

Date  
15 December 2004

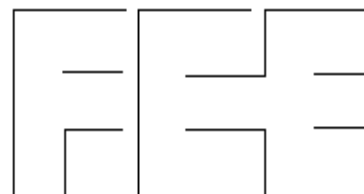
Le Président

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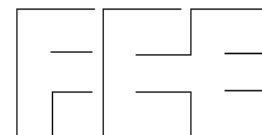
Dear Ms. Munro,

**Re: IFAC Exposure Draft – Proposed Revised Code of Ethics for Professional Accountants**

1. FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to have the opportunity to comment on the IFAC Exposure Draft – Proposed Revised Code of Ethics for Professional Accountants (hereinafter referred to as “the Code”). We welcome the Revised Code and the way the former Section 8 has been incorporated into the Revised Code.

General

2. We welcome the principles-based or framework approach. FEE advocated a principles-based approach in its 1998 independence paper (“Statutory Audit Independence and Objectivity – Common Core of Principles for the Guidance of the European Profession – Initial Recommendations”) and wholeheartedly endorses this approach. It has formed the basis of the European Commission (EC) Recommendation on Statutory Auditor Independence and has been endorsed by the International Organisation for Securities Organisations (IOSCO) in its Principles of Auditor Independence published in October 2002. FEE fully supports a principles-based approach to ethical standard setting, supplemented by appropriate guidance, restrictions and prohibitions. By focusing on the underlying aim rather than detailed prohibitions, the principles-based approach combines flexibility with rigour in a way that is unattainable with a rules-based approach.
3. FEE published a paper in November 2003 on a “Conceptual Approach to Safeguarding Integrity, Objectivity and Independence throughout the Financial Reporting Chain” outlining how the conceptual approach could be used in setting ethical requirements throughout the financial reporting chain. For example, in developing ethical codes and independence requirements for members of the audit committee.
4. We note that IFAC is seeking comments only on Section 290, and only on those changes to Section 290 to conform the Code to the International Framework for Assurance Engagements issued by IAASB and to conform the Code to the definitions in ISQC1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance Related Service Engagements. We observe that the review of the Code is and should be a continuous process. We understand that the IFAC Ethics Committee intends to review Section 290 in the light of recent developments, once experience with the application of the Code and in particular with Section 290 (former Section 8) is obtained and proper feedback is organised. Section 290, former Section 8, was last revisited pre Enron, Worldcom, Parmalat and other recent scandals. There is a clear need for IFAC to demonstrate that the Code is sufficiently rigorous and flexible enough to



cater for those type of circumstances and cases. It should be demonstrated that the principles-based approach is the only sure and viable way forward. You may recall that we have published in October 2004 a paper “EC Recommendation on Statutory Auditor’s Independence in the EU and Comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants – Considerations on the Implementation of the Framework Approach” to demonstrate the application of the principles-based approach.

### Comments on Questions

a) *Are the changes to conform to the Assurance Framework appropriate and clear?*

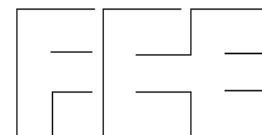
We are of the opinion that it is appropriate to conform the Code to the Assurance Framework. However we are of the opinion that the changes are not clear and observe problems with the definitions and terminology used. The Code should ideally be readable as a stand-alone document and be self-explanatory, although it should be assumed that the reader of the Code is aware of the concepts and principles of the Assurance Framework. Therefore, it would be helpful if definitions of the Assurance Framework and ISQC1 be introduced into the Code or at least a proper reference to the relevant paragraph(s) in the Assurance Framework and ISQC1 needs to be included, as well as a short discussion of key terms in form of footnotes or otherwise (if it is not workable to include full definitions of all terms) for example:

- Paragraph 290.10, is difficult to read since the example of two responsible parties is only provided in paragraph 25 (b) of the Assurance Framework.
- Paragraph 290.142 (d) last bullet point, we assume that engagement quality control review is meant. The text refers only to “quality control review”.

In addition it is not clear to us why a distinction is made in paragraphs 290.8 to 290.10 between direct reporting assignments and others.

Moreover proposed changes related to the distinction between subject matter and subject matter information are unclear and make the Code difficult to read and to understand why and how the professional accountant in public practice should be independent of the party responsible for the subject matter information whereas threats have to be considered in relation to the subject matter (if different from the subject matter information). This is especially difficult to follow for assurance engagements other than financial statements audits also envisaged under the Assurance Framework. It is our understanding that the drafting of the Exposure Draft reflects the difficulties the IFAC Ethics Committee encountered in interpreting the Assurance Framework. It would be helpful if the IFAC Ethics Committee could prepare a summary report of the difficulties they had in introducing the Framework in the Code. It would be appropriate for both IAASB and the IFAC Ethics Committee to consider these difficulties and their implications for the Framework. We also observe in this case that no definitions are provided in the Code of “subject matter” and “subject matter information”, which could, if the distinction is retained, usefully be introduced in the form of footnotes. The distinction may also cause difficulties in translation.

We note that the definition of “firm” is different in the Code compared to ISQC1. The Code covers ownership issues and so there is an element of overlap with the definition of “network firm”. Taking the definitions of “firm” and “network firm” as a whole ISQC1 would, in substance, appear to cover the same arrangements as the Code. Also ISQC1 uses the term “engagement quality control reviewer” which is defined. The Code on the other hand uses “the individual responsible for the engagement quality control review” (at 290.153). Whilst this in itself does not cause any particular problems, it would help the user if the same terminology is used between the documents.



b) *Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?*

We are of the opinion that the Code should avoid introducing additional rules. We therefore propose that as part of the framework approach, the rotation of the individual responsible for the engagement quality control review should be presented as an ultimate safeguard when other safeguards do not sufficiently reduce or mitigate the familiarity threat.

Engagement quality control reviewers generally do not maintain close contact with management of the entities which financial statements are being audited, and in fact, may have very little contact with management if at all. Consequently, they are generally not subject to the familiarity threat to which engagement partners may be exposed. Furthermore, since the engagement partner is subject to rotation, the threat that the engagement quality control reviewer will lose his objectivity with respect to the engagement is likely to be very low. Moreover, introducing such a rotation requirement would be disproportionately burdensome, especially for the smaller firms that audit listed companies or public interest entities. Also for larger firms, there may be difficulties with adverse potential effects on audit quality for specialised industries. There is a wide spectrum of situations that cannot be appropriately captured by one requirement.

c) *Is the effective date appropriate?*

The effective date of 31 December 2005 is in our view appropriate.

We would be pleased to discuss any aspect of this letter with you and to answer any questions you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'. The signature is fluid and cursive, with a large initial 'D' and 'D'.

David Devlin  
President