



# Grant Thornton

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To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (Grant Thornton) appreciates the opportunity to comment on the January 2017, Exposure Draft Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments, approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

Grant Thornton is a non-practicing, non-trading international umbrella organization and does not deliver services in its own name. Representative Grant Thornton member firms have contributed to and collaborated on this comment letter with the public interest as their overriding concern.

We support the Board's proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high quality standards that will enhance the profession.

## **General Comments**

### ***Advocacy threats when performing tax dispute, litigation or legal services***

With respect to professional accountants assisting in the resolution of tax disputes, litigation support services, or legal services, such services can create advocacy and self-review threats to a professional accountant's objectivity. In these circumstances under the conceptual framework approach in the extant Code, the professional accountant is required to perform an analysis of the services in order to ascertain the existence and significance of the advocacy threat. One of the criteria recommended as part of this analysis is the materiality of the amounts involved in the non-audit services or the materiality of the outcome of the dispute on the financial statements (Paragraphs R604.16(b), 607.4 A1, third bullet point, and R608.8).

Grant Thornton is of the position that anytime an auditor promotes or advocates on behalf of their client, the auditor's objectivity is subsequently compromised and they have a bias in favour of advancing their client's interests. We do not believe this bias is acceptable if the amounts involved in the litigation or dispute are immaterial. Furthermore, we believe the

auditor's comprised objectivity could impede the auditor's responsibility to act in the public interest in these circumstances, regardless of the materiality of the amounts involved in these engagements.

Accordingly, we are recommending the Board remove this as a consideration for determining the significance of an advocacy threat when these services are rendered to an audit client or the client's related entities.

### **Request for Specific Comment**

#### ***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 26(h) above to all audit client entities? If not, please explain why.

Grant Thornton is supportive of the proposals in Section 600 and we believe the guidance in the proposals will enhance compliance with the fundamental principles and the Code to ensure the integrity and quality of audits.

However, we do not support the proposal to extend the scope of the prohibitions on recruiting services as described in paragraph 600.26(h) to all audit clients and their related entities. Private audit clients look to the expertise of their auditor in accounting and financial reporting in order to assist them in finding strong, qualified candidates for finance and accounting positions within their organization.

We believe auditors performing services such as (i) searching for and pursuing candidates for such positions based on criteria provided by the client, and (ii) providing a short list of qualified candidates for the position for private audit clients and their related entities would not impair their independence or objectivity as long as the auditor does not perform management functions or make management decisions on behalf of the client (such as making the final decision as to which candidate should be hired). We believe in these circumstances if the auditor complies with paragraph R600.8 of the proposal, any threats of the auditor assuming a management responsibility would be reduced to an acceptable level.

The existence of any self-interest or familiarity threats that may arise from performing these services we believe can be reduced to an acceptable with the application of safeguards discussed in the proposal, such as:

- having individuals that are not part of the engagement team perform the services and,

- depending on the level and role of the individual hired and their interaction with the audit team, having a partner or senior professional on the audit engagement or someone with appropriate expertise review the work this individual provided to the audit team

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

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

Grant Thornton is supportive of the proposals in Section 950.

#### ***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?**

Grant Thornton does not have suggestions for other actions that might be safeguards in the Code. We are supportive of the guidance in the exposure draft and believe it provides a concise framework to help Professional Accountants implement effective safeguards to maintain auditor objectivity and independence.

#### ***Conforming Amendments Arising from the safeguards Project***

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

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

Grant Thornton agrees with the proposed conforming amendments set out in Chapter 2 of this document and believe it will result in the Code being laid out in an organized, logical manner.

However, we would like to recommend for the Board's consideration adding the term "*indirect* financial interest" to the following paragraphs in the requirements and application material in Section 500 of the proposal:

- Paragraph 510.6 A1, third bullet point,
- Paragraph 510.13 A2, second bullet point, and
- Paragraph 510.13 A5, third bullet point

Although the above guidance is currently in the extant Code, we believe users of the Code can interpret the guidance to imply that a materiality threshold can be used to analyze direct, financial interest prohibitions. By adding "*indirect*" before financial interest to these sections of the Code, will remove any confusion on how the guidance should be applied.

**(b) The grey text in Chapters 2-5 of the Structure ED-2.**

Grant Thornton agrees with the proposed conforming amendments in gray text in Chapters 2-5 of the Structure ED-2.

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

We do not have any other comments on Phase 2 of the Safeguards project.

Grant Thornton would like to thank the IESBA for this opportunity to comment. As always we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek at [gina.maldonado-rodek@gti.gt.com](mailto:gina.maldonado-rodek@gti.gt.com).

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