

# **Proposed Revision to Code of Ethics for Professional Accountants**

**Issued for Comment  
by the International  
Federation of  
Accountants**



## **REQUEST FOR COMMENTS**

This exposure draft of the Ethics Committee of the International Federation of Accountants (IFAC) was approved for publication by the IFAC Board in November 2003. The proposed revision to the Code of Ethics for Professional Accountants (the Code) may be modified in light of comments received before being issued in final form.

### **Reason for proposed change**

In November 2001, IFAC issued a revision to Section 8 of the Code, addressing independence requirements for assurance engagements.

Paragraph 8.151 of the Code deals with rotation of the lead engagement partner for audit clients that are listed entities. The paragraph states that such partners should be rotated after a pre-defined period, normally no more than seven years, and after such rotation should not resume the role of lead engagement partner until a further period of time, normally two years has elapsed.

The purpose of such a requirement is to provide a “time-out period” to address the familiarity threat created by using the same lead engagement partner on an audit of a listed entity for a prolonged period of time. The IFAC Ethics Committee recognizes that as drafted, an individual that had completed a pre-defined period of years in the role of lead engagement partner, normally seven years, would be able to assume the role of another partner on the engagement, for example the role of concurring engagement partner as discussed in the International Auditing and Assurance Standards Board’s exposure draft *Quality Control*. In the IFAC Ethics Committee’s opinion, such practice would not adequately address the familiarity threat and provide the necessary “fresh-look”. Consequently, the proposed revision to paragraph 8.151 makes it clear that an individual who has completed a pre-defined period, normally seven years, in the role of lead engagement partner for an audit of a listed entity should not participate in the assurance engagement until a further period of time, normally two years, has elapsed.

### **Comments on the Exposure Draft**

The IFAC Ethics committee welcomes comments on the exposure draft. The responses should include the reasons for the comments, including specific suggestions for any proposed wording changes.

**Response Due Date**

Comments should be submitted so as to be received by **February 15, 2004**, preferably by e-mail or on computer disk, or in writing. All comments will be considered a matter of public record. Comments should be addressed to:

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

E-mail responses should be sent to [EDComments@ifac.org](mailto:EDComments@ifac.org)

The approved text of this exposure draft is published in the English language. In order to achieve maximum exposure and feedback, IFAC encourages the reproduction of this publication in any format.

**PROPOSED REVISION**  
**CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS**  
**PARAGRAPH 8.151**

1. The IFAC Ethics Committee proposes to make the following changes to paragraph 8.151 of the Code of Ethics for Professional Accountants (deleted text is shown in ~~striketrough~~ and new text in underline.)

“Using the same lead engagement partner on an audit over a prolonged period of time may create a familiarity threat. This threat is particularly relevant in the context of the audit of listed entities and safeguards should be applied in such circumstances to reduce such threat to an acceptable level. Accordingly for the audit of listed entities:

- (a) The lead engagement partner should be rotated after a pre-defined period, normally no more than seven years; and
- (b) A partner rotating after a pre-defined period should not ~~resume the lead engagement partner role~~ participate in the assurance engagement until a further period of time, normally two years, has elapsed.”

2. The revised text of paragraph 8.151 would read as follows:

“Using the same lead engagement partner on an audit over a prolonged period of time may create a familiarity threat. This threat is particularly relevant in the context of the audit of listed entities and safeguards should be applied in such circumstances to reduce such threat to an acceptable level. Accordingly for the audit of listed entities:

- (a) The lead engagement partner should be rotated after a pre-defined period, normally no more than seven years; and
- (b) A partner rotating after a pre-defined period should not participate in the assurance engagement until a further period of time, normally two years, has elapsed.”