

28 February 2014

To:

Mr. Holmquist
Chair of the International Ethics Standards Board for Accountants

Re.: Comment letter from European audit regulators relating to the IESBA's Consultation Paper "Proposed Strategy and Work Plan, 2014-2018"

Dear Mr. Holmquist,

1. A number of independent European audit regulators and/or oversight bodies ("audit regulators") appreciate the opportunity to comment on the IESBA's ("Board") Consultation Paper *"Proposed Strategy and Work Plan, 2014-2018"* issued in December 2013. The content of this letter has been discussed and agreed upon by the audit regulators of the following countries:

- Austrian Auditors Supervisory Authority – Austria
- Audit Public Oversight Council – Czech Republic
- Danish Business Authority – Denmark
- Haut Conseil du Commissariat aux Comptes – France
- Abschlussprüferaufsichtskommission – Germany
- Auditors' Public Oversight Authority – Hungary
- Authority of Audit and Accounting – Lithuania
- Commission du Surveillance du Secteur Financier – Luxembourg
- Netherlands Authority for the Financial Markets – The Netherlands
- Finanstilsynet – Norway
- Conselho Nacional de Supervisão de Auditoria – Portugal
- Romanian Public Interest Oversight Body of Accounting Profession – Romania
- Auditing Oversight Authority – UDVA – Slovakia
- Slovenian Agency for Public Oversight of Auditing – Slovenia
- Instituto de Contabilidad y Auditoria de Cuentas – Spain
- Federal Audit Oversight Authority FAOA – Switzerland
- Supervisory Board of Public Accountants, Revisorsnämnden – Sweden

2. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above-mentioned audit regulators. Nevertheless, they are not intended to include all comments that might be provided by these individual regulators and their respective jurisdictions.

Introductory Comments

3. As audit regulators, our mandate encompasses the oversight of the independence of statutory auditors, based on the requirements applicable in our respective jurisdictions.
4. The IESBA Code of Ethics is used in several jurisdictions, but not in all of them. Even for those that do not use it, we clearly see an interest in enhancing its content, as it is used as a basis for some benchmarks at international level. Moreover, a number of audit firms and networks have voluntarily committed to complying with the IESBA Code.
5. Our comments hereafter convey our general support for the proposed strategic themes and highlight the work streams that we consider as most relevant to increasing the value of the IESBA Code.

Comments

Support for the strategic themes presented

6. We generally support the strategic themes set out in the consultation paper,¹ since the quality of the ethical standards, their effective implementation, their relevance in a changing global environment and consideration of the key stakeholders' needs are necessary to foster the use of the Code of Ethics worldwide.
7. We believe that the acceptance of the Code, internationally, should primarily be driven by the quality of its content and its ability to contribute to the public interest.

Auditors' behavior and contribution to the public interest

8. From our perspective as audit regulators, the priority topics relate to the provisions of the Code applicable to auditors or to audit firms. We recognize that the scope of the IESBA is broader and also covers ethics for accountants that are not registered or active as statutory auditors, but we are not directly interested in the IESBA work streams that will not have any effect on the behavior of auditors.²
9. Furthermore, we are particularly focused on the auditor's contribution to the public interest: we are of the view that the criterion pertaining to the potential benefit to the public interest³ is the most important one in decisions taken by the Board to prioritize its work streams.

Audit reform in Europe

10. We suggest that the Board allocates sufficient resources to work on topics in relation to ethics that are addressed by the audit reform in Europe, in order to consider the potential implications of this reform. We suggest that the Code take into account the level of requirements set by the European regulation. Indeed, a code that is less stringent than the legal framework in force would impair its potential applicability in the European countries. Consistency with the applicable legal requirements for ethics would be a precondition towards a wider recognition of the Code.
11. In this regard, we recommend that the outcome of the reform be followed closely, in order to ensure that the IESBA Code is consistent, specifically in the areas of :
 - the provision of non-audit services by auditors,
 - the auditor's long association with an audited entity (auditor rotation),
 - the auditor's communication when facing irregularities, breaches of the laws, or going concern issues,
 - the provisions regarding the auditor's independence and the relationship between persons placed at the disposal of the auditor and the audited entity,⁴

¹ §6. "The strategic themes for 2014–2018 identified by the Board are:

- (i) Maintaining a high-quality Code of Ethics for application by PAs globally;
- (ii) Promoting and facilitating the adoption and effective implementation of the Code;
- (iii) Evolving the Code for continued relevance in a changing global environment; and
- (iv) Increasing engagement and cooperation with key stakeholders."

² Such as, for instance, the revision of Part C of the Code about the conduct of the professional accountant in business.

³ §23

⁴ See also our remark in §17 hereafter

- the considerations for joint auditors acting together,
 - the auditor's relationships with the audit committee or body performing equivalent functions,
 - the provisions on fee dependency.
12. In this regard, we support that the Board envisages continuing to dedicate resources to the work streams dealing with topics like "non compliance with laws and regulations", "long association" and "non-assurance services",⁵ in order to respond to external development. Topics stemming from the audit reform would thus be likely to be covered during the 2014/2018 period.

Enforceability and other concerns from audit regulators

13. Enforceability of the ethical provisions that apply to auditors and more so the fact that the Code allows for consistent application by different auditors, is an area of concern for us. Accordingly, we would expect the project dealing with structure of the code,⁶ insofar as it could increase the clarity and usability of the Code, to be an opportunity to enhance its value. We support the prioritization of this topic.⁷
14. Other measures taken by the IESBA to enhance the enforceability of the Code would also be seen as positive steps forward, such as more clarity on "safeguards"⁸ that could be acceptable in the IESBA approach. Limiting, where possible, specific exemptions to the general provisions set by the Code would be another topic to consider.
15. "Fee dependencies"⁹ and "specific consideration of Collective Investment Vehicles"¹⁰ are work streams supported by audit regulators, which sometimes face issues with these topics during inspections.
16. In addition, several regulators have in the past expressed concerns about the need for independence of persons whose services are placed at the disposal of the auditor to perform audit work.¹¹ We believe that the ethical rules in this regard should be reinforced in the IESBA Code. This question might deserve a dedicated work stream in the 2014/2018 period.¹²
17. Another topic that we would like the IESBA to consider when dealing with or prioritizing the various work streams, is the appropriateness of ethical provisions that are specific to the organization of the audit work where the auditor decides to use the services of persons working in off-shore centers.
18. The IESBA provisions on the acceptance of an audit engagement when other services have been provided by the same person or firm in the past are also a concern for several regulators, who would like to see improvements in this area.
19. We also encourage the Board to seek further convergence with the IAASB, in the language used and in the requirements defined, in order to facilitate a common understanding by the stakeholders.

⁵ §34

⁶ §40, 41

⁷ §29

⁸ §35

⁹ §52

¹⁰ §49, 50

¹¹ Responses to exposure draft on ISA610 and on the engagement team definition

¹² See also the link with the European audit reform in this regard

Addressing urgent emerging issues

20. We support the Board's statement on the importance of flexibility¹³ in its work program. Allocating time to address emerging issues in the light of external developments where timely responses are needed is especially important for those jurisdictions in which the IESBA Code is directly applicable. This flexibility will allow the Board to address urgent issues brought to its attention by the regulators.
21. We believe that an appropriate due process should allow the Board to add work streams to provide responses before the end of the strategic period when deficiencies that deserve immediate remediation are identified in the Code of Ethics.

We thank you for the opportunity to comment on the consultation paper. If you have any questions or would like to further discuss the matters noted in this letter, please contact Marjolein Doblado, technical director of the Haut Conseil du Commissariat aux Comptes (+33 1 44 51 09 36).

Yours sincerely,

Audit regulator of:

- Austria
- Czech Republic
- Denmark
- France
- Germany
- Hungary
- Lithuania
- Luxembourg
- The Netherlands
- Norway
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Switzerland
- Sweden

¹³ §32, §20

Appendix: Comments on questions included in the consultation paper

The Board in particular would welcome respondents' views on the following:

- a) *Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why.*

Please refer more specifically to §8, 10 to 12.

- b) *Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.*

Please refer more specifically to § 6, 7.

- c) *Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.*

Please refer more specifically to § 10 to 15.

- d) *Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated).*

Please refer more specifically to § 16 to 19.

The Board invites comments on any other matters you believe would be important for it to consider in developing its SWP for 2014-2018.

Please refer more specifically to § 20, 21.