

ASSIREVI
Associazione Italiana Revisori Contabili

Al Presidente

International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017

28 June 2017

Exposure Drafts:

- *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments*
- *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2*

Dear Sirs,

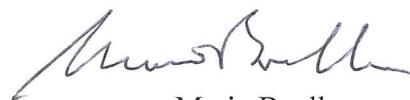
ASSIREVI is the association of Italian audit firms. Its member firms represent the majority of the audit firms under the oversight of CONSOB (*Commissione Nazionale per le Società e la Borsa*) and are responsible for the audit of almost all of the companies listed on the Italian stock exchange. Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for its members. It collaborates with Governmental bodies, CONSOB, the Italian accounting profession and other bodies in the development of auditing and accounting standards.

ASSIREVI is pleased to submit its comments on the Exposure Drafts “*Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments*” and “*Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2*” issued by IESBA in January 2017.

Our detailed comments are set out in the attached document.

Should you wish to discuss our comments, please do not hesitate to contact us.

Yours faithfully,



Mario Boella
Chairman of Assirevi

COMMENTS ON THE IESBA EXPOSURE DRAFTS

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

Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2

We examined the Consultation Papers containing the *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments* and the Consultation Paper called *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2*.

As a matter of principle, ASSIREVI agrees with IESBA's plan to make the Code of Ethics clearer and easier for professionals to use.

Nevertheless, our Association intends, on this occasion too, to repeat what we have already maintained in previous consultations regarding changes to the structure of the Code of Ethics. More specifically, it is important, in the opinion of the Association, to stress that amendments to be made to the Code should only be formal or linguistic and should not constitute changes to its substance.

An example of this is the newly introduced definition of a “*Reasonable and informed third party*”, which, in our opinion, seems to require a logical process of the evaluation of threats to independence which would appear to diverge from the process at present stated in the Code. Actually, the definition proposed by the amendments in question provides for the “*reasonable and informed third party*” to make its evaluations by “*weighing all the relevant facts and circumstances that the professional accountant knows, or could reasonably be expected to know, at the time that the evaluation is made*”. On the contrary, in the current version of the Code, the “*reasonable and informed third party*” focuses on “*all the specific facts and circumstances available to the professional accountants at the time.*”

As already noted, this is a far from insignificant amendment and one which we do not feel we can agree with, especially for the purposes of verification of the auditor's behaviour after the fact.

We remind you that the purpose of the “*reasonable and informed third party*” test is to assess whether the accountant's conclusions regarding the acceptability of the level of the risks involved are correct.

Hence the test must be conducted on the basis of facts and circumstances known to the accountants at the time they reach their conclusions and should not, on the contrary, be based on facts and circumstances which could only theoretically be known to them.

Accordingly, the same critical issues are also reflected in the new version of the definition of “*acceptable level*”. Actually, the proposal in the consultation paper makes a material change to the previous structure and ends by making the interpolated sentence irrelevant: “*weighing all the specific facts and circumstances available to the professional accountants at that time.*”

If we were to follow the new approach, the facts and circumstances at the disposal of the “*reasonable and informed third party*” at any given time would appear to be no longer of any significance for the purposes of the identification of the “*acceptable level*”. The assessment of the *acceptable level* made by the “*reasonable and informed third party*” would end by being completely disengaged from any reference criteria.

We therefore suggest that IESBA should reconsider the proposed changes referred to above and, in general, avoid the risk of a change to the present structure, as in the examples set out above, becoming a different approach regarding which ASSIREVI expresses some doubts, rather than constituting a mere rewording of the existing provisions in order to render them clearer.

Having stated this in general terms, ASSIREVI hereby presents some specific considerations with reference to the Consultation Paper containing the *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments* and to the Consultation Paper called *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2*.

- paragraph 601.1 – contrary to the former paragraph 290.165, this paragraph does not specify the circumstances in which providing accounting and bookkeeping services may create a threat to the independence of the person/firm providing them. For greater clarity, and in line with the approach taken by IESBA in the past, we suggest specifying that the threat of self-review is created “when the firm subsequently audits the financial statements.”

- paragraph 601.4 A1 – this paragraph identifies some examples of accounting and bookkeeping services which may be considered routine or mechanical. No suggestions are made, however, as to how the auditor should behave with regard to these types of services. ASSIREVI suggests that, also in the light of the approach that has always been taken in the Code of Ethics, this paragraph should be completed by adding that “The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level.”

- paragraph 600.1 A5 – the new version of this paragraph seems to imply that the person/firm who provides accounting or bookkeeping services must always apply safeguards. This approach does not seem to be in line with the approach taken in the present version of the Code of Ethics. Therefore, in this regard, it is suggested to specify that “in all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.”

As regards the Consultation Paper named *Improving the Structure of the Code of Ethics for Professional Accountants – Phase 2*, we feel it is desirable for us to express some observations on the timing of the entry into force of the amendments to the Code of Ethics discussed in said document.

Actually, the document under examination states that Parts 1, 2, 3, 4A (except for Section 540 and Section 940) and 4B of the new Code of Ethics should be applied from 15 June 2019.

ASSIREVI, on the other hand, would consider it advisable for the entry into force of the new provisions of the Code of Ethics to be postponed until January 2020 so that statutory auditors and other professionals can familiarise themselves with its new structure and the new standards contained in it, which diverge from the previous standards and therefore present some complexities even from the point of view of their interpretation. Another reason for our hope that you will accept this suggestion is the recent entry into force of the European statutory audit reform, which has made some significant changes to the regulatory framework to which statutory auditors in the European Union are subject. This has had a considerable effect on audit management and on how Italian statutory auditors organise their work, especially in view of the uncertainty regarding the interpretation of some fundamental provisions of the reform which still reigns today.

This is the reason for our suggestion that the adoption of the new Code of Ethics should be postponed.

Milan, 28 June 2017