



The Consultative Committee of Accountancy Bodies

PO Box 433
Chartered Accountants' Hall
Moorgate Place, London EC2P 2BJ
Telephone: 020 7920 8100
Facsimile: 020 7628 1874
Email: admin@ccab.org.uk
Website: <http://www.ccab.org.uk>

31st January 2008

Hazel O'Sullivan
The Auditing Practices Board Limited
5th Floor
Aldwych House
71-91 Aldwych
London
WC2B 4HN

The Institute of Chartered Accountants in England and Wales
The Institute of Chartered Accountants of Scotland
The Institute of Chartered Accountants in Ireland
The Association of Chartered Certified Accountants
The Chartered Institute of Management Accountants
The Chartered Institute of Public Finance and Accountancy

By email: h.osullivan@frc-apb.org.uk

Dear Hazel

DRAFT REVISED ETHICAL STANDARDS FOR AUDITORS

The Consultative Committee of Accounting Bodies Ethics Group (CCAB) is pleased to respond to your request for comments on the Draft Revised Ethical Standards for Auditors (the draft), issued for consultation in October 2007.

We are, on balance, pleased to see that the APB has not proposed changes of substance in the draft as we do not see evidence of a major issue with auditor independence in the UK or with public confidence in the audit process at present. However, we continue to believe the concerns we have previously stated about the existing Ethical Standards (ESs) are valid. In particular:

- Although designed to be compliant with the International Federation of Accountants (IFAC) Code of Ethics, the ESs are written differently and therefore add to compliance costs. International harmonisation would be served, with no loss of independence protection, by adopting the IFAC code.
- An absolute numeric limit on fee dependency does not fit well with principles-based standards, does not recognise the availability in some circumstances of suitable safeguards and has needlessly caused some small firms to have to change their auditors.
- The ESs continue to be written with large audits in mind, plus carve-outs for small audits, rather than being aimed at smaller audits (the great majority), with additional provisions for larger audits – i.e. think small first.

Nevertheless, while it is disappointing that small practitioners still need to read six ESs as opposed to five, we are pleased that the provisions included in the Provisions Available for Smaller Entities have been retained. The nature of safeguards appropriate for quality audits of smaller entities is different and this should be recognised.

We note an intention for the changes to the 'effective date' provisions in the draft that the revisions should take effect from 6 April 2008. As a number of the changes that have been made have been driven by prospective changes to the IFAC Code, we believe the APB should consider

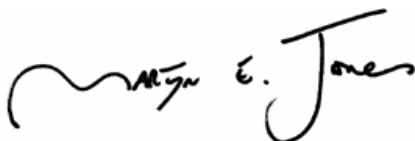
extending its timetable to ensure that no further changes are necessary following finalisation of the IFAC provisions – something which has not yet been done.

In terms of the detailed revisions made, we understand a number of the accountancy bodies within the CCAB will be writing to you to address these. However, we would like to express support for increasing the rotation period for engagement and EQCR partners on listed company audits to seven years. We are not aware of a widespread view that requiring rotation after five rather than seven years has enhanced auditor independence: indeed the increased loss of knowledge and the reduction in ability to always have the most appropriate partner for the job may have been counter-productive to audit quality. A change to seven years, as well as enhancing international harmonisation by moving in line with the IFAC (and indeed Statutory Audit directive) provisions, would also enhance the ability of audit firms with fewer partners, to compete at appropriate levels of the listed company audit market.

Should the APB nevertheless decide that it cannot fully support a seven year rotation period for engagement partners on listed entities on an unrestricted basis, we would advocate considering allowing a seven year rotation period on the condition that the matter is discussed with and agreed by the audit committee.

If you have any queries please do not hesitate to contact us,

Yours sincerely

A handwritten signature in black ink that reads "Martyn E. Jones". The signature is written in a cursive style with a large, stylized 'J' at the end.

MARTYN JONES

Chairman, CCAB Ethics Group.