



**IESBA Exposure Draft:  
Proposed Revisions Pertaining to  
Safeguards in the Code – Phase 2  
and Related Conforming Amendments**

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## INTRODUCTION

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

ICAS welcomes the opportunity to comment on the IESBA Exposure Draft: '*Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments*'. The ICAS Ethics Board has considered the Exposure Draft and I am pleased to forward their comments.

Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

### Key Points

1. As we intimated in our response to IESBA's earlier Exposure Draft 'Proposed Revisions Pertaining to Safeguards in the Code – Phase 1 Safeguards ED-1) we are supportive of:
  - IESBA's objective to improve the clarity, appropriateness, and effectiveness of the safeguards in the Code of Ethics.
  - IESBA's aim of further promoting the appropriate use of the conceptual framework among all professional accountants to comply with the fundamental principles of the Code. We believe that the importance of highlighting the fundamental principles cannot be underestimated.
  - IESBA's view that there are public interest benefits to be derived from an improved correlation between threats, safeguards and the fundamental principles.
  - a more explicit overarching requirement for all professional accountants to comply with the conceptual framework, to eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level, and are also supportive of the more extensive introduction that better explains the conceptual framework approach.
  - the withdrawal of the terms "*safeguards created by the profession or legislation*", "*safeguards in the work environment*" and "*safeguards implemented by the entity*" from the Code. We are also supportive of the decision to restrict the definition of "*safeguards*" to more narrowly describe actions that the professional accountant undertakes to address threats to compliance with the fundamental principles. However, we do believe that there will be a major education exercise required to inform practitioners, particularly those in smaller firms as to the justification for the removal of such matters from the category of "*safeguards*". This may also cause issues in relation to ensuring that this proposed change to the Code is translated appropriately.
  - it is essential that application of professional judgement continues to be a critical aspect of effectively applying safeguards.

## Responses to the Specific Questions

### Request for Specific Comments

#### Section 600, Provision of Non-Assurance Services to an Audit Client

##### 1. Do respondents support the proposals in Section 600? If not, why not?

*In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.*

- 2 We are broadly supportive of the proposals contained in Section 600 of the proposed restructured Code. The following are more detailed points which we believe IESBA should consider before finalising this section.
- 3 We believe that in paragraph 600.1 consideration should also be given to also making reference to addressing threats to the fundamental principles as well as to independence. This comment appears to be backed by the content of paragraph 600.2 (see below).

*“600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.*

*“600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.”*

- 4 Likewise, in paragraphs 600.3 and R600.4, should reference only be to addressing threats relating to independence as opposed to also the fundamental principles?
- 5 Reference is made through the Code to applying the safeguard whereby another professional accountant undertakes a review of work that has been performed. However, there appears to be an inconsistency in how this safeguard is referred to at different parts of the Code.

At paragraph 601.5 A1 it makes clear that the reviewer is someone “*with appropriate expertise to review the work performed.*” Similar wording is used at paragraph 604.7 A2.

In contrast, paragraph 603.4 A2 does not refer to “*appropriate expertise*”. Likewise, this approach is used in many other places.

We would prefer a consistent approach in this regard with reference made to include “*appropriate expertise.*”

- 6 At paragraph 604.2 – we would prefer that the text “*...because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level*” be replaced by “*because the threats cannot be eliminated or safeguards applied to reduce them to an acceptable level*” or “*because neither the threats can be eliminated nor safeguards applied that can reduce them to an acceptable level*” or “*because the threats cannot be eliminated or no safeguards applied to reduce them to an acceptable level.*”

This would then need to be applied where similar wording is used elsewhere in the restructured Code. We would also highlight the typo at paragraph 606.2 where the word “*to*” is missing in the second last sentence.

- 7 At paragraph 604.16 A3 we would prefer the wording of the first sentence to be as follows:

*“In addition to paragraph 604.4 A2, factors that are relevant in evaluating the level of any threat created by assisting an audit client in the resolution of a tax dispute ~~to an audit client~~ include:...”*

- 8 We believe that there would be merit in reversing the order of the following paragraphs. The latter appears to highlight the threat which follows on from the previous paragraph, whereas the former suggests a possible safeguard.

*“605.5 A2 An example of an action that might be a safeguard to address self-review threats created by providing internal audit services is using professionals who are not audit team members to perform the internal audit service.*

*605.6 A1 When a firm uses the work of an internal audit function in an audit engagement, International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:*

*(a) Appropriately evaluating those results; or*

*(b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.”*

***In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.***

- 9 We believe that this new proposed extension of scope goes beyond the intended purpose of this restructuring project. We therefore believe that this matter should not be considered at this time.

### **Section 950, Provision of Non-Assurance Services to an Assurance Client**

#### **2. Do respondents support the proposals in Section 950? If not, why not?**

- 10 We are broadly supportive of IESBA's proposals in Section 950. We question whether the content of paragraph 950.1 should only refer to threats to “*independence*” as opposed to “*.....to identify, evaluate and address threats to the fundamental principles and independence.*” The content of the subsequent paragraph 950.2 would appear to support this argument “*...threats to compliance with the fundamental principles and threats to independence.*”

- 11 Likewise, the requirement at R950.4 focusses solely on the threat to independence.

- 12 For consistency purposes, at subsection 950.5 the sub-heading should probably be “*Not Assuming Management Responsibilities*” as the word “assume” is used throughout this section.

#### **Examples of Safeguards**

#### **3. Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?**

- 13 The ability to be able to implement appropriate safeguards is of crucial importance. Therefore, we believe that this is a matter which should have been considered more thoroughly at an earlier stage in the process. As we highlighted in our earlier response on the first Safeguards ED we agree that “*safeguards created by the profession or legislation*”, “*safeguards in the work environment*”, and “*safeguards implemented by the entity*” in the extant Code do not meet the proposed description of safeguards in the ED.

We agree that they are better characterized as “*conditions, policies and procedures*” that affect the professional accountant's identification and potentially the evaluation of threats.

However, we do believe that there will be a major education exercise required to inform practitioners, particularly those in smaller firms as to the justification for the removal of such matters from the category of “*safeguards*”. This may also cause issues in relation to ensuring that this proposed change to the Code is translated appropriately.

As is clear from the safeguards which are illustrated in the Code, that these are generally restricted to situations where the work of one professional accountant is reviewed by another or where a professional accountant is removed from a team to remove the threat which exists. We believe there is a need to highlight the need for professional judgement to be exercised in relation to the extent of the review that is required in a particular situation. For example, on occasion the review work required may only need to be restricted to specific areas of the work that has been performed.

**Conforming Amendments Arising from the Safeguards Project**

**4. Do respondents agree with proposed conforming amendments set out in:**

**(a) Chapter 2 of this document.**

**(b) The gray text in Chapters 2–5 of Structure ED-2.**

- 14 At paragraph 321.5 A1: *“Factors that are relevant in evaluating the level of a threat created by providing a second opinion to an entity that are not an existing client is the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.”*

The “are” we have underlined in the above paragraph should be replaced with “is”, and the words “depends on” should replace the underlined “is”. That is, the sentence would read as follows:

*“Factors that are relevant in evaluating the level of a threat created by providing a second opinion to an entity that ~~are~~ is not an existing client is depends on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.”*

- 15 At paragraph 321.5 A2 *“Examples of actions that might be safeguards to address the threats created by providing a second opinion include:*
- With the client’s permission, obtaining information from the existing or predecessor accountant.*
  - Describing the limitations surrounding any opinion in communications with the client.*
  - Providing the existing or predecessor accountant with a copy of the opinion.”*

In relation to the last bullet point, would the client’s permission not be required as is the case with the first bullet point?

- 16 At paragraph 330.4 A4 *“Examples of actions that might be safeguards to address threats set out in paragraph 330.4 A2 include:*
- Adjusting the level of fees or the scope of the engagement.*
  - Assigning a professional with appropriate expertise to review the work performed.”*

Would the first of these safeguards not require the client’s permission?

- 17 At paragraph 300.5A 3 - In relation to the review of the independent third party, no mention is made of “expertise”. Also, does the review not need to take account of how the fee is calculated in addition to the “work performed”?
- 18 At paragraph R400.12 – Should reference only be made to “independence” as opposed to also referencing the fundamental principles?
- 19 At paragraph 410.9 A2 – The following typo should be corrected:
- “Examples of actions that might be safeguards to address threats created by overdue fees include:*
- Obtaining partial payment of overdue fees.*
  - Having an additional professional accountant, who did not take part in the audit engagement,~~or~~ review the work performed.”*

20 At paragraph 511.6 A2 – “If a loan from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client or firm receiving the loan, it might create a self-interest threat. An example of an action that might be a safeguard to address such a threat is having the work reviewed by a professional who is not a member of the audit team that is neither involved with the audit, nor is a beneficiary of the loan. If the loan is to a firm the reviewing professional might be someone from a network firm.”

This wording could be truncated by removing either “who is not a member of the audit team” or “neither involved with the audit”.

21 At paragraph 520.8 A2 “Actions that might eliminate threats created by purchasing goods and services from an audit client include:  
• Eliminating or reducing the magnitude of the transaction.  
• Removing the individual from the audit team.”

Should the “and” condition not be an “or” in the first sentence “...purchasing goods or services...” i.e. it does not need to be both goods and services?

22 At paragraph 521.5 A3 “An example of an actions that might be a safeguards to address the threats set out in paragraph 521.5 A1 is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the immediate family member.  
An action that might eliminate the threat is removing the individual from the audit team.”

The text which has been struck through should be removed.

23 In terms of consistency of language we refer to paragraph 521.7A3 – the action that might eliminate the threat refers to “the individual”. In paragraph 521.8A2, in contrast, it refers to “the professional”.

24 At paragraph 524.7 A2 “An example of an action that might be a safeguard to address threats set out in paragraph 524.7 A1 is having an appropriate professional review any significant judgments made by that individual while on the team. An action that might eliminate such threats is removing the individual from the audit team.”

On this occasion the phrase “...an appropriate professional...” is used.

##### **5. Respondents are asked for any comments on any other matters that are relevant to Phase 2 of the Safeguards project.**

25 We have no further comments.

##### **Request for General Comments**

40. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

(a) *Small and Medium Practices (SMPs) and PAIBs* – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.

(b) *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

(c) *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

(d) *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

26 In relation to point (a) we would highlight our comments at 14 above.

We have no comments on points (b), (c) or (d).