



**By e-mail < [Edcomments@ifac.org](mailto:Edcomments@ifac.org) >**

17 October 2008

Our Ref.: C/EC

International Ethics Standards Board for Accountants,  
International Federation of Accountants,  
545 Fifth Avenue, 14<sup>th</sup> Floor,  
New York,  
New York 10017,  
USA.

For the attention of: Jan Munro, Senior Technical Manager

Dear Sirs,

**[IESBA Exposure Draft of Proposed Revised Code of Ethics for Professional Accountants - Proposals to Clarify in relation to the drafting conventions project](#)**

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned IESBA Exposure Draft.

Overall, as stated in our submission letter dated 2 May 2007 on the IESBA December 2006 Exposure Draft on Auditor Independence, we are supportive of the current work of the IESBA which seeks to consider what revisions to auditor independence requirements might be needed given the changing environment in the past few years and that the last substantive revision to the IFAC Code of Ethics for Professional Accountants was made in November 2001.

The attachment set out our comments on the proposals to clarify in relation to the drafting conventions projects for your consideration.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me at [ong@hki CPA.org.hk](mailto:ong@hki CPA.org.hk).

Yours faithfully,

Steve Ong, FCA, FCPA  
Deputy Director, Standard Setting Department

SO/ac  
Encl.



## **ATTACHMENT**

### **HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE IESBA EXPOSURE DRAFT OF PROPOSED REVISED CODE OF ETHICS – PROPOSALS TO CLARIFY IN RELATION TO DRAFTING CONVENTIONS PROJECT**

#### **Request for Specific Comments**

- 1. The IESBA is of the view that identifying a requirement by the use of the word “shall” clarifies the Code and appropriately brings the language in line with that adopted by the IAASB. Do you agree? If you do not agree please provide an explanation.**

We understand that the IESBA has reviewed the Code to identify provisions that are intended to convey requirements and has re-written these requirements by using the word “shall”. In general, we agree with the approach. However, we would like to remind IESBA to be mindful and to strike a balance between on one hand having a principles-based approach to the Code, and on the other hand, placing too many requirements with a “shall” in the Code, as it has been reported that the tone of the Code has changed. We believe that there is a need to ensure that a balance is made in order that the Code is robust.

- 2. The IESBA is of the view that separately presenting the objective to be achieved, the requirements designed to achieve that objective, and the application guidance as in the ISAs would not further improve the clarity of the Code. Do you agree? If you do not agree, please provide an explanation and an example of the separate presentation that you recommend.**

We agree that the structure of the Code is different from the structure of the ISAs, and applying the same approach as in the ISAs to the Code would not further improve the clarity of the Code.

- 3. The IESBA is of the view that in exceptional and unforeseen circumstances that are outside the control of the professional accountant, the firm or employing organization, and the client, the application of a specific requirement in the Code may result in an outcome that a reasonable and informed third party would not regard as being in the interest of the users of the output of the accountant's professional services. Therefore, the Board is proposing that the Code include a provision that would permit a professional accountant, in such circumstances, to depart temporarily from that specific requirement. This would not be the same as provisions in the Code that address situations in which a professional accountant has inadvertently violated a provision of the Code. The departure would only be acceptable if all of the conditions set out in paragraph 100.11 are met.**

- (a) Do you agree that the Code should contain a provision that permits any exception to compliance with a requirement set out in the Code? If you do not agree, please provide an explanation.**

We agree in principle that the Code should contain a provision that permits exception to compliance with a requirement set out in the Code. We recognize that it is impossible for the IESBA to anticipate all circumstances faced by professional accountants.

- (b) If you believe that the Code should contain a provision that permits an exception to compliance, are the conditions under which the exception would apply appropriate? Should there be additional or fewer conditions and, if so, what are they?**

We note that the circumstances under which an exception is acceptable is too narrow, i.e. only in exceptional and unforeseen circumstances that are outside the control of the professional accountant, the firm or employing organization, and the client. We are of the view that the critical test for whether an exception to compliance should be permitted is whether an exception is in the public interest. We believe that exceptions should only be permitted when it is in the public interest to depart from the Code in exceptional circumstances.

In general, we agree with the conditions under which a departure would be acceptable except for the third bullet requiring the disclosure to the users of the output of the professional services of the nature of the departure and reasons for it. We believe it is unnecessary to require this condition as there are already sufficient “safeguards” such as the professional accountant has to have the agreement of those charged with governance. As the Code is based on a conceptual framework that provides for the evaluation of particular facts and circumstances to assess the threats to compliance with the fundamental principles and the application of safeguards to eliminate the threats or reduce them to an acceptable level, professional accountants are required to exercise reasonable professional judgement.

- (c) If you believe that the Code should not contain a provision that permits an exception, please explain how you would deal with the types of exceptional and unforeseen situations that may be covered by paragraph 100.11.**

Not applicable.

- (d) Are there any other circumstances where you believe a departure from a requirement in the Code would be acceptable? For example, should an event that is within the control of one of the relevant parties qualify for an exception? If so, please provide an explanation and specific examples of the circumstances where you believe a departure would be acceptable.**

See comments in (b) above.

- 4. The IESBA is of the view that the proposed modification to focus the application of the conceptual framework throughout the Code, and the related documentation requirements in Sections 290 and 291, on threats that are not at an acceptable level will result in a more efficient and effective application of the framework approach. Do you agree? If you do not agree, please provide an explanation.**

We agree that the proposed modification to focus the application of the conceptual framework throughout the Code, and the related documentation requirements in Sections 290 and 291, on threats that are not at an acceptable level will result in a more efficient and effective application of the framework approach.



- 5. The IESBA is of the view that the selected point-in-time effective date with the proposed transitional provisions will provide the appropriate balance between firms and member bodies having sufficient time to implement the new standards and effecting change as soon as possible. Do you agree? If you do not agree, please provide an explanation of how you would revise the effective date or transitional provisions to achieve that balance.**

We agree that the selected point-in-time effective date with the proposed transitional provisions will provide the appropriate balance between firms and member bodies having sufficient time to implement the new standards and effecting change as soon as possible.

## **Other Comments**

- 6. Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client**

We note that paragraph 290.150 of the proposed Code mentioned about the threats from the long association of senior personnel with an audit client. Furthermore, one of the example safeguards against the threats as mentioned in this paragraph is regular independent internal or external quality reviews of the engagement. We suggest the IESBA clarifies the meaning of “external quality reviews” and whether it includes having a member of the network firm to perform the review. We are also concerned about the cost-benefit issue as the cost arising from the regular independent external quality reviews of the engagement may outweigh the benefits for smaller clients.

- 7. Fees**

In paragraphs 290.221 and 291.151 of the proposed Code, it stated that when the total fees from an audit/assurance client represent a large proportion of the total fees of the firm expressing the conclusion, the dependence on that client and concern about losing the client creates a self-interest threat. The significance of the threat will depend on various factors and one of those is the significance of the client qualitatively and/ or quantitatively to the firm. We suggest that the IESBA clarifies under what circumstances will the client be regarded as qualitatively significant to the firm.

- 8. Preparing Accounting Records and Financial Statements**

We note that paragraph 290.167 of the proposed Code set out two responsibilities of the management for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. We are of the view that the following responsibilities should also be included:

- (a) Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- (b) Selecting and applying appropriate accounting policies; and
- (c) Making accounting estimates that are reasonable in the circumstances.

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