

IESBA

Safeguards

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IESBA CAG Meeting
September 13, 2017

Objectives

- Discuss significant comments on Safeguards ED-2
- Obtain input on Task Force's proposed revisions
- Focus on NAS section of the Code

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Introduction

- Phase 1 – Agreed in principle in Dec 2016
- Phase 2 – Approved for exposure in Dec 2016
 - Released in Jan 2017; comment period closed April 25, 2017
 - 47 comment letters received
- IESBA discussion of significant issues in [June 2017](#)
- IESBA “first-read” of proposed revisions in [September 2017](#)
- Approval anticipated in December 2017

Coordination with Others Task Forces

- Close coordination with Structure Task Force
 - Introductory paragraphs
 - Matters relating to use of “may versus might”
 - Explicit reference to “firms versus network firms”
- Work closely with Part C and LA Task Forces to revise safeguards-related proposed texts

Highlights of Comments on Safeguards ED-2

- General support for project objectives and for proposals
- Questions about appropriateness of certain safeguards
- Confusion about “factors relevant to evaluating threats” vs. “safeguards”
- Mixed views about broad prohibition of certain types of recruiting services – support from regulators and NSS, strong concerns from SMPs
- Requests for post-project actions to promote awareness and adoption
- Out of scope matters (e.g., NAS permissibility, documentation, materiality)

Overview of Proposed NAS Safeguards

- Using professionals who are not audit team members to perform NAS
- If NAS is performed by an audit team member, using professionals who are not audit team members, with appropriate expertise to review NAS
- Having a professional review audit work or result of NAS
- In some cases, having a professional who was not involved in providing NAS review the accounting treatment or presentation in f/s

Safeguards

Feedback from Respondents

- Safeguards should be tailored so that they are appropriate to address specific threats
- Request for more guidance to help determine effectiveness of safeguards
- Questions about withdrawal of certain safeguards
 - “... obtaining an advice from a third party in certain circumstances, e.g., a supervising or a controlling authority...”
- Different language used to describe similar safeguards

Task Force Proposals

What are Safeguards?

- “Actions, individually or in combination, that PA takes that effectively reduce threats to compliance with FPs to an acceptable level”
- Safeguards are only one of the ways to address threats
- Effectiveness of safeguards depends on facts and circumstances
- PA’s understanding of facts and circumstances and exercising professional judgment is critical to determine appropriateness and effectiveness of safeguards

Task Force Proposals

Safeguards

- Tweaks to conceptual framework to emphasize that safeguards are applied to reduce threats to an acceptable level
- Examples of actions that might eliminate threats are now positioned before examples of actions that might be safeguards
- Clarifications made better align “Addressing Threats” section for PAPPs in S300 to overarching requirements that are described in S120
- Revisions made to examples of safeguards involving “a review”
 - “Having a professional/ PA review audit work or result of NAS” is replaced with “Having an appropriate professional review ...”

Matter for CAG Consideration

1. Representatives are asked for views about proposed revisions made in response to comments about appropriateness and effectiveness of safeguards

Task Force Proposals

Factors Relevant to Evaluating Vs Safeguards

- Affirm Phase 1 decision to re-characterize certain safeguards as conditions, policies and procedures
- Clarifications made to better link overarching requirements in S120 (i.e., Phase 1 work) to specific provisions in the rest of Code
 - Further explanation that conditions, policies and procedures are essentially “factors relevant to evaluating level of threats”
 - Explanation about relevance of conditions, policies and procedures in determining whether further actions are needed to address threats

Prohibition of Certain Recruiting Services

- Extant Code prohibit certain recruiting services for PIEs
 - Director or officer of the entity
 - Senior management in a position to exert significant influence over preparation of client’s accounting records or f/s on which firm will opine
- Recruiting services prohibited
 - Searching for or seeking out candidates for above positions
 - Undertaking reference checks of prospective candidates for above positions
- Safeguards ED-2 extended prohibition to all entities

Task Force Proposals

Recruiting Services

- New application material to describe recruiting services
- New requirement with specific actions firms should take to avoid assuming management responsibilities (similar to IT and internal audit)
- New subheading to emphasize that only certain types of recruiting services are prohibited
- Re-ordered paragraphs to enhance readability and flow

Matter for CAG Consideration

2. Representatives are asked for views about proposed revisions to recruiting services, including clarifications to prohibition for certain types of recruiting services

Task Force Proposals

Requests for Post-project Actions

- Task Force believes that other actions beyond refinements to Code are needed to help users understand enhanced conceptual framework and other changes to Code
 - New “Guide to Code” to help navigation of restructured Code
 - Basis for Conclusions to focus on highlighting key changes e.g., interaction b/w “factors that are relevant to evaluating threats” and safeguards
 - Important role for NSS, firms and others to help raise awareness of, revisions and promote/ support their effective implementation

Matter for CAG Consideration

3. Representatives are asked to share any other views that might be relevant to the IESBA’s finalization of the Safeguards project



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