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Our ref SS/288

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Dear Mr Siong

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

We appreciate the opportunity to comment on the above Exposure Draft (Phase 2 ED) issued by the International Ethics Standards Board for Accountants (the Board). We have consulted with, and this letter represents the views of, the KPMG network.

We continue to be supportive of the project and the intent to provide clarity with respect to safeguards in the Handbook of the Code of Ethics for Professional Accountants, and more specifically in regard to this Phase 2 ED. We also agree:

- that changing from “significance of a threat” to “level of a threat” will help clarify the requirements related to the evaluation of a threat and should therefore be helpful to all stakeholders;
- with the Board’s position that seeking advice from another party no longer meets the revised definition of a safeguard; and
- with the proposal to extend the prohibition on recruiting services to all audit clients.

We have included additional observations in the attached Appendix for your consideration.

Please contact Sylvia Smith +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

- 1 In reference to 600.4A3 of the proposed revised text, a factor that is relevant in evaluating the level of any threats created...in the penultimate bullet, the text refers to "... systems that **generate information** that form a significant part of the client's internal control over financial reporting". We believe that referring only to the systems that **generate information** may be too narrow. We recommend that this be broadened to refer to "... systems that form a significant part of the client's internal control over financial reporting".
- 2 In reference to 601.3A2 we note that the extant Code 290.164 includes as management responsibilities "... originating or changing journal entries, or determining **or approving** the account classifications of transactions." We note, however, that **approving** the account classifications has been excluded from the revised text. The reason for this exclusion is unclear and we are concerned that this omission may inadvertently narrow the scope of permissible activities in this area.
- 3 The application material in 601.4A1 that provides examples of services that are routine and material appears to be most relevant to the requirements in R601.6 and R601.8 because they deal with exceptions for such services. To better help the flow of the requirements and application material, we suggest moving 601.4A1 so that it follows R 601.6 to R601.8. Alternatively, paragraphs R601.6 to R601.8 could be repositioned so they follow R601.1 and .2 of the Introduction.
- 4 In 603.3A2 we believe that "network firm" has been erroneously excluded from the beginning of this paragraph.
- 5 In 603.4A1 in the third bullet, we suggest that the extent to which a valuation will have an impact is relevant to evaluating the level of a threat, and not solely if it meets the financial statement materiality threshold.
- 6 We suggest that the first sentence of R609.5, which reminds readers that R600.7 precludes a firm or a network firm from assuming a management responsibility, is better positioned as application material rather than as part of the requirement to avoid certain activities when providing recruiting services.