



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

545 Fifth Avenue, 14th Floor
New York, New York 10017
Tel: (212) 286-9344
Fax: (212) 856-9420
Internet: <http://www.ifac.org>

Ana Maria Elorrieta
Chair, IAASB Quality Control Task Force
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York
NY 10017

December 4, 2003

Dear Ana Maria,

Re: IAASB Quality Control Exposure Draft

The Ethics Committee held a conference call this morning to discuss the latest draft of the proposed ISQC 1 and the revised ISA 220. The Committee welcomes the many significant changes that have been made to eliminate the differences in definitions and inconsistencies that may have been inadvertently created in trying to operationalize the requirements of the Code of Ethics.

The Committee does, however, continue to have significant concern with the extent of guidance given in the documents in the area of independence. The Committee believes that the quality control standards should contain a requirement that a firm establish policies and procedures to provide it with reasonable assurance that it has complied with all the provisions of the Code relating to independence. However, giving specific details about independence requirements, even when the current Code is quoted exactly, could inappropriately lead members to believe that all relevant information on independence is contained in the quality control standards. It is important that members develop a detailed understanding of all of the guidance contained in the Code. Further, as changes are made to the Code, the quality control standards will need to be updated to ensure they do not get out of step with the revised Code. Accordingly, the Committee believes that the requirement contained in paragraph 19 should be redrafted to be more generic and the detailed guidance in paragraphs 20-28 should be deleted.

While the Committee believes that the level of guidance in paragraphs 20-28 is inappropriate for a document dealing with quality control, the Committee is particularly concerned with paragraph 26 that deals with partner rotation. While the Committee appreciates the changes that have been made in this area, the Committee continues to be very concerned that the quality control

standards extend the requirement for rotation of partners. Paragraph 26(b) requires the firm to establish policies and procedures:

“Setting out criteria for evaluating the necessity of rotating the engagement partner after a specified period for all other audits and reviews of historical financial information, other assurance and related services engagements, and rotating the engagement partner when these criteria are met.”

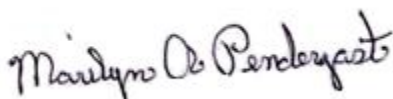
The Committee believes this establishes a presumption that such individuals should be subject to rotation requirements. Consequently, this will be seen as extending the requirement to rotate partners. To avoid this interpretation, it would be preferable if the requirement were worded in the following manner:

“Requiring a consideration of whether rotation of the engagement partner after a specified period for all other audits and reviews of historical financial information, other assurance and related services engagements would be an appropriate safeguard to reduce any familiarity threat to an acceptable level.”

The appendix to this letter contains some suggestions with respects to the changes in the definitions.

Thank you again for providing us with the continued opportunity for a constructive dialogue. I do hope that we can find mutually agreeable solutions to address this important issue.

Yours truly,



Marilyn Pendergast
Chair, IFAC Ethics Committee

cc IFAC Ethics Committee
Jim Sylph, Technical Director, IAASB

Appendix

Definitions

Engagement team

We would suggest the following definition of engagement team:

“Engagement team – all professionals participating in the engagement, including and experts employed or ~~engaged~~ sub-contracted by the firm in connection with that engagement.”

We are concerned that the use of the term “engaged” is subject to very wide interpretation and could, for example, be interpreted to include a third party who signs a bank or custodian certificate. Use of the term “sub-contracted” more appropriately focuses the definition on those individuals whose services have been hired for the particular assignment.

Network firm

We note that the definition contained in the document does not reflect the definition contained in the Code. Accordingly we suggest the following definition:

“An entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.”