

**RESPONSE TO THE IFAC
EXPOSURE DRAFT: PROPOSED
REVISED CODE OF ETHICS FOR
PROFESSIONAL ACCOUNTANTS**

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CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulations through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work (often at the most senior level) in public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards, and professional integrity. CIPFA also provides a range of high quality advisory, information and training and consultancy services to public service organisations. As such, CIPFA is the leading independent commentator on managing and accounting for public money.

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1 INTRODUCTION

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) is pleased to respond to the IFAC Ethics Committee consultation on a proposed revised Code of Ethics for Professional Accountants (the Code). CIPFA is a member of the Consultative Committee of Accountancy Bodies (CCAB) and is currently regulated by the Accountancy Foundation, although this function is in the process of transfer to the UK Financial Reporting Council. CIPFA's Standard of Professional Practice on Ethics is based on the existing IFAC Code of Ethics for Professional Accountants, placing this guidance in a public sector context.
- 1.2 CIPFA welcomes the revised Code. The move to a framework approach based on fundamental principles is consistent with the current UK regulatory regime and existing CIPFA Standards of Professional Practice (SOPP), including the Ethics SOPP. CIPFA does however have concerns regarding the structure, clarity and user friendliness of the Code, particularly with respect to professional accountants working in the public sector. These will be considered in the context of the questions listed in the request for comments.

2 ISSUES ARISING

Is the structure of the proposed revised Code understandable and usable?

- 2.1 CIPFA is concerned that the three-part nature of the Code lacks clarity, contains much repetition and does not encourage the reader to proceed. From the viewpoint of the accountant in the public sector it is, first of all, not clear which part(s) apply. The inclusion of public sector accountants within a generic heading of *Professional Accountants in Business* is not helpful in this respect. The failure to state the definition of *Professional Accountants in Business* in Part C exacerbates this issue and there is a danger that a public sector accountant may not believe the Code has direct relevance to them. None of the example threats and safeguards in Part C are of an identifiable public sector nature. Furthermore, a significant number of public sector accountants provide consultancy, audit and assurance services within the public and not for profit sectors and therefore should apply Part B, even though this is unhelpfully entitled *Professional Accountants in Public Practice* and would not on the face of it appear relevant. CIPFA would prefer to see a more generic Code, focussing on the fundamental principles and the framework approach, with additional standalone and user-friendly guidance on specific threats and safeguards, including guidance on the resolution of ethical conflict with use of case study examples (already included in the CIPFA Ethics SOPP), for particular groupings of accountants.

Is the explanation of the framework approach sufficiently clear?

- 2.2 CIPFA agrees with the fundamental principles as worded and considers that the explanation of the framework approach in Part A is sufficiently clear. However, as noted above, CIPFA is concerned that the example threats and safeguards in Part C are not worded in a manner that facilitates an accountant working in a public sector context understanding how this applies to them. A particularly useful addition would be to include political pressure as an example of an intimidation threat at paragraph 1.14 in Part C.

Are the fundamental principles sufficiently articulated?

- 2.3 CIPFA considers that the fundamental principles are clear and unambiguous.

Does the guidance on specific circumstances contained in Parts B and C cover the appropriate activities and relationships in sufficient depth?

- 2.4 CIPFA considers that Parts B and C would be enhanced with the inclusion of guidance on ethical conflict resolution using case study examples of how to apply the fundamental principles in the specific circumstances. The example threats and safeguards are reasonably comprehensive but again CIPFA considers that the examples should be more widely drawn so as to engage accountants working in a variety of areas.

In certain circumstances, the ultimate safeguard has been identified as a prohibition. Where such prohibitions have been identified, is this analysis appropriate?

- 2.5 Many of these prohibition safeguards in the Code are in Part B and relate to the acceptance and continuation of audit and assurance engagements. Public sector audit and assurance engagements are often statutory in nature and therefore refusing or withdrawing from the engagement may not be possible. These situations are therefore reflected in the public sector perspectives of international standards on auditing.
- 2.6 The prohibitions in Part C, such as conflict of interest (para 2.4) and association with misleading information (para 3.4), are very quick to suggest the accountant consider resigning from the employing organisation. Whilst this may be appropriate in some extreme circumstances it would be more useful to detail of some of the many other courses of action available before reaching that point. The case study approach that CIPFA proposes would facilitate this.

The IFAC Ethics Committee is considering an implementation date of 1 January 2006 for the proposed revised Code. Is this appropriate?

- 2.7 CIPFA considers that an implementation date of 1 January 2006 is appropriate and achievable, provided the issues outlined above are accepted and appropriate changes made.