



Our Ref.: C/EC

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20 January 2012

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

Dear Sir,

**[IESBA Exposure Draft of Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing a Breach of a Requirement of the Code](#)**

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.

--- The attachment set out our comments to each of the questions in relation to the proposals to revise the provisions for your consideration. In summary, we are supportive of the proposed changes to include a requirement that a professional accountant take whatever actions that might be available as soon as possible to satisfactorily address the consequences of a breach of a provision of the IESBA Code. For a breach of an independence requirement in the IESBA Code, a detailed framework is provided setting out the action to be taken. Specifically, the proposed changes would require a firm to:

- terminate, suspend, or eliminate the interest or relationship that caused the breach;
- evaluate the significance of the breach and determine whether action can be taken to satisfactorily address the consequences of the breach;
- communicate all breaches with those charged with governance and obtain their agreement with the proposed course of action; and
- document the actions taken and all the matters discussed with those charged with governance and, if applicable, any relevant regulators.



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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, FCPA, FCA  
Director, Standard Setting Department

SO/SH/jn

Encl.



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會



**ATTACHMENT**

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE IESBA EXPOSURE DRAFT OF PROPOSED CHANGES TO THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS RELATED TO PROVISIONS ADDRESSING A BREACH OF A REQUIREMENT OF THE CODE**

**Request for Specific Comments**

- 1. Do respondents agree that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code? If not why not?**

We support the proposal that the Code should contain provisions that require professional accountants to address the consequences of a breach of a requirement in the Code.

- 2. Do respondents agree with the overall approach proposed to deal with a breach of an independence requirement, including the proposal that the firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and such action is taken?**

We agree with the proposed approach including the proposal that the firm may continue with the audit engagement only if those charged with governance agree that action can be taken to satisfactorily address the consequences of the breach and such action is taken.

- 3. Do respondents agree that a firm should be required to communicate all breaches of an independence requirement to those charged with governance? If not, why not and what should be the threshold for reporting?**

Generally, we agree that a firm should be required to communicate all breaches of an independence requirement to those charged with governance.

- 4. Do respondents agree that the reasonable and informed third party test should be used in determining whether an action satisfactorily addresses the consequences of a breach of an independence requirement? If not, why not and what should the test be?**

We agree that the reasonable and informed third party test should be used. In addition, we would propose that in paragraph 290.43 where the reasonable and informed third party test is required, that references be made to the conceptual framework approach to independence in paragraphs 290.6 to emphasise the importance of auditor independence.



- 5. Do respondents agree that the matters that should be discussed with those charged with governance as proposed in section 290.46 are appropriate? If not, why not? Are there other matters that should be included, or matters that should be excluded?**

Generally, we agree with the matters to be discussed in section 290.46.

However, it is suggested that IESBA further clarifies if the discussion with those charged with governance set out in section 290.46 is the same requirement as in section 290.40 where the firm shall communicate the breach to those charged with governance. In section 290.40 the firm is to "terminate, suspend or eliminate the interest or relationship that caused the breach" whereas in 290.46, the firm is required to "discuss the breach and the action it proposes to take".

If they are two different requirements, one would expect that when addressing the consequences of the breach in 290.46, the requirement in 290.40 to "terminate, suspend or eliminate the interest or relationship that caused the breach" would have been undertaken and should be communicated to those charged with governance.

- 6. Do respondents agree with the impact analysis as presented? Are there any other stakeholders, or other impacts on stakeholders, that should be considered and addressed by the IESBA?**

We agree with the impact analysis and have no further comments.

- 7. Would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, does the proposed effective date provide sufficient time to make such changes?**

Currently, firms would have different practices of handling breaches. With the proposed changes, there would be a consistent approach for responding to breaches identified. It is proposed that the effective date is one year from the finalized revisions.

- 8. Is the abbreviated version of the framework described in Section 290 for dealing with a breach of an independence requirement suitable for Section 291? If not, what do respondents believe Section 291 should contain?**

The proposed revisions to Section 291 do not seem to align with the current drafting convention of Section 291 as a whole. In the extant Section 291, the key principles and requirements which are similar to that in Section 290 are clearly set out. However for the proposed revisions, it is not clear if the proposed revisions in Section 290 which have not been included in Section 291 are not relevant or that one is to refer to Section 290 for further guidance.

We are of the view that the guidance for addressing a violation of any requirement for an audit engagement or an assurance engagement should be clearly set out in its respective sections.



## 9. Other Comments

- a. The timing of the reporting under proposed changes (i.e. as soon as possible) appears to differ from that of ISA 260 – Communications with those charged with governance. Paragraph 21 of ISA 260 states that “The auditor shall communication with those charged with governance on a **timely basis**”. Paragraph A40 further explains that “the appropriate timing for the communications will vary with the circumstances” and paragraph A41 explains factors that may be relevant to the timing.
- b. As auditor independence is also addressed in ISA 260, we would recommend that there should also be a need to update ISA 260 as well for completeness.

