

April 26, 2017

Chair
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, New York 10017

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

Dear Members of the International Ethics Standards Board for Accountants:

We appreciate the opportunity to provide comments on the exposure draft "*Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments*" (the ED) issued in January 2017 by the International Ethics Standards Board for Accountants (IESBA or Board).

The Explanatory Memorandum notes the purpose of the proposed revisions is to enhance the requirements for addressing threats that are created when providing non-assurance services (NAS) to audit and assurance clients, specifically Sections 600 and 950 in the re-structured Code. We are supportive of the Board's efforts to enhance these sections of the Code in order to bring a greater consistency in application of the Code as such consistency is ultimately in the public interest. The Board is taking the correct approach, but there are a number of areas that could use clarification and suggestions are offered below.

Specific Comments

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

Overall we agree with most of the proposals in Section 600. We have a number of drafting suggestions in Appendix 1 to this letter and we have more substantive suggestions for the following areas:

Paragraph 600.6 A1 – When already providing other NAS to an audit client, the impact of the new services should be assessed *prior* to accepting the engagement. Based on the tense used in the ED, a reader could be led to believe this assessment is performed during the engagement at which time it may be too late to apply safeguards or to decline the engagement. We suggest adding language to this effect to make the point abundantly clear.

Paragraph 605.6 A1 – This section contains an important concept to establish for why there would be threats to independence if a firm is providing internal audit services to an

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audit client. It would be beneficial to move this section further up in the subsection, perhaps to the "General" section of 605.

Paragraph 606.4 A1 – The significance of the information generated with respect to the accounting records or financial statements is an important factor when evaluating the level of threat created by providing IT services to an audit client. We suggest including this factor in the list provided in this paragraph.

Section 606 – We note that paragraph R606.6 points (i) through (iv) include activities that would be management responsibilities of the client when the firm implements certain IT systems for an audit client that is not a PIE. These activities should be the client's responsibilities regardless of the type of IT system being designed and implemented. We suggest including these as examples of what is considered to be a management responsibility in the context of all IT services.

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.

We agree providing recruiting services as described in subsection 609 would not have safeguards that would be capable of reducing the resulting threats to an acceptable level. Therefore, these services should be prohibited for all audit clients, not just those that are public interest entities.

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

We agree with the addition of the new paragraphs in Section 950 to align with the concepts in Section 600 as these are important concepts when introducing the topic as well as to provide guidance when providing NAS. We suggest making a similar clarification to paragraph 950.7 A1 as what is suggested above for paragraph 600.6 A1.

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?

We have noted instances where a condition is being described as a factor that is relevant in evaluating the level of threat (e.g., 330.4 A3, 330.7 A1 and a number of the factors listed in 330.5 A2) but would appear to be an example of an action that might be a safeguard to address threats. We encourage the Board to revisit these paragraphs and verify these are factors and not actions.

4 Do respondents agree with proposed conforming amendments set out in: (a) Chapter 2 of this document.

Overall, we were in agreement with the majority of the conforming amendments that were made in Chapter 2 of this document. However, we have questions about the following:

Paragraph 320.6 A4 – This paragraph includes "Asking the existing or predecessor accountant to provide any known information which, in the existing or predecessor accountant's opinion, the proposed accountant needs to be aware before deciding whether

to accept the engagement” as an action that might be a safeguard to address threats. We were not certain what is meant by the statement that follows: “For example, the apparent reasons for the change in appointment might not fully reflect the facts and might indicate disagreements with the existing or predecessor accountant that might influence the decision to accept the appointment.” The action itself is self-explanatory and the example does not add to the meaning. We suggest deleting the example.

Paragraph 330.8 A1 – We are uncertain what is meant by “An example of an action that might be a safeguard to address threats created by the receipt of a commission is to obtain advance agreement from the client for commission arrangements in connection with the sale by another party of goods or services to the client.”

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

No comments.

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

No comments.

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We would be pleased to discuss our comments with members of the IESBA or its staff. If you wish to do so, please feel free to contact Wally Gregory, Senior Managing Director of Global Independence, via email (wgregory@deloitte.com) or at +1 203 761 3190.

Sincerely,



Deloitte Touche Tohmatsu Limited

Appendix 1 – Drafting suggestions

- 604.4 A2 Both include the complexity of the relevant tax law and degree of judgement
604.7 A1 necessary in applying them as a factor that is relevant is evaluating the level of threat. Also, the materiality of the amounts in the financial statements that is a factor in paragraph 604.7A1 is one that should be included in paragraph 604.4 A2. If this factor is included in paragraph 604.4 A2, paragraph 604.7 A1 can be deleted entirely as it would be completely duplicative of paragraph 604.4 A2.
- 604.15 A2 “A tax dispute might reach a point when the tax authorities have notified an audit client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example before a public tribunal or court.”
- R605.7 “[...] (b) ~~Financial accounting~~ Information technology systems that generate information that is, separately or in the aggregate, material to the client’s accounting records or financial statements on which the firm will express an opinion; or”
- R606.6(b) “Generate information that is significant to the client’s accounting records or material to the financial statements on which the firm will express an opinion.”
- 609.4 A2 “An example of an action that might be a safeguard to address self-interest, familiarity or intimidation threats created by providing recruiting services includes is using professionals who are not audit team members to perform the service.”
- 610.4 A2 “[...] • Having a professional who was not involved in providing the corporate finance service advise the audit team on the service and review the accounting treatment ~~and any financial statement treatment~~ or presentation in the financial statements.”
- R610.6 “A firm or a network firm shall not provide corporate finance advice to an audit client where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion and: [...]”
- 320.4 A2 “Factors that are relevant in evaluating the level of any threat created by accepting a new client include:
• Knowledge and understanding of the client, its owners, management and those charged with governance, and business activities.”
- 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~~ is not an existing client ~~is~~ include the

circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.”

- 330.5 A3 “An example of an action that might be a safeguard to address threats created by contingent fees is having ~~a review by~~ an independent third party ~~of~~ review the work performed by the professional accountant.”