

ASSOCIATION OF ACCOUNTING TECHNICIANS

**Response to the International Federation of Accountants (IFAC) exposure draft
“Proposed Revised Code of Ethics for Professional Accountants” in respect of
“Independence Requirements”**

The AAT is pleased to comment on the issues raised in the October 2004 Exposure Draft in respect of proposed changes relating to independence requirements contained in Section 290 of the Revised Code.

We have over 100,000 members and in particular we have approximately 1,800 members in public practice providing accounting services predominantly to smaller entities.

Whilst some of these practicing members are formally recognised as “Reporting Accountants” by the Department of Trade and Industry, at the present time this recognition translates into a statutory recognition to be able to report on the accounts of charitable companies with a gross income of up to £250,000. However, with the increase in the statutory audit threshold for UK companies to a turnover of £5.6m or more, it is possible that our members may be called upon to provide non-statutory assurance services to statutory audit exempt companies in the future.

There are three requests for comments raised in the Exposure Draft and we would respond as follows:-

a) *Are the changes to conform to the Assurance Framework appropriate and clear.*

Section 290 sets out clearly the principles of independence required of firms involved in assurance engagements. However, it is deficient in providing a satisfactory level of guidance as to how those principles can be implemented by the smallest firms. The Code with its example situations give the impression that independence can only be achieved by segregation of personnel involved in assurance and non assurance engagements and that a connection with any assurance client over an extended period of time is not permitted. Taken to an extreme, a strict interpretation of these requirements could create a situation in the UK where non-listed assurance clients (who vastly outnumber listed clients) will not be able to obtain services from other than the largest accountancy firms. It is important for all firms to exercise independence, particularly smaller firms, and such firms, even sole practitioners, are well able to exercise the required independence, but it is necessary to recognise that third parties perception of independence will be influenced by the size of the firm. Clearly, assurance engagements involving a high level of public interest, such as listed companies, must require “perceived” independence to be illustrated. However, where there is a low level of public interest, the need for “perceived” independence is much less than the exercise of real independence by the firm involved, who must expect that any failure to exercise independence which results in adverse consequences is likely to lead to either negligence claims or criminal prosecution.

It would be helpful if the Code included sections specifically providing guidance to smaller firms and assurance assignments of little public interest, with guidance as to the contents of working papers which would illustrate the exercise of independence applicable.

- b) Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner.***

If the individual responsible for quality control of a listed audit client has no direct contact with the client or is involved in other services for the client, any potentially perceived threats to independence must be minimal and would not justify the need for rotation. It is expected that such an individual would primarily have a technical role in the audit firm responsible for monitoring pre-determined quality control procedures for a number of audit assignments.

- c) Is the effective date appropriate.***

Section 290 indicates that the effective date is 31st December 2004. Although the original independence requirements on which the Section is based set the effective date as 31st December 2004, it would seem to be appropriate that the revised requirements which have been designed to complement the other Sections of the Exposure Draft should have an effective date which coincides with that for the entire Code (although earlier adoption can be encouraged) so that specific mention of an effective date within Section 290 should be removed.

Furthermore, as the deadline for comments on the Exposure Draft is 30th November 2004 the statement in paragraph 290.26, "Earlier application is encouraged" in relation to an effective date of 31st December 2004 appears to be superfluous.

Catherine Chamberlain
Chairman of the Regulations and Compliance Board
On behalf of the AAT

16 November 2004



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GENERAL

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Our Ref: 3455-08

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SERVING THE PUBLIC INTEREST

Dear Jan

**INTERNATIONAL FEDERATION OF ACCOUNTANTS' (IFAC) ETHICS COMMITTEE
EXPOSURE DRAFT "PROPOSED REVISED CODE OF ETHICS FOR PROFESSIONAL
ACCOUNTANTS"**

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and, subject to the comments contained in the attachment, the following are supportive of the proposals contained in the Exposure Draft.

- Auditor-General of New South Wales;
- Auditor-General for Victoria;
- Auditor-General of Queensland;
- Auditor General for Western Australia;
- Auditor-General of Tasmania; and
- Auditor-General of New Zealand.

The non-inclusion of an ACAG member in the submission does not necessarily mean they disagree with the submission.

The opportunity to provide comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

D D R PEARSON
AUDITOR GENERAL
November 30, 2004

Attach

**RESPONSE TO INTERNATIONAL FEDERATION OF ACCOUNTANTS' (IFAC)
ETHICS COMMITTEE EXPOSURE DRAFT "PROPOSED REVISED CODE OF
ETHICS FOR PROFESSIONAL ACCOUNTANTS"**

Specific Matters for Comment

(a) *Are the changes to conform to the Assurance Framework appropriate and clear?*

The changes in the *Proposed Revised Code of Ethics for Professional Accountants* to accommodate the Assurance Framework, are appropriate and clear subject to the following:

- Clarification of the difference between 'subject matter information' and 'subject matter';
- Inclusion of Auditors-General and their delegated staff authorised to sign assurance reports in the definition of 'professional accountant in public practice'; and
- Assessment of the implications of firms or network firms having controlling interests in financial statement audit clients, undertaking financial statement audits by divesting the financial interests (section 290.114).

It is our view that the independence risks are not adequately mitigated in such engagements as there is the potential for firms to not exercise objective judgement in relation to the conduct of audits in an entity in which they had immediate controlling interests. We are therefore of the view that a 'cooling off' period is required after the divesting of controlling interests and taking up an assurance audit engagement.

As a measure of mitigating the above risk we recommend that firms or network firms that have controlling interests be excluded from undertaking financial statement audits and other assurance engagements in the respective controlled entities for a period of at least two years.

Apart from the above, we agree with the Conceptual Framework approach outlined to identify, evaluate and address threats of independence in assurance and non assurance services.

(b) *Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?*

We agree that the individual responsible for the quality control review be subject to the same rotation requirements as the engagement partner to mitigate the familiarity threats and ensure the integrity of the audit process.

We note however, that there are some differences between paragraphs 290.153 to 290.156 of the *Proposed Revised Code of Ethics for Professional Accountants* relating to the requirement for the engagement quality controller to rotate off the audit for a period of two years before assuming the role of the engagement partner,

and the requirements prescribed in paragraphs 60 to 73 of *ISQC 1 (International Standard on Quality Control)*. We recommend that IFAC reviews these differences to ensure consistency.

We are also of the view that this requirement should be extended to include significant public and private sector entities depending on size, complexity, commercial risk, parliamentary or media risk, and number and range of stakeholders affected.

(c) *Is the effective date appropriate?*

We agree with the effective date of December 31, 2005, with encouragement of earlier application.

(Please note that the date on the Proposed Revised Code (page 39) needs to be amended to December 31, 2005).



By email to EDComments@ifac.org

Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

30 November 2004

Dear Jan,

Proposed Revised Code of Ethics for Professional Accountants

ACCA is the largest and fastest-growing international accountancy body. Over 320,000 students and members in 160 countries are served by more than 70 staffed offices and other centres.

ACCA's mission is to work in the public interest to provide quality professional opportunities to people of ability and application, to promote the highest ethical and governance standards and to be a leader in the development of the accountancy profession.

ACCA welcomes this opportunity to respond to the exposure draft *Proposed Revised Code of Ethics for Professional Accountants* issued by the International Federation of Accountants' Ethics Committee. IFAC has made it easier for respondents to comment on proposed changes by including the full text of the Code. Although comments are not currently being sought on the totality of the section of the Code dealing with independence, ACCA believes that IFAC should review that section to ensure that it continues to be relevant and to be seen to be relevant in the aftermath of financial scandals (such as Enron and Parmalat) that have happened since its issue.

Continued/2

ACCA

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The Association of Chartered Certified Accountants

Answers to specific questions

Are the changes to conform to the Assurance Framework appropriate and clear?

We agree that changes are necessary because the Code took its definition of an assurance engagement from an IAASB document that is in effect superseded by the *Assurance Framework*. We believe that further steps could be taken to make the Code more usable as a stand-alone document. At present, it is necessary to refer also to the *Assurance Framework* and to the *International Standard on Quality Control 1* to properly appreciate the meaning of certain terms. These could be included in the definitions section of the Code in a way that makes it clear that they are defined in other authoritative pronouncements.

The *Assurance Framework* draws a distinction between ‘subject matter’ and ‘subject matter information’. This has had a considerable impact on the Code and we believe that the requirements are now more difficult to understand. We believe that the judgement of users would be better informed if, for example, the reasons for the requirements of paragraph 290.10 were fully explained. We have recently written separately to the Chair of the Ethics Committee drawing attention to our response to an IAASB exposure draft on due process and working procedures. In that response, we suggest that all new pronouncements to be accompanied by a ‘basis of conclusions’ document. We believe that such an approach could be used by the Ethics Committee to improve clarity without the need to include too much additional material in the Code itself.

Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?

There exists a wide variation in roles played by individuals responsible for the engagement quality control review in the audit of a listed entity. In general, however, such individuals adopt an independent stance to their work and do not interact directly with client management. Objectively, the need for safeguarding familiarity threats is less than for the engagement partner.

We nevertheless agree with the introduction of this requirement in respect of listed entities as it demonstrates a high level of commitment to maintaining independence.

Page 3

The introduction of a requirement for rotation to be carried out in the same manner as for the engagement partner may prove logistically difficult for smaller auditing firms or where the client is in a specialised industry. We agree, therefore, with the inclusion of the specific guidance at paragraph 290.155 in relation to this issue.

Is the effective date appropriate?

In view of the nature of these changes, we accept that a commencement date of 31 December 2005 is appropriate.

Yours sincerely



David York
Head of Auditing Practice

VIA E-MAIL

November 30, 2004

Ms. Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, NY 10017

Attn: Exposure Draft: Proposed Revised Code of Ethics for Professional Accountants – October 2004

Dear Ms Munro:

The AICPA's Professional Ethics Executive Committee (PEEC) is pleased to submit this comment letter on the International Federation of Accountants' (IFAC) Exposure Draft: Proposed Revised Code of Ethics for Professional Accountants (the "Exposure Draft").

In general, we believe that the revised structure of the Code of Ethics for Professional Accountants (the "Code") and consolidation of the discussion on the framework approach, threats and safeguards under Part A, has reduced the degree of repetition in the Code and significantly improved the document.

Specific Request for Comments

With respect to your specific request for comments, we offer the following:

(a) Are the changes to conform to the Assurance Framework appropriate and clear?

We believe that the changes made to the Code to conform to the IAASB Assurance Framework are appropriate and clear and agree that users of the Code should refer to the Assurance Framework itself for details on its application to specific types of assurance engagements and related definitions. We also agree with the differentiation between subject matter and subject matter information and the applicability to the independence section of the Code.

(b) Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?

With respect to audits of listed entities, we believe it is appropriate to treat the engagement quality control review partner and the engagement partner the same for purposes of the rotation requirement. In addition, we acknowledge that rotation may not always be an appropriate safeguard and therefore agree that there should be some flexibility for both the engagement partner and engagement quality control review partner.

(c) Is the effective date appropriate?

The IFAC Ethics Committee proposes an effective date for the Code of December 31, 2005. Due to the extensive due process procedures required by many member bodies in order to promulgate new and revised ethics standards, we are concerned that this date may not provide sufficient time and therefore will result in noncompliance by member bodies. Accordingly, we recommend that the Committee consider extending the effective date to June 30, 2006.

Other Comments

Gifts and Hospitality

While we understand that the Committee is not soliciting comments on sections previously exposed, when reading the Code in its entirety we noted a possible inconsistency that we believe the Committee should consider. Specifically, the treatment of gifts and hospitality under Section 260 (applicable to *all* clients of professional accountants in public practice) and Section 350 (applicable to customers and vendors of professional accountants in business) appears to be inconsistent with respect to the treatment of gifts and hospitality under section 290.212 (applicable to assurance clients). The guidance applicable to assurance clients under Section 290 (i.e., independence) permits individuals who are not on the assurance team to accept gifts and hospitality from an assurance client provided they believe that based on the specific facts and circumstance, the threats to independence can be reduced to an acceptable level. On the other hand, Section 260 appears to prohibit an accountant in public practice from accepting a gift from any client (i.e., including non-assurance clients) that are other than clearly insignificant regardless of their position in the firm or involvement on the engagement. Similarly, Section 350 applies the same threshold for accountants in business. We see no reason why the guidance in Sections 260 and 350 should be more restrictive than that provided for assurance clients under the independence section.

We believe this is a fatal flaw from a conceptual level and respectfully request that the Committee reconsider the positions taken under Sections 260 and 350. Specifically, we recommend that the Committee permit an accountant to consider whether there are safeguards that could be implemented to mitigate the threats when a gift or hospitality may be more than “insignificant”. In cases where there are no safeguards to eliminate or mitigate the threats to an acceptable level, then we would agree that the accountant should not accept such an offer. Accordingly, we recommend that paragraphs 260.3 and 350.4 be revised as follows (proposed revisions in *italics*):

260.3 If evaluated threats are other than clearly insignificant, *safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards*, a professional accountant in public practice should not accept such an offer.

350.4 If evaluated threats are other than clearly insignificant, *safeguards should be considered and applied as necessary to eliminate them or reduce them to an acceptable level. Where the threats cannot be eliminated or reduced to an acceptable level through the application of safeguards*, a professional accountant in business should not accept the inducement.

Definition of Engagement Team

We understand that the definition of *assurance team* has been revised and a new definition of *engagement team* added to the Code to be consistent with the IAASB definitions. Specifically, the revised definition of assurance team includes all members of the *engagement team* for the assurance engagement and the new definition of engagement team includes all personnel performing an engagement, *including any experts contracted by the firm in connection with that engagement*. Accordingly, any expert contracted by the firm to perform, for example, a valuation of an asset, must be independent as set forth under Section 290 of the Code. We question whether holding an outside expert to the same independence requirements as other individuals on the engagement team (e.g., partner, manager, staff) is appropriate. Specifically, ISA 620, *Using the Work of an Expert*, requires that the auditor assess the *objectivity* of the expert and take into consideration whether the expert is related to the entity, for example, “*by...having an investment in the entity.*” We believe this level of assessment is appropriate and recommend that the requirements set forth in the Code not extend beyond what is required under the auditing standard. We would support, however, a requirement that the firm give *consideration* to whether relationships between outside experts and the assurance client create threats to independence.

Editorial Comments

Paragraph 220.3(c) – We believe the following italicized words were inadvertently left out from the paragraph: “Notifying the client that the professional accountant in public practice does not act exclusively for any one client in the provision of proposed services (for example, in a particular market sector or with respect to a specific service); *and obtaining their consent* to so act.

Paragraph 350.3 – The second sentence should begin with the word, “If”: “~~If~~ a reasonable...”

Paragraph 350.8 – The word “such” should be deleted: “Where the pressure to offer an ~~such~~ unethical inducement...”

We appreciate this opportunity to comment. We would be pleased to discuss in further detail these comments and any other matters with respect to the Committee’s Exposure Draft.

Sincerely,



Bruce Webb, Chair
PEEC

cc: Lisa A. Snyder, Director
AICPA Professional Ethics Division



Auditor-General for Australia



Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York
New York 10017 USA

Edcomments@ifac.org

14 December 2004

**PROPOSED REVISED CODE OF ETHICS FOR PROFESSIONAL
ACCOUNTANTS**

I refer to the invitation to comment on the *Proposed Revised Code of Ethics for Professional Accountants*, as published on the International Federation of Accountants' web site from October 2004.

Please find attached our comments on this document.

Yours sincerely

P.J. Barrett

Encl.

COMMENTS ON PROPOSED REVISED CODE OF ETHICS

(a) Are the changes to conform to the Assurance Framework appropriate and clear?

Our review of the changes in the *Proposed Revised Code of Ethics for Professional Accountants* to conform with the Assurance Framework are appropriate revisions to the document. These revisions are clear and reflect the ethical requirements of professional accountants.

(b) Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?

It is appropriate that the individual responsible for the engagement quality control review be subject to the same rotation requirements as the engagement partner to allow for objectivity in the review process and avoid familiarity with the client and/or the work of the engagement partner.

(c) Is the effective date appropriate?

We have no objection to the proposed effective date for the *Proposed Revised Code of Ethics for Professional Accountants* of 31 December 2005, with encouragement of earlier application, appears to be appropriate.

The Auditing Board

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Jan Munro
IFAC Ethics Committee
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21 October 2004

Dear Ms Munro,

Proposed Revised Code of Ethics for Professional Accountants – Exposure Draft

The Auditing Practices Board (APB) is pleased to provide its comments on the proposed revision of the IFAC *'Code of Ethics for Professional Accountants'* (the Code), as set out in the Exposure Draft issued by IFAC in October 2004.

The APB has recently finalised its own Ethical Standards for auditors in relation to integrity, objectivity and independence. These will apply to all audits undertaken in the UK and Ireland on financial statements for periods commencing on or after 15 December 2004. Other accountancy bodies in the UK and Ireland are in the process of issuing guidance for non-audit assurance services, so as to ensure that all aspects of Section 8 of the IFAC Code are covered.

The APB is of the view that the work that has been undertaken within the EU and more recently by the APB has advanced the strength and clarity of ethical standards for auditors. We believe that having separate independence requirements for accountants carrying out statutory audits of financial statements to guidance and standards on independence for other assurance services, results in a much clearer and more robust set of standards. We urge IFAC to focus on standards of independence for auditors in its project to revisit the independence requirements in Section 290 of the revised Code. This will increase the clarity of prohibitions and assist in IFAC's objective to serve the public interest, through restoring credibility in financial reporting internationally.

The APB suggests that this work should have particular regard to the following aspects:

1. **Style of presentation.** The IFAC Code does not clearly distinguish requirements from associated guidance. The APB has sought to address this by identifying the basic principles and essential procedures through the use of bold type – the existing IAASB convention. IAASB is currently undertaking a 'clarity' project to ensure the requirements of ISAs are clearly communicated and we believe this should be extended to the IFAC Code.

2. **Responsibilities in respect of auditor independence.** In some cases the IFAC Code is not clear whether the responsibility for specific requirements rests with a firm, an individual, or both. The APB has taken the view that clarity as to responsibilities is a key element in ensuring that its standards are applied in practice. Consequently the bold letter requirements of APB Ethical Standards specify whether they apply to the audit firm, the audit engagement partner, members of the engagement team or the wider group of those in a position to influence the conduct and outcome of the audit. The APB has also established a requirement for firms to appoint an ethics partner to oversee the development and communication of ethics policies within a firm and to provide a point for consultation by individual audit partners.

3. **The provision of non-audit services by the audit firm.** The APB has introduced a new threat – ‘the management threat’ and has developed new standards and guidance with respect to:
 - Tax services,
 - Remuneration services, and
 - Corporate finance services.

4. **The nature of applicable safeguards.** The APB has taken the view that the safeguards created by the profession, legislation or regulation and firm-wide safeguards in the work environment (which are now included in Sections 100 and 200 of the Code respectively), will not be adequate to reduce specific threats to auditor independence to an acceptable level. In APB Ethical Standards, firm-wide policies and procedures are not suggested as safeguards, but are required in all audit firms as part of their control environment to ensure integrity, objectivity and independence. Additionally, communication with those charged with governance about threats to independence is not treated as a safeguard in its own right, but as a necessary step to take in order to ensure that all users of the accounts are kept fully informed.

5. **Other requirements.** The APB has tightened requirements with regard to:
 - Employment by the audit client,
 - Rotation requirements for listed companies (as recommended in our comments on the proposed revision below),
 - Economic dependence,
 - Remuneration and evaluation policies, and
 - APB Ethical Standards largely use the EC Recommendation definitions of key words. There are important differences between the EC and IFAC definitions of terms such as ‘office’, ‘network’ and ‘affiliate’.

Rotation of engagement quality control reviewer

The extension of the rotation requirements, in the case of an audit of a listed entity, to the person responsible for the engagement quality control review is welcomed by the APB. The engagement quality control review provides an objective evaluation of the significant judgments made by the engagement team. Requiring the individual carrying out this role to rotate will ensure that there is a periodic fresh look at all important issues concerned with the audit engagement, so maintaining the objectivity of this important role. However, the APB

believes that a more extensive approach to the provisions relating to auditor rotation is required and is disappointed that the recommendations set out in our comment letter of December 2003 have not been incorporated at this time. There are three additional changes relating to the provisions concerning the rotation of partners involved in the audit of listed entities that would, in our opinion, significantly enhance these requirements.

First, in order to act as an effective safeguard of objectivity and independence, the rotation requirement should apply not only to the lead engagement partner and the person responsible for the engagement quality control review, but also to other key audit partners.

Second, where there is prolonged involvement in the audit by other members of the engagement team (for example, senior staff other than partners), the threats to the auditors' objectivity and independence arising from such prolonged involvement should be assessed and appropriate safeguards should be put in place. Such safeguards might include the removal of the member of staff from, or the rotation of roles within, the engagement team. This is a requirement of the EC Recommendation on '*Statutory Auditors' Independence in the EU*'.

Third, the maximum period for which an individual should be permitted to serve as lead engagement partner or as engagement quality control reviewer should be shorter than seven years. We also consider that the further period of time required to elapse before these roles can be resumed should be longer than two years. We suggest that both of these periods should be five years.

Effective date

It is unclear what the effective date of the Code is intended to be. Paragraph 290.26 states an effective date of 'assurance reports dated on or after December 31, 2004'. This is in line with the effective date of the current Section 8. However, the explanatory memorandum to the exposure draft states that the effective date will be December 31, 2005.

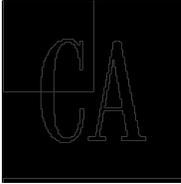
The APB recommends that the current version of the Code (including Section 8, which has the authority of an international standard) remains in place during 2005 and the revised Code comes into force with effect from December 31, 2005.

If you have any questions concerning our comments, I would be delighted to provide further analysis or explanation.

Yours sincerely

RJH Fleck
Chairman

cc Jim Sylph



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of Canada**

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November 26, 2004

Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Dear Ms. Munro:

I am writing in response to the October 2004 Exposure Draft (ED) of the IFAC Revised Code of Ethics for Professional Accountants. My response focuses on the question of whether the changes to conform to the Revised Code to the IAASB Assurance Framework are appropriate and clear.

In my view, for reasons set out below, the proposed changes dealing with "Other Assurance Engagements" as set out in ED paragraphs 290.9 and 290.10, do not appropriately reflect the Assurance Framework.

ED paragraph 290.9 states "the members of the assurance team and the firm are required to be independent of the assurance client." The ED defines "Assurance Client" as "The party responsible for the subject matter information." ED paragraph 290.10 addresses the situation when there are two responsible parties: the assurance client (responsible for the subject matter information) and another party responsible for the subject matter.

These paragraphs are problematic for the following reasons:

1. As set out in paragraph 11 of the Assurance Framework, a practitioner can undertake a direct reporting engagement where he or she performs the evaluation or measurement of the subject matter and does not obtain a representation from a responsible party that has performed the evaluation or measurement. In such cases, there is no third party who is responsible for the subject matter information. It is the practitioner who has produced the subject matter information and, therefore, is responsible for this subject matter information, which will be set out in his or her report. As currently constructed, ED paragraph 290.09 would therefore appear to require the practitioner performing a direct reporting engagement to be independent of himself or herself.

2. The ED does not seem to deal with the various situations that a practitioner may encounter with respect to responsible parties. The Assurance Framework contemplates situations where a responsible party may be responsible for subject matter information only, subject matter only or (perhaps most commonly) for both subject matter and subject matter information. ED paragraph 290.10 however, does not deal with the situation where a party may be responsible for subject matter only. Also, paragraph 290.09, in referring to “assurance client” deals only with independence from the party responsible for subject matter information. I believe these paragraphs should be reassessed in light of the different scenarios contemplated by the Assurance Framework to ensure that practitioners have clear guidance regarding independence from responsible parties.
3. As noted in paragraph 25 of the Assurance Framework, the responsible party may or may not be the party who engages the practitioner (the engaging party). The ED is incomplete since it does not deal with the issue of independence when, for example, the assurance client is not the engaging party.

If you require clarification of any of the matters noted above, I would be pleased to discuss them with you further.

Yours truly



Gregory P. Shields, CA,
Director, Auditing and Assurance Standards



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December 2, 2004

Ms. Jan Munro, CA
International Federation of Accountants Ethics Committee
545 Fifth Avenue, 14th Floor
New York, NY
10017

Dear Jan:

Re: Proposed Revised Code of Conduct for Professional Accountants

The Canadian Institute of Chartered Accountants and the Provincial Institutes/Ordre have reviewed the October 2004 IFAC Exposure Draft *Proposed Revised Code of Ethics for Professional Accountants* and offer the following comments on the three specific questions posed in the Exposure Draft.

(a) Are the changes to conform to the Assurance Framework appropriate and clear?

The terms “subject matter” and “subject matter information”, although described briefly in Paragraph 290.08, are difficult concepts and are not clearly explained in the Exposure Draft. Accordingly, we are concerned practitioners may not fully understand the requirements of Section 290 (the independence standard). We believe further clarification of these terms should be included in the Code of Ethics, preferably by way of example.

The Assurance Framework describes a direct reporting engagement as one in which the practitioner “either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report.” If the practitioner directly performs the evaluation or measurement of the subject matter, the practitioner will then be the party responsible for the subject matter information. Paragraph 290.10 of the Exposure Draft states “members of the assurance team and the firm are required to be independent of the assurance client (the party responsible for the subject matter information)”. This paragraph therefore appears to preclude any direct reporting engagement where the practitioner performs the evaluation or measurement of the subject matter. We question whether this prohibition is what was intended.

(b) Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partners?

We believe the engagement quality control reviewer in the audit of a listed entity should be subject to the same rotation requirements as the lead engagement partner. The Canadian independence standard contains such a requirement, which requires rotation of both the lead engagement partner and the engagement quality control reviewer after serving five years in total and such partners are then subject to a five-year cooling off period.

(c) Is the effective date appropriate?

We believe the effective date of December 31, 2005 is appropriate.

Although comments were only requested on Section 290 of the Code, we wish to advise you that we believe the changes made to Section 280 (Conflict of Interest) do not adequately address the concerns we expressed in our response to the July 2003 Exposure Draft. We encourage the Ethics Committee to consider developing a comprehensive and robust standard on Conflicts of Interest.

We appreciate the efforts of the IFAC Ethics Committee and we look forward to the completion of the IFAC Code.

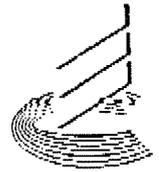
Yours truly,

A handwritten signature in black ink that reads "Bob Rutherford". The signature is written in a cursive, flowing style.

R. T. Rutherford, FCA
Vice-President, Standards



CONSEIL NATIONAL
de la Compagnie nationale
des commissaires aux comptes



CONSEIL SUPÉRIEUR
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2167

Mrs Jan MUNRO
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, N. Y. 10017
USA

Paris, November 22nd 2004

2004-1185-MY/CA

Dear Mrs Munro,

Re: IFAC Exposure Draft – Proposed Revised Code of Ethics for Professional Accountants – October 2004

The two bodies of the French accountancy profession, the CNCC (Compagnie nationale des commissaires aux comptes) and the OEC (Ordre des experts-comptables), are pleased to have the opportunity to comment on the IFAC Exposure Draft "Proposed Revised Code of Ethics for Professional Accountants".

This Exposure Draft calls for following comments from the two above mentioned bodies:

General comments :

In broad terms, the French bodies welcome the new draft and the way section 8 has been incorporated in the Code. We also believe that the Ethics committee has contributed to make the Code clearer and more readable.

The French bodies would though welcome a statement in the Code which would clearly recognise that the review of the Code should be a continuous process.

Comments on Questions:

a) Are the changes to conform to the Assurance Framework appropriate and clear?

We understand the logic adopted by the Committee consisting in requiring the reader of the Code of Ethics to know and understand the concepts of the Assurance Framework. Indeed, the introduction of these concepts would have certainly made the Code very difficult to read and understand. Besides, such an approach would have presented the risk of a bad interpretation of the concepts.



Commission Commune des Relations Internationales

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

However, considering that the two notions of "subject matter" and "subject matter information" have been used for the first time in the Code, we would like to suggest IFAC to provide references to the relevant paragraphs in the Assurance Framework.

b) Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?

The provisions related to the rotation, which are the same for the engagement partner as for the individual responsible for the engagement quality control review, don't call for any particular comment. We believe that the period of seven years is reasonable.

At the moment, the French law imposes the rotation only on the engagement partner, who can not audit a listed company for more than six consecutive years, but we would like to specify here that France is working on the issue of the rotation of the person responsible for the engagement quality control review currently as mentioned in the IFAC Code of Ethics.

c) Is the effective date appropriate?

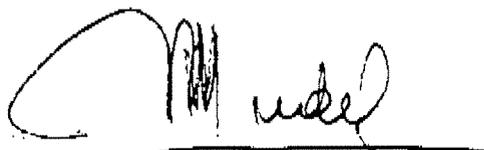
We have no objection to the proposed effective date of December 31, 2005 for the Code.

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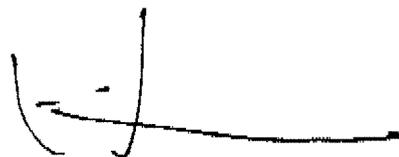
We hope that the comments provided in this letter will help the IFAC's Ethics Committee to finalise the proposed Code.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Michel TUDÉL
President of CNCC



William NAIJUM
President of OEC



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14 December 2004

Ms Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York NY 10017
UNITED STATES OF AMERICA
By E-mail: EDComments@IFAC.org

Dear Jan

Proposed Revised Code of Ethics for Professional Accountants

On behalf of The Institute of Chartered Accountants in Australia and CPA Australia (the Australian Accounting Bodies), we are pleased to submit our comments on the proposed Revised Code of Ethics for Professional Accountants issued in October 2004.

This submission on the revised Code is based on comments we have received from a range of stakeholders. All members were invited to comment. In addition, members of the taskforce drawn together to specifically comment came from a variety of backgrounds including large, medium and small practice, large corporations and the public sector.

This letter includes responses to the questions raised in the Exposure Draft.

(a) Are the changes to conform the Assurance Framework appropriate and clear?

The Australian Accounting Bodies believe that the changes to conform the Assurance Framework are appropriate and clear.

(b) Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?

There is support for the same rotation requirements to apply to both the engagement partner and individuals responsible for engagement quality control. This requirement provides an effective safeguard of objectivity and independence for listed entity audits. However, given the effective date of 31 December 2005, transitional provisions may be required to implement these requirements. In particular, as the requirement to rotate the individual responsible for the engagement quality control review is a new provision, it is not clear that the transition period, in accord with IFAC Interpretation 2003-01, is available.

Consideration should also be given to consistency with ISQC1 in terms of definitions used. The definition for engagement partner is consistent with the definition in ISQC1, however there is no corresponding use of the definition 'engagement quality control reviewer'. In the Australian context the engagement quality control reviewer will in some cases also satisfy the definition of an audit review partner, and will therefore be subject to the rotation requirements of our Independence standard.

However, in other cases the engagement quality control reviewer will be performing merely a technical role and will not be in contact with the audit clients. Consequently the familiarity threat does not arise and the safeguard of rotation is not required.

(c) Is the effective date appropriate?

An effective date for the Code of 31 December 2005 is appropriate with earlier adoption encouraged. In addition appropriate transitional arrangements for audit engagements in process at that date and in relation to new provisions may be required.

In conclusion, the Australian Accounting Bodies support the proposed changes contained in the October 2004 Exposure Draft

We do, however, urge the Ethics Committee to complete its review of the definition of network firm to ensure that its use, in both the Code and the IAASB's standards, achieves the intended effect.

Should you wish to discuss any of the matters raised in this submission, please do not hesitate to contact Tiina-Liisa Sexton on Tel: +61 3 6281 8720 or email: Tiina-Liisa.Sexton@cpaaustralia.com.au

Yours sincerely



Greg Larsen, FCPA
Chief Executive
CPA Australia



Stephen Harrison, AO
Chief Executive
The Institute of Chartered
Accountants in Australia

c.c. T-L Sexton

January 10, 2005

Ms. Jan Munro
IFAC Ethics Committee
545 Fifth Avenue, 14th Floor
New York, New York 10017

Re: Exposure Draft – Proposed Revised Code of Ethics for Professional Accountants

Dear Ms. Munro:

We are pleased to have an opportunity to comment on the Exposure Draft containing proposed revisions to the Code of Ethics for Professional Accountants (“Code”). As requested, this letter includes our comments on the areas specifically noted, as well as other matters we believe should be considered by the Ethics Committee.

Assurance Framework

In our view, the proposed changes to the Code to conform to the Assurance Framework (“Framework”) issued by the IAASB do not sufficiently incorporate the concepts included in the Framework. We appreciate the challenge of trying to deal with the complexities of the Framework. However, without greater clarity or elaboration of certain terms or concepts in the Code, the professional accountant will have difficulty determining how the Code applies in all instances.

This challenge could be addressed in two ways. First, we suggest that the Ethics Committee communicate to the IAASB the difficulties it had in incorporating the Framework into the Code, with the view that perhaps the IAASB could reconsider the document. We support the necessity for a Framework covering assurance engagements. However, in order for practitioners to comply with the standards that apply to assurance engagements, they need to be able to understand when engagements are classified as such. The definition of assurance engagement, as well as other concepts in the Framework, is in our view extremely difficult to grasp. The result, we fear, is that despite their best efforts, many practitioners will be unable to apply the Framework.

Second, we believe that certain concepts should be explained in the Code. More specifically, we would make the following observations:

- The introductory paragraphs discussing assurance engagements and their characteristics have been eliminated in the proposed revisions. This information we believe was useful to those reading the section on independence by putting in context those engagements to which the

section applied. Now, the concepts of “subject matter information” and “subject matter” are introduced, yet no definitions are given. Only the reader who is expert in the Framework will understand the references.

- Although the Framework covers “direct reporting” engagements as a type of assurance engagement, specific guidance on such engagements is not included in the proposed revisions to the Code. In our view, guidance is necessary in order for the professional accountant to be able to evaluate his or her independence in the context of these types of engagements.

Quality Control Standard

We fully support the requirement that the person responsible for the engagement quality control review, in the case of listed entities, be subject to the same rotation requirements as the engagement partner. When adopted, we suggest that a transition rule be adopted that would allow such person two additional years before rotation is required.

Effective Date

We are supportive of an effective date of December 31, 2005, except as noted above with respect to the rotation requirements. We recognize that some member bodies may have difficulty implementing changes in that timeframe, but we would strongly urge member bodies to use their best efforts to implement by such time.

Other Matters

We recognize that you have not requested comments on other areas of the Code. However, there are two matters we respectfully request you to consider.

Transition Rule for Audit Partner Rotation: In our view, greater clarity is needed to determine how the transition rule requiring audit partner rotation is to be applied. Interpretation 2003-02 provides that the audit partner is allowed two additional years “from the date of implementation (or early adoption) before rotating off the engagement.” The Code was required to be applied to reports issued after December 31, 2004. Thus, for example, for a calendar-year company, the Code would apply for 2004. It is not clear, however, whether the partner would have two additional years (i.e., 2005 and 2006) and whether the answer differs if the partner has served 7-plus years or is in his or her 6th or 7th year. Moreover, it seems illogical to get a different answer for a company with, for example, an October year-end, depending on whether the report is issued the last week in December or the first week in January. Finally, further confusion is added by Interpretation 2003-01, which refers to December 31, 2004 as the implementation date (not January 1, 2004).

Gifts and Hospitality: The provisions in the Code dealing with gifts and hospitality seem inconsistent. Section 260, which applies to all clients of professional accountants in public practice, and Section 350, which applies to professional accountants in business, would prohibit the receipt of gifts from any client or vendor, respectively. However, Section 290 on independence would permit gifts and hospitality assuming the recipient is not a member of the assurance engagement team and the threats to independence are acceptable. We believe Sections 260 and 350 should be revised, consistent with the Code, by adopting a threats and safeguards approach to gifts and hospitality, similar to what is

Ms. Jan Munro
January 10, 2005
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containing in Section 290. Not only will this achieve consistency, it will allow for circumstances that do not pose a threat to compliance with the fundamental principles.

* * * * *

Should you have any questions on our comments, please do not hesitate to contact Chuck Horstmann at (212) 492-3958 or Jean Rothbarth at (773) 935-7709.



COMMENTS ON THE REVISED CODE OF ETHICS – NOVEMBER 2004

(a) Are the changes to conform to the Assurance Framework appropriate and clear?

The proposal distinguishes between the subject matter from the subject matter information. In addition, it states in some assurance engagements that the party responsible for the subject matter may not be the party responsible for the subject matter information.

The amendments require the professional accountant in the public practice to be independent of the party responsible part for the subject matter information. In some assurance engagements where there are not audited financial statements with two responsible parties, threats created by interests or relationship with the entity may rise with the party responsible for the subject matter information.

Bearing in mind that the revision being amended treats the listed and non-listed companies' situation separately, we agree with the requirements determined for the listed companies but we also think that it would be necessary to clarify that those requirements should not be so strict for the non-listed companies.

On the other hand, we do not share the view of paragraph 290.171 of the Code of Ethics which allows the audit firm to provide, in some occasions, services of a routine or mechanic nature to listed entities.

Apart from the above, we do not have further comments in this regard.

(b) Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?

We regard the proposed date as appropriate.

(c) Is the effective date appropriate?

We are of the opinion that the proposed date December 31st 2005 is adequate.



FAR is the institute for the accountancy profession in Sweden

Ms. Jan Munro
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

December 1, 2004

Dear Ms. Munro,

Exposure Draft - Proposed Revised Code of Ethics for Professional Accountants, October 2004

FAR, the institute for the accountancy profession in Sweden, is pleased to submit the following comments on the *Exposure Draft Proposed Revised Code of Ethics for Professional Accountants*.

In general

FAR has been informed by FEE of its preliminary comments on the Proposed Revised Code of Ethics for Professional Accountants Draft. We have also been informed by FEE that its final comments will be submitted to you in the middle of December 2004.

FAR agrees with the preliminary comments given by FEE, especially the emphasis on the principles-based approach and the need for IFAC to review the Code continuously and to demonstrate that the Code of Ethics is sufficiently rigorous and flexible enough to cater for such type of circumstances and cases that have occurred in the Enron, WorldCom and Parmalat scandals. In addition FAR would like to give the following remarks.

Proposed rotation of engagement quality review partner

FAR finds FEE's preliminary comment on mandatory rotation of engagement quality review partner very relevant for us in Sweden. In such small countries as Sweden with a limited number of professionals, rotations rules for engagement quality review partner may create practical problems, as described in the FEE preliminary comment. In certain situations, the purpose with the proposed rule could be undermined. FAR therefore agrees with the FEE comment that additional rules should be presented as an ultimate safeguard when other safeguards do not sufficiently reduce or mitigate the familiarity threat.

Further clarifications

If there are any questions regarding our comments, please contact Urban Engerstedt, Institute Lawyer of FAR, by e-mail urban.engerstedt@far.se or phone +46 8 506 112 20. This letter is also being sent by e-mail to: EDcomments@ifac.org.

Yours sincerely,

Anders Holm
Chairman, Ethics Committee

Dan Brännström
Secretary General

Date
1 December 2004

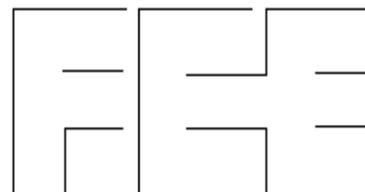
Le Président

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[FINAL DRAFT]

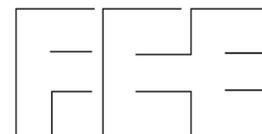
Dear Ms. Munro,

Re: IFAC Exposure Draft – Proposed Revised Code of Ethics for Professional Accountants

1. FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to have the opportunity to comment on the IFAC Exposure Draft – Proposed Revised Code of Ethics for Professional Accountants (hereinafter referred to as “the Code”). We welcome the Revised Code and the way the former Section 8 has been incorporated into the Revised Code.

General

2. We welcome the principles-based or framework approach. FEE advocated a principles-based approach in its 1998 independence paper (“Statutory Audit Independence and Objectivity – Common Core of Principles for the Guidance of the European Profession – Initial Recommendations”) and wholeheartedly endorses this approach. It has formed the basis of the European Commission (EC) Recommendation on Statutory Auditor Independence and has been endorsed by the International Organisation for Securities Organisations (IOSCO) in its Principles of Auditor Independence published in October 2002. FEE fully supports a principles-based approach to ethical standard setting, supplemented by appropriate guidance, restrictions and prohibitions. By focusing on the underlying aim rather than detailed prohibitions, the principles-based approach combines flexibility with rigour in a way that is unattainable with a rules-based approach.
3. FEE published a paper in November 2003 on a “Conceptual Approach to Safeguarding Integrity, Objectivity and Independence throughout the Financial Reporting Chain” outlining how the conceptual approach could be used in setting ethical requirements throughout the financial reporting chain. For example, in developing ethical codes and independence requirements for members of the audit committee.
4. We note that IFAC is seeking comments only on Section 290, and only on those changes to Section 290 to conform the Code to the International Framework for Assurance Engagements issued by IAASB and to conform the Code to the definitions in ISQC1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance Related Service Engagements. We observe that the review of the Code is and should be a continuous process. We understand that the IFAC Ethics Committee intends to review Section 290 in the light of recent developments, once experience with the application of the Code and in particular with Section 290 (former Section 8) is obtained and proper feedback is organised. Section 290, former Section 8, was last revisited pre Enron, Worldcom, Parmalat and other recent scandals. There is a clear need for IFAC to demonstrate that the Code is sufficiently rigorous and flexible enough to



cater for those type of circumstances and cases. It should be demonstrated that the principles-based approach is the only sure and viable way forward. You may recall that we have published in October 2004 a paper “EC Recommendation on Statutory Auditor’s Independence in the EU and Comparison with the Independence Section of the IFAC Code of Ethics for Professional Accountants – Considerations on the Implementation of the Framework Approach” to demonstrate the application of the principles-based approach.

Comments on Questions

a) *Are the changes to conform to the Assurance Framework appropriate and clear?*

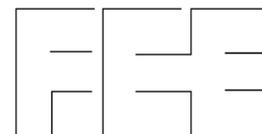
We are of the opinion that it is appropriate to conform the Code to the Assurance Framework. However we are of the opinion that the changes are not clear and observe problems with the definitions and terminology used. The Code should ideally be readable as a stand-alone document and be self-explanatory, although it should be assumed that the reader of the Code is aware of the concepts and principles of the Assurance Framework. Therefore, it would be helpful if definitions of the Assurance Framework and ISQC1 be introduced into the Code or at least a proper reference to the relevant paragraph(s) in the Assurance Framework and ISQC1 needs to be included, as well as a short discussion of key terms in form of footnotes or otherwise (if it is not workable to include full definitions of all terms) for example:

- Paragraph 290.10, is difficult to read since the example of two responsible parties is only provided in paragraph 25 (b) of the Assurance Framework.
- Paragraph 290.142 (d) last bullet point, we assume that engagement quality control review is meant. The text refers only to “quality control review”.

In addition it is not clear to us why a distinction is made in paragraphs 290.8 to 290.10 between direct reporting assignments and others.

Moreover proposed changes related to the distinction between subject matter and subject matter information are unclear and make the Code difficult to read and to understand why and how the professional accountant in public practice should be independent of the party responsible for the subject matter information whereas threats have to be considered in relation to the subject matter (if different from the subject matter information). This is especially difficult to follow for assurance engagements other than financial statements audits also envisaged under the Assurance Framework. It is our understanding that the drafting of the Exposure Draft reflects the difficulties the IFAC Ethics Committee encountered in interpreting the Assurance Framework. It would be helpful if the IFAC Ethics Committee could prepare a summary report of the difficulties they had in introducing the Framework in the Code. It would be appropriate for both IAASB and the IFAC Ethics Committee to consider these difficulties and their implications for the Framework. We also observe in this case that no definitions are provided in the Code of “subject matter” and “subject matter information”, which could, if the distinction is retained, usefully be introduced in the form of footnotes. The distinction may also cause difficulties in translation.

We note that the definition of “firm” is different in the Code compared to ISQC1. The Code covers ownership issues and so there is an element of overlap with the definition of “network firm”. Taking the definitions of “firm” and “network firm” as a whole ISQC1 would, in substance, appear to cover the same arrangements as the Code. Also ISQC1 uses the term “engagement quality control reviewer” which is defined. The Code on the other hand uses “the individual responsible for the engagement quality control review” (at 290.153). Whilst this in itself does not cause any particular problems, it would help the user if the same terminology is used between the documents.



b) Is it appropriate that the individual responsible for the engagement quality control review in the audit of a listed entity be subject to the same rotation requirements as the engagement partner?

We are of the opinion that the Code should avoid introducing additional rules. We therefore propose that as part of the framework approach, the rotation of the individual responsible for the engagement quality control review should be presented as an ultimate safeguard when other safeguards do not sufficiently reduce or mitigate the familiarity threat.

Engagement quality control reviewers generally do not maintain close contact with management of the entities which financial statements are being audited, and in fact, may have very little contact with management if at all. Consequently, they are generally not subject to the familiarity threat to which engagement partners may be exposed. Furthermore, since the engagement partner is subject to rotation, the threat that the engagement quality control reviewer will lose his objectivity with respect to the engagement is likely to be very low. Moreover, introducing such a rotation requirement would be disproportionately burdensome, especially for the smaller firms that audit listed companies or public interest entities. Also for larger firms, there may be difficulties with adverse potential effects on audit quality for specialised industries. There is a wide spectrum of situations that cannot be appropriately captured by one requirement.

c) Is the effective date appropriate?

The effective date of 31 December 2005 is in our view appropriate.

We would be pleased to discuss any aspect of this letter with you and to answer any questions you may wish to raise with us.

Yours sincerely,

David Devlin
President