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To: Committee reviewing IESBA Exposure Draft Improving the Structure of the Code of Ethics for Professional Accountants – Phase I

From Karen A. VAN PEURSEM, Phd CA (NZ), CPA (US)
Victoria University of Wellington
Visiting Professorial Fellow

Greetings

I have been asked to comment on this document, and my points and recommendations follow.

It is important to consider how users – practitioners primarily – use the documents. They do not sit and read it like a book, but research it for topics of immediate concern. Hence, it is important to (a) have absolutely consistency in how terms and ideas are expressed (b) use economic writing and (c) have clear structure. My comments reflect these issues.

On the positive side, the use of one Glossary for all terms makes the document far more readable and ensures a greater consistency in the use of terms. Excellent idea!

Also, distinguishing ‘requirements’ from ‘application’ is useful to focus the attention on mandatory requirements with which the practitioner must pay special attention.

Also, separating the topics within the 300-categories is helpful toward enabling an efficient and thorough search on a topic. Keeping this in mind, all ‘topics’ should have a clear heading, and all issues about each topic should be in that category so that the researcher does not *miss* something important about it by looking in one place. (See points below.)

I have concerns however, with respect to three important issues as there is a need to:

- (1) Improve clarity and consistency about ‘assurance’ and ‘assurance services’
- (2) Link similar topics together and to principles, threats and ‘Requirements’.
- (3) Clarify the role of ‘independence’ within the Principles, and use the term consistently

Particulars follow.

- (1) Improved clarity/consistency about ‘assurance’ and assurance services’, Setting the tone for this problem, there is no definition of ‘assurance’ in the glossary. This leads to confused referencing throughout this document (Also in ISAE NZ 3000) where, for example, there is reference to ‘assurance services other than audits and reviews’ or ‘audit, review or other assurance service’ (p36)...

‘Audits’ and ‘reviews’ are the only types of engagements which provide assurance even though their scope of investigation may vary widely (such as CSR or VFM etc). Furthermore ‘assurance’ is ‘audit or review’ not ‘compilation’ as noted in some places in the document. The footnote (p49) is not enough to resolve the confusion created by this. The most glaring oddity is on p19 where the document is limited to ‘audits’ and ‘reviews’ even though there is an assumption in the document that there are other assurance services. Problems are on p7 where there is reference to ‘audit and review engagements’ even though the concern is with ‘assurance’. Other examples are on p11, p48, p 44 on contingent fees, other examples on p49 & 53 and the name of topic 400 (p14). The problems vary, sometimes ‘audit engagements’ are referred to when ‘assurance engagements’ are the concern, other times references to ‘other assurance services’ confuses the question of whether ‘audit and review’ are or are not the only ‘assurance services’.

Recommendation:

- (i) Define ‘assurance’ as an ‘audit or review level of service’ in the Glossary,
- (ii) edit throughout the document, use ‘assurance’ and ‘assurance services’ consistently where ‘audit and review’ or its independence requirements are implied.

(2) Link similar topics... to principles and threats and requirements: Remember that the practitioner uses this as a reference. Repetition, including one topic in several places, burying important information within a wordy description has real costs: Key information may be easily missed. As an example, references to one or two of the ‘threats’ or ‘principles’ or ‘independence’ are never classified and become lost in the long dialogue.

Recommendation: Insert simple tables with key words in each topical section. eg

Topic S330	Principles of concern	Threats	Assurance treatment different?	Other points
<i>Fees & other remuneration</i>	<i>PC&DueCare</i>	<i>Self-interest, Advocacy, Intimidation</i>	<i>Yes</i>	
<i>Contingent fees</i>	<i>PC&Due Care Integrity</i>	<i>Self-interest</i>	<i>Yes</i>	<i>See C1 C2 of Code</i>
<i>Referral fees (Commissions)</i>	<i>Objectivity PC&Due Care</i>	<i>Self-interest</i>	<i>May be</i>	

This serves clarity facilitates user needs and updating as well

- (3) Clarify the role of 'independence' within the Principles and use consistently:
It's naïve to think you can move Independence sections to the end of the Code (p6) as it surely is part, or should be part, of the Conceptual Framework. This document thus conflates 'fundamental principles' with 'threats' and with 'independence'. The absence of 'Independence' from the Fundamental Principles is a fatal flaw – surely it should be 'Objectivity and Independence' –that confusion is reflected in mixed use of ideas this document.

So for example, there is a failure to include 'independence' where it should be (e.g. p60, other places). Sometimes 'threats' are referred to as threats to 'independence', in other places to 'fundamental principles (p27). It is unclear how most 'threats' can relate to 'fundamental principles' without threatening 'independence'. The 'Conceptual Framework' fails to incorporate 'Fundamental Principles' (eg p64) and this adds confusion and thus concepts remain un-linked. As a conceptual framework, and in at least these respects, it fails.

Recommendation: Assuming the 'fundamental principle' names cannot be changed, the definition of 'Objectivity' should include references to Independence, and Independence deserves a separate section between 110 and 120, or a large subsection within the 'Objectivity' category. Edit throughout to ensure that 'threats' consistently refer to either 'independence' or 'fundamental principles', but not both.

These are serious flaws and deserve careful attention in my view to resolve. Some more minor points and suggestions follow:

- a. A good conceptual framework avoids overlap. The self-interest threat, as defined, overlaps with other threats however, especially in using the phrase 'other interest' (p27). For example, p30, the second 2 examples under 'self-interest threat' could be 'intimidation' and 'familiarity' in that order. **Recommendation:** replace the phrase 'other interest' (p27) 'and related interests' to avoid covering everything.
- b. Editing for repetition, careful sentence construction and needless discussion. So for example, p 27 could be edited to the more precise "(b) Self review threat.... The threat that a professional will inappropriately evaluate a previous judgment, activity or service of their own, or of another member of their employing organization, and on which the professional will rely when performing a current activity or service."
- c. **Recommend** that all examples ('applications') be in one place, not spread throughout.
- d. Neither 'Communication' nor 'confidentiality' are in the 300-level section, I'd **recommend** their inclusion given their importance.
- e. **Recommend:** Place 410 and 411 topics in 330 as they are on the same issue
- f. **Recommend:** Place 420, 510, 511, 520 and 521 in the 300 category.

