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Date	Re	Our ref	Attachment	Direct dial nr
October 11, 2007	Comment NIVRA on Exposure Draft July 2007	LB		T +3120-3010301 F +3120-3010302

Dear Sir/Madam,

Re:

Exposure Draft July 2007

Section 290 of the Code of Ethics (independence- Audit and Review Engagements)

Section 291 of the Code of Ethics (independence – Other Assurance Engagements)

Chapter ‘Internal Audit Services

1. NIVRA suggests to change the title ‘Internal Audit Services’ into ‘Internal Audit and Internal Control Services’.

Explanation:

The title ‘Internal Audit Services’ suggests that the scope of the provisions is limited to internal audit services. Based on the texts and especially the examples it can be concluded that ‘specialized internal control assignments’ fall within the scope as well. To prevent misunderstanding NIVRA suggests to rephrase the title and state ‘Internal Audit and Internal Control Services’ instead.

If this proposal is accepted the titles of the corresponding paragraphs in this chapter should be changed as well.

If this proposal is not accepted the texts of the paragraphs in this chapter should be changed by removing the provisions that are not part of the ‘internal audit services’ but of ‘internal control services’.

2. Paragraph 290.191 includes a safeguard under the second bullet, which reads:
‘Having an additional professional accountant review the work or otherwise advise as necessary’. Similar safeguards are included in:

- 290.146: 'Having an additional professional accountant who was not a member of the audit team review the work of the senior personnel'; and
- 291.137: 'Having an additional professional accountant who was not a member of the assurance team review the work of the senior personnel.
- 291.214: 'Such safeguards might include having an additional professional accountant review the work or otherwise advise as necessary.

NIVRA remarks the following in that respect:

- According to NIVRA, this review should be conducted by a 'professional accountant in public practice', because all cases relate to safeguards for threats to control issues.
- To NIVRA the meaning of the word 'additional' remains unclear. The word 'additional' creates the impression that an assignment is additionally reviewed on top of the 'engagement quality control review'. That is under the assumption that the engagement will be subject to the 'engagement quality control review' from ISQC-1 paragraph 60 and further, because of the threats consisting in the intended situations. That would lead to a review of a review, which approach does not seem useful.

Chapter Fees

1. In the draft of December 2006 paragraph 290.2 states that in section 290 the term 'firm' includes 'network firm', except where otherwise stated.

NIVRA considers this use of terminology confusing, especially because in the current situation the exposure draft of July 2007 proposes changes to the exposure draft of December 2006. Furthermore, the person who reads the chapter on 'fees' will not directly realize that the term 'firm' includes every 'network firm'. This might lead to misunderstandings and causes unnecessary risks.

2. Paragraph 290.215 refers to audit clients that are 'entities of significant public interest'. However, this concept remains undefined.

The DIRECTIVE 2006/43/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 May 2006 on statutory audits of annual accounts and consolidated accounts contains the definition 'public-interest entities' which means entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions as defined in point 1 of Article 1 of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions (1) and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC. Member States may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees.

NIVRA advocates following the abovementioned definition of 'public-interest entities' from EU legislation when 'entities of significant public interest' are mentioned. This will prevent discussions on the meaning of the term 'entities of significant public interest'.

3. In the situation mentioned in paragraph 290.215 the following conditions apply:

- Disclose to those charged with governance the fact that the total fees represents more than 15% of the total fees received by the firm; and
- After the audit opinion has been issued a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs a review that is equivalent to an engagement quality control review (“a post-issuance review”); or
- Prior to the issuance of the audit opinion a professional accountant, who is not a member of the firm expressing the opinion on the financial statements of the client, performs an engagement quality control review.

Considering the remark stated above under Chapter Fees, sub 1., the definition ‘firm’ includes the complete network. In case of an internationally operating audit client who is served by one of the big worldwide firms, it is not clear to NIVRA when this review should be done and by whom.

The latter two conditions mentioned above, state a ‘review’ that should be done by ‘a professional accountant , who is not a member of the firm expressing the opinion on the financial statements of the client’. If a conflict arises between this accountant and the one who as an affiliate of the firm is responsible for the assignment, there is no certainty about the position and the ‘power’ of the ‘professional accountant who is not a member of the firm’. NIVRA calls for clarity on this issue.

Additionally NIVRA regards the choice a firm has to make between those latter two conditions, a review before or after providing an opinion, as illogical. The two options are not balanced and will not lead to the same results. There is a chance that in practice the firm is inclined to choose the second option while this provides the least security. NIVRA proposes to delete the aspect of choice and prefers the first option.

NIVRA questions the desirability to decide on a 15% limit. A threat at a relative size of 14% will be fairly equal to one at a relative size of 16%, whereas there are huge differences between safeguards to be made in both situations. Consequently NIVRA prefers a qualitative rather than a quantitative limit.

4 Special considerations on application in audit of small entities

NIVRA examined this subject in its comment dated April 27th 2007 on the Exposure Draft of December 2006 on section 290 and 291 of the Code of Ethics. All remarks in these comments are equally valid for the current Exposure Draft.

Yours truly,

Rob G. Bosman
Technical Director