

**PIOB Monitoring of Comment Letters submitted by MG/IFIAR Members and Other Stakeholders
to the ED of Structure of the Code (published in December 2015)**

As of July, 2016

#	Respondent	Group	Issue	MAIN Issues/Recommendations
				Description
1	IOSCO	MG	Requirements	Paragraph 7 gives the impression that the inclusion of the word "shall" in a paragraph is the only criterion for identifying a requirement in the proposed Code. It should be made clear that an accountant must comply with all requirements where "shall" is used or if the paragraph is designated with an "R".
2	IOSCO	MG	Emphasis on general independence requirement and fundamental principles	We support the prominence given to the proposed requirement to apply the conceptual framework of the Code. We believe the general independence requirement in paragraph R400.9 should be given similar prominence. The general independence requirement should be an overriding test, requiring the accountant to resolve a conflict and/or cease to be involved in an audit engagement. Greater prominence to the requirement will assist accountants in placing appropriate focus on the importance of this test. ... Compliance with the fundamental principles should also be given more prominence... It would assist practitioners to emphasize in the Code that the general independence test and fundamental principles are overriding requirements that apply irrespective of other specific provisions in the Code.
3	IOSCO	MG	Exceptions to the Code requirements	Paragraphs 10 and 11 suggest that there are instances where an accountant would not be required to comply with the specific requirements in circumstances where they consider it appropriate not to do so, albeit after consultation with other parties. The Board should consider removing such exemptions as they undermine the specific requirements of the Code, may conflict with the general independence requirement, and may be inconsistent with the comment in paragraph 6 that the Code requires compliance with the fundamental principles of professional ethics.
4	IOSCO	MG	Use of "it is generally necessary"	Some provisions of the proposed Code preface actions by the accountant with the words "it is generally necessary". These provisions would provide too much subjectivity, lack clarity and would be difficult to enforce. We suggest making such provisions requirements.
5	IOSCO	MG	"Reasonable and informed third person" test	We support the use and definition of the concept of a "reasonable and informed third person". Nonetheless, please consider suggestions for improvements to the definition as part of the submissions on the IESBA's ED "Proposed Revisions Pertaining to Safeguards in the Code - Phase I". Extract from that letter: <i>We believe the proposed definition appears to concentrate on the "informed" part of the concept, that is, a person who possesses "skills, knowledge and experience". However, the Board should provide additional clarity on the characteristics this person possesses. For example, the Board may wish to indicate that this person is expected to have a reasonable knowledge of business and economic activities, has a general understanding about auditing and is expected to be diligent in their review and analysis of the relevant information.</i> ... An independent third party is not just another professional accountant but someone who is unrelated to the audit and/or network firm or the audited entity in fact and appearance, who considers the specific facts and circumstances and concludes in a manner that is devoid of bias.
6	IOSCO	MG	Sufficiency of Safeguards	Certain paragraphs of the proposed Code require an assessment as to whether safeguards are necessary to address a threat. These provisions should also require the auditor to determine whether the safeguards are sufficient to address the threats and, if not, require action such as ceasing to be the auditor before issuing an opinion.
7	IOSCO	MG	"Materiality" and "Significance"	Certain provisions of the proposed Code would apply subject to "materiality" and "significance". Guidance should be provided on the application of the materiality and significance criteria, which might include: a) a reasonable third party criterion; b) the need to consider qualitative factors...; c) the need to consider the "perception" or "appearance" of independence; and d) the need to apply the test in the context of a network, individual firm and an individual engagement.
8	IOSCO	MG	Documentation	Paragraph 402.1 would require documentation evidencing "judgments when forming conclusions regarding compliance with independence requirements". The documentation should be required to be of a standard that would enable another professional to understand the judgments made and the reasons. Guidance should be provided on the extent of documentation required in relation to matters such as the identification of risks, and evaluation of threats that were determined to be acceptable without safeguards.
9	IOSCO	MG	Breaches	Depending upon the significance of a breach of an independence requirement of the Code, paragraph R404.2(e) would require ending an audit engagement or taking other appropriate action. It should be made clear that other action is not appropriate where another requirement of the Code requires the engagement to be ended.
10	UK FRC	IFIAR Member	General	The draft currently omits the stages we found to be necessary - namely a need to clarify through supporting ethical provisions the outcomes that are necessary to act in accordance with the fundamental principles. In that respect, the Guide to the Code has a crucial role in providing users with a route map through the Code, and should contain more explanation of the purpose of the fundamental principles, as well as of the Code itself. This should emphasize the overall objective of achieving better ethical outcomes rather than simply following specific rules or establishing process.
11	UK FRC	IFIAR Member	Guide to the Code	As the Guide is the starting point for users of the Code, we think more could be done to describe not just the purpose of the Code but also the purpose of the principles and framework. ... In describing the purpose of Parts B and C of the Code, the Guide sets out the applicability of each component to professional accountants working in business, and those working in public practice. The current draft includes the sentence "Professional accountants in public practice might also find Part B relevant to their particular circumstances". This does appear to run the risk of confusing users... This might undermine the effectiveness of the Code.
12	UK FRC	IFIAR Member	Link to ISQC1	We note that further amendments to the Code may follow on from the IAASB's review of ISQC1... The senior management of the firm should have the overarching responsibility to ensure an appropriate ethical mindset and culture. In our view, the clarity necessary to secure this is still lacking, and further work is still needed to ensure that the Code is absolutely clear and unambiguous about who supporting requirements and provisions apply to.
13	UK FRC	IFIAR Member	Clarity of language	Whilst in general we believe the current project has resulted in improvements to the clarity of language used in the Code we do have some concerns about the completeness and precision of some of the key terms being used. This is particularly the case in respect of the use of such language as "audit firm", "audit team member" and "audit client".
14	UK FRC	IFIAR Member	Enforceability of the Code	Some specific sections of the Code could be enhanced to help ensure ethical outcomes are achieved, and enhance enforceability. We note that the inclusion of material on safeguards is currently in draft form, to be finalized following the Board's recent consultation.



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15	IRBA	IFIAR Member	Conceptual Framework	<p>The conceptual framework (CF) is the bedrock of the Code and has been referred to numerous times. However, we question if the CF has been highlighted sufficiently and given the prominence it deserves. We suggest a diagrammatic representation of the CF and the fundamental principles in the Guide to enhance the clarity of the Code rather than the use of the repeated header on each page which we do not find particularly helpful.</p> <p>... With respect to the diagram that illustrates how the different parts of the Code fit together, we suggest the inclusion of the following standard issued by the IAASB: ISQC1, as it contains ethical requirements that an audit firm will need to consider. It is imperative for a professional accountant to read the Code and ISQC1 for all ethical requirements.</p>
16	IRBA	IFIAR Member	Guide to the Code	<p>The Guide to the Code should explain how requirements and application material are to be used. We note that the ISAs include a statement explaining the relationship between requirements and application material.</p>
17	IRBA	IFIAR Member	Guide to the Code	<p>We note that the definition and status of requirements and application material have not been explained clearly. We believe that this will help in the future, especially when enforcing the Code. Failure to provide a proper definition and status of requirements and application material may lead to various interpretations of the Code.</p>
18	IRBA	IFIAR Member	Link to ISQC1	<p>The responsibility between the firm and a specific individual in the firm made in ISQC1 should be incorporated into the Code. Where possible, all ethical requirements or considerations should be incorporated into the Code, rather than in IAASB pronouncements.</p>
19	IRBA	IFIAR Member	Clarity of language	<p>There are certain words or phrases in this ED that may be considered unclear and need to be reconsidered, e.g. "so significant", "deters", "encourages", "otherwise advise", "many variations", and "recently".</p>
20	Securities Commission Malaysia	IFIAR Member	n/a	<p>No objections to the ED.</p>