioned in the discussions regarding “*Proposed Revisions Pertaining to Safeguards in the Code*”, this Association agrees with the intention to make the contents of the Code of Ethics more understandable and also feels that it is extremely important to stress that amendments to be made to the Code should only be formal or linguistic and should not constitute changes to its substance (see **Question no. 3 of the Exposure Draft**).

An example of this is the newly introduced definition of a “*reasonable and informed third party*”, which, in our opinion, seems to require a logical process of the evaluation of threats to independence which would appear to diverge from the process at present stated in the Code. Actually, the definition proposed by the amendments in question provides for the “*reasonable and informed third party*” to make its evaluations by “*weighing all the relevant facts and circumstances that the professional accountant knows, or could reasonably be expected to know, at the time that the evaluation is made*”. On the contrary, in the current version of the Code, the “*reasonable and informed third party*” focuses on “*all the specific facts and circumstances available to the professional accountants at the time.*”

This is a far from insignificant amendment, which in our opinion cannot be agreed upon, especially for the purposes of an *ex post* verification of the auditor’s behaviour.

We remind you that the “*reasonable and informed third party*” test is aimed at assessing whether the accountant’s conclusions regarding the reducibility of risks to an acceptable level are correct.

Hence the test must be conducted on the basis of facts and circumstances known to the accountant at the time he reaches his conclusions and should not, on the contrary, be based on facts and circumstances which could only theoretically be known to him.

The same critical issues are also reported in relation to the new version of the definition of “*acceptable level*”. Actually, the proposal in the Consultation Paper eliminates the following sentence: “*weighing all the specific facts and circumstances available to the professional accountants at that time.*”

If we were to follow the new approach, the facts and circumstances available to the “*reasonable and informed third party*” at any given time would appear to be no longer of any significance for the purposes of the identification of the “*acceptable level*”. The assessment made by the “*reasonable and informed third party*” would end up being completely disconnected from any reference criteria.

The examples we have briefly mentioned above, in our opinion, show that the proposed change appears to be significant in respect of the current framework, and it is not limited to a mere restatement of existing provisions but in fact implies a modification regarding which this Association wishes to express its doubts.

The amendment made to the new paragraphs 115.1 A1, R310.7 and R310.14. must also be considered from this perspective. The passages also omit the following sentence: “*weighing all the specific facts and circumstances available to the professional accountants at that time.*” This entails a consequent change of the approach adopted in the application of the provisions concerned.

According to our analysis, also the transposition of paragraph 210.2 to paragraph 320.3 A1, behind an apparently formal variation, would appear to imply a significant change of approach. Actually, the interpolated sentence “*if known*” has been deleted in paragraph 320.3 A1. A deletion of this kind could have quite important consequences, because according to the approach taken in the rephrased paragraph, the assessment of the risks to integrity and “*professional behaviour*” would in the end be conducted, at the time the engagement is accepted, weighing all the possible threats regardless of whether the auditor is or is not aware of them.

### *1.2 Comments on the cross-references between paragraphs*

As regards another aspect, one of general method, it is to be underlined that cross-references to other sections of the Code have been added in some rephrased paragraphs. This course would seem to have been taken in order to allow the reader to find other paragraphs containing more detailed information and explanations for a more thorough understanding of the standard in question. Nevertheless, in our opinion, it can be seen that the paragraphs to which the reader is referred do not contain any more detailed rules but limit themselves to repeating the contents of the original paragraph. This Association hopes that the actual utility of cross-references of this kind will be considered and feels that it would be advisable, should it be decided to keep to this method, for the paragraphs to which the reader is referred to be expanded with standards and descriptions of use to the reader.

By way of example, it should be noted that the paragraphs characterised by the critical issues described above are the definition of “*acceptable level*” and paragraph 310.7 A2.

### *1.3 Comments on the desirability of the Code continuing to take a rule-based approach*

Finally, we find that also in distinguishing *requirements* from *application material* IESBA should continue to pursue the objective of drawing up a Code based on a “*principle-based approach*”. On this point, we refer to what we already pointed out in our reply to the Exposure Draft regarding “*safeguards*”, in which we underlined that in revising the Code of Ethics the “*principle-based approach*” which is its core element should not be lost sight of (**see Question no. 1b of the Exposure Draft**).

#### 1.4 *Formal amendments and their transposition into the other languages into which the Code of Ethics is translated*

Finally, as clarified by the IESBA in the Explanatory Memorandum, some paragraphs of the Code have been merely re-worded: specifically, the tenses of some verbs have been changed or some terms have been replaced with synonyms.

Considering that the Code of Ethics is also translated into other languages, in theory all the amendments in the Exposure Draft should also be subject to translation.

Any changes in style, however, that have been made in order to make the contents more understandable to an English language reader, may not need to be translated into other languages. Nevertheless, Assirevi would suggest that IESBA clearly state which amendments are purely changes in the language style, so that the entities which are to adopt the variations locally can consider whether or not to make changes to the texts in force.

## 2. Detailed comments on specific passages of the Glossary and on individual paragraphs

Some more detailed comments are reported below in relation to specific passages of the Glossary or of individual paragraphs of the Code.

### 2.1 *Glossary*

#### 2.1.1 Definition of Assurance Client and Assurance Engagement

As regards the definition of “*Assurance Client*”, it should be pointed out that reference is made to a “*direct reporting engagement*” and to an “*assertion based engagement*”; these references are no longer mentioned in the ISAE 3000 (revised), effective for assurance reports dated on or after December 15, 2015.

In other words, the definition in question would appear to not take account of the amendments made to ISAE 3000 where, in the version currently in force, reference is made to “*reporting engagement*” and to “*attestation engagement*”.

Also with a view to closer coordination among professional standards, Assirevi hopes that the definition of “*Assurance client*” can be aligned with that in ISAE 3000.

The same considerations also apply with regard to the definition of “*Assurance Engagement*”.

#### 2.1.2 Definitions of Firm and Network firm (see Question no. 5 of the Exposure Draft)

Reading the definition of “*Firm*” and “*Network firm*” and the provisions of Section 401, it would seem that only the auditing firm is covered by the notion of “*Firm*”, while all the other firms belonging to the same network come under the definition of “*Network firm*”. This clarification was really necessary in Assirevi’s view and the distinction seems fully acceptable. This Association hopes that this approach is also confirmed in the revision of the entire Section 290.

### 2.2 *Section 100 “Compliance with the Code” – Definition of Professional Accountant (see Question no. 1e of the Exposure Draft)*

Paragraph 100.1 reports a definition of “*Professional Accountant*”, which includes both the “*Professional accountant in business*” and the “*Professional accountant in public practice*”. Nevertheless we would ask you to note that the term “*accountant*”, a term which does not appear to be defined in the Code, is referred to in more than one paragraph of Section 100 (including, but not limited to, 100.2, 114.1 A1, 114.1 A2, R115.1, R115.2, R115.2 A1). In the Association’s view, passages in which there is a reference to the “*accountant*” should be gone through and rephrased in order to match their contents to the definitions in paragraph 100.1.

### 2.3 Section 120 “The Conceptual Framework”

As regards the amendments made to Section 120, reference should be made to the considerations made by the Association in the document dated 4 April 2016, on the occasion of the consultation concerning “*Proposed Revisions Pertaining to Safeguards in the Code- Phase I*” of March 2016.

### 2.4 Section 300 “Application of the Conceptual Framework for Professional Accountants in Public Practice”

#### 2.4.1 Par. 300.3 A2 and R300.3 (see Question no. 1b of the Exposure Draft)

Under the present paragraph 100.25, if a professional accountant communicates with a subgroup of “*Those Charged with Governance*” (“TCWGs”), he should determine whether the information should also be sent to all the other TCWGs.

The version of the Code dealt with in the Exposure Draft reports the same proposition in paragraph R300.3. However, paragraph 300.3 A2 is added, which specifies as follows: “*if a professional accountant communicates with a subgroup of those charged with governance, for example, an audit committee or an individual, communication with all of those charged with governance might also be necessary to ensure they are adequately informed.*” The rewording of this passage does not seem purely formal. In fact it appears to require the auditor to communicate with all the TCWGs, if he believes it necessary, in order to ensure that they are properly informed. Even if this guidance does not constitute an obligation, it would seem to tend towards the constant extension of communication to all TCWGs, since it does not explain in which situations it is necessary for the auditor to take this action.

#### 2.4.2 Paragraph 320.3 A4

The new paragraph states that a self-interest threat to professional competence and due care is created if an engagement team does not possess the right competencies.

We believe this is giving the wrong message. The key ethical obligation is possessing the right competencies, as stated in extant 210.6. The fact that it creates a self-interest threat is quite incidental.

### 2.5 Section 321 “Second Opinions” (see Question no. 1e of the Exposure Draft)

The reworded and reorganised paragraphs in this Section, in this Association’s view, are not as clear as the present Section 230. The succession of paragraphs in Section 230 handles the issue of Second Opinions more logically. Specifically, paragraph 230.2 envisages that contacting the existing accountant is a safeguard against the risk of not being aware of all the facts and circumstances at the basis of the request for a second opinion. The following paragraph, 230.3, then deals with a case in which the auditor must determine whether the second opinion can be provided or not, if the client does not consent that he contacts the existing accountant.

The Section 321 that is proposed, on the other hand, states a requirement similar to that laid down in paragraph 230.3 but does not mention the need for, or the advisability of, contacting the existing accountant.

### 2.6 Section 400 “Application of the Conceptual Framework to Independence for Audits and Reviews”

This paragraph states that “*independence is a measure of objectivity*”. This statement is quite wrong as it establishes a linear relationship between independence and objectivity such that the professional accountant cannot be objective if the professional accountant is not independent. However, this is not true. For example, if the professional accountant is not independent but was unaware of the circumstance that gave rise to the lack of independence, objectivity would not be impaired (as noted in the breaches section of the Code).

Requirements relating to independence help assuring objectivity but they are not an absolute pre-requisite to exercising objectivity.

The current wording in 400.1 is in conflict with the provisions of the breaches section of the Code and should be corrected.

*2.7 Reference in the header and in section of the re-structured Code to the “Conceptual Framework”*

The constant reference in the header and in each section of the re-structured Code to the “Conceptual Framework” appears to create an imbalance between the detailed requirements and the Conceptual Framework. We believe that the detailed requirements should be the primary focus and the conceptual framework the secondary focus. Otherwise there is a risk that readers may interpret that the conceptual framework can override the detailed requirements. As such we suggest that the sub-header be removed and the specific requirement to comply with the conceptual framework be moved to follow the detailed requirements accompanied by a statement along the lines “For circumstances other than those addressed by the specific requirement the conceptual framework should be applied...”.

Milan, 12 May 2016