



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

25 May 2017

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Technical Director
The International Ethics Standards Board for Accountants
545 5th Avenue, 14th Floor
New York, NY 10017

Dear Sir,

COMMENTS ON THE EXPOSURE DRAFT “IMPROVING THE STRUCTURE OF THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS – PHASE 2”

The Malaysian Institute of Accountants (“MIA”) appreciates the opportunity to provide comments on the Exposure Draft “Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2”. We commend the efforts of the International Ethics Standards Board for Accountants’ (“IESBA”) in developing the Exposure Draft based on the comments received on the Consultation Paper which was previously issued on the same topic.

Our comments on the Exposure Draft are provided below:

Structure of the Code Phase 2

1. Do you believe that the proposals in this ED have resulted in any unintended changes in meaning of:
 - The provisions for Part C of the extant Code, as revised in the close-off document for Part C Phase 1 (see Sections 200-270 in Chapter 1)?
 - The NOCLAR provisions (see Sections 260 and 360 in Chapter 2)?
 - The revised provisions regarding long association (see Sections 540 and 940 in Chapter 3)?
 - The provisions addressing restricted use reports in the extant Code (see Section 800 in Chapter 4)?
 - The provisions relating to independence for other assurance engagements (Part 4B in Chapter 5)?

If so, please explain why and suggest alternative wording.

Response:

Please refer to our comments below for respective chapters of this ED.

(A) Sections 260 and 360 in Chapter 2

(i) Paragraph 360.8 A1

We suggest that paragraph 360.8 A1 be modified in order to be consistent with the extant code and give greater clarity as follows:

"The client's management, Management, with the oversight of those charged with governance, is responsible for ensuring that the client's business activities are conducted in accordance with laws and regulations. The client's management, Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The client;*
- (b) An individual charged with governance of the entity;*
- (c) A member of management; or*
- (d) Other individuals working for or under the direction of the client."*

(ii) Paragraph 360.14 A1

We suggest that paragraph 360.14 A1 be modified in order to be consistent with the extant code and give greater clarity as follows:

Paragraph 360.14 A1, *"If client's management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the professional accountant might suggest appropriate sources of information or recommend that they obtain legal advice."*

(B) Sections 540 and 940 in Chapter 3

(i) Paragraph R540.18

We are of the view that Paragraph R540.18 should be modified in order to emphasize the mandatory requirement of the paragraph as follows:

"Where a legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may shall be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.10, R540.13 and R540.15(a) provided that the applicable time-on period does not exceed seven years."

(C) Section 800 in Chapter 4

(i) Paragraph 800.10

Paragraph R800.10 of the restructured Code is equivalent to paragraphs 290.510 and 290.511 of the extant Code.

Paragraph 290.510 of the extant Code states that *"An evaluation shall also be made of the significance of any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as described in paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115."*

Paragraph 290.510 of the extant Code makes reference to paragraphs 290.108 to 290.111 and paragraphs 290.113 to 290.115. The referencing made in paragraph R800.10 of the restructured Code is not consistent with paragraph 290.510 of the extant Code and should be modified as follows:

"When the firm performs an eligible audit engagement, the firm shall evaluate and address any threats that the engagement team has reason to believe are created by financial interests in the audit client held by individuals, as set out in paragraphs R510.7(c) and (d), 510.7 A1, R510.8, R510.10 and R510.13(c) and (d)."

(ii) Paragraph R800.11

The referencing made in paragraph R800.11 of the restructured Code is not consistent with the paragraph 290.512 of the extant Code. Paragraph 290.512 of the current Code is read as follows:

“In applying the provisions set out in paragraphs 290.106 and 290.115 to interests of the firm, if the firm has a material financial interest, whether direct or indirect, in the audit client, the self-interest threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, the firm shall not have such a financial interest.”

In order to have the same referencing in the restructured Code, paragraph R800.11 should be modified as follows:

“When the firm performs an eligible audit engagement, the firm, in applying the provisions set out in paragraphs R510.7(a), R510.9 and ~~R510.10~~ R510.13(d) to interests of the firm, shall not hold a material direct or a material indirect financial interest in the audit client.”

(D) Part 4B in Chapter 5

(i) Paragraph 900.12

We are of the view that Paragraph 900.12 should be modified to clarify that the subject matter information is provided to the intended users in the assurance report for both situations (a) and (b) of the paragraph as follows:

“In a direct reporting assurance engagement, the professional accountant either
(a) Directly performs the evaluation or measurement of the subject matter; or
(b) Obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.
The subject matter information is provided to the intended users in the assurance report.”

(ii) Paragraph R900.17

As it is necessary to identify, evaluate and address threat to independence, we suggest that Paragraph R900.17 be modified as follows:

“When a firm performing an assurance engagement has reason to believe that a threat to independence is created by a network firm’s interests and relationships, the firm shall evaluate and address any such threat.”

(iii) Paragraph 900.17 A1

We noted that there is a referencing error in Paragraph 900.17 A1 and we suggest that the paragraph be modified as below:

“Network firms are discussed in paragraphs ~~R400.50~~ 400.50 A1 to 400.54 A1.”

(iv) Paragraph 900.22 A1

We recommend that Paragraph 900.22 A1 be modified in order to be consistent in making reference to Part 4B instead of the particular section as follows:

“In some assurance engagements, whether assertion-based or direct reporting, there might be several responsible parties. In determining whether it is necessary to apply the provisions in Part 4B to each responsible party in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party would create a threat to independence that is not trivial and inconsequential in the context of the

subject matter information. This determination will take into account factors such as:

- The materiality of the subject matter information (or of the subject matter) for which the particular responsible party is responsible.
- The degree of public interest associated with the engagement.

If the firm determines that the threat created by any such interest or relationship with a particular responsible party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section in Part 4B to that responsible party.”

(v) Paragraph 924.6 A2

We noted that there is an error in Paragraph 924.6 A2 when making reference to other paragraph and the paragraph should be modified as follows:

“An example of an action that might be a safeguard to address threats set out in paragraph 924.4 A1 926.4 A1 is having an appropriate individual review any significant judgments made by that individual while on the team.

An action that might eliminate those threats is removing the individual from the assurance engagement.”

2. Do you believe that the proposals are consistent with the key elements of the restructuring as described in Section III of this Explanatory Memorandum?

Response:

Please refer to our comments below for respective paragraphs of this ED.

(i) Paragraph 220.5 A2

We find that Paragraph 220.5 A2 should be labelled as Paragraph 220.5 A1 instead as such paragraph is a different application material that is independence from its preceding and subsequent paragraphs, i.e. Paragraph 220.4 A1 and Paragraph 220.6 A1.

(ii) Paragraph 230.5 A1

We find that Paragraph 230.5 A1 should be labelled as Paragraph 230.6 A1 instead as such paragraph is a different application material that is independence from its preceding paragraph, i.e. Paragraph R230.5.

(iii) Paragraph R900.32

We suggest that Paragraph R900.32 be modified in order to increase the clarity of the paragraph as below:

“Subject to Paragraph R900.33, if a non-assurance service was provided to the assurance client during or after the period covered by the subject matter information but before the assurance team begins to perform assurance services and the service would not be permitted during the period of the assurance engagement, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the The firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.”

(iv) Paragraph 910.11 A3

We suggest that Paragraph 910.11 A3 be modified in order to be consistent with the previous paragraph and increase clarify of the paragraph as follows:

“An example of an action that might be a safeguard to address threats set out in paragraph R910.11(b) is having a professional accountant review the work of the assurance team member.”

(v) Paragraph 921.4 A1

We recommend that Paragraph 921.4 A1 be modified in order to have clearer presentation as follows:

“Threats might be created by family and personal relationships between an assurance team member and a director or officer or, depending on their role, certain employees of the assurance client. Factors that are relevant in evaluating the level of any such threats include:

- *The individual's responsibilities on the assurance team.*
- *The role of the family member or other individual within the client, and the closeness of the relationship.*
- *The closeness of the relationship.”*

Conforming Amendments Arising from the Safeguards Project

3. Respondents are asked for any comments on the conforming amendments arising from the Safeguards project. **Comments on those conforming amendments are requested by April 25, 2017 as part of a response to Safeguards ED-2.**

Response:

We have submitted our comments on the conforming amendments arising from the Safeguards project separately in a letter dated 19 April 2017.

Effective Date

4. Do you agree with the proposed effective dates for the restructured Code? If not, please explain why not.

Response:

We agree with the proposed effective dates for the restructured Code. We believe that there is sufficient time available to prepare for the adoption of the restructured Code.

We trust the above comments will be helpful in your final deliberations. The MIA looks forward to strengthening the dialogue between both organisations.

Thank you.

Yours faithfully,

MALAYSIAN INSTITUTE OF ACCOUNTANTS



DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer