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SENT VIA E-MAIL

April 25, 2017

International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 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:

The American Institute of Certified Public Accountants' (AICPA) Professional Ethics Executive Committee (PEEC) is pleased to submit this comment letter to the International Ethics Standards Board for Accountants (IESBA) on its exposure draft, *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments* (the "Exposure Draft"). The AICPA is the world's largest member association representing the CPA profession, with more than 418,000 members in 143 countries and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for the profession and U.S. auditing standards for private companies, nonprofit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent and drives professional competency development to advance the vitality, relevance and quality of the profession.

Throughout its history, the AICPA has been deeply committed to promoting and strengthening independence and ethics standards. Through the PEEC, the AICPA devotes significant resources to independence and ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards.

General Comments

We support the IESBA's objective of setting high-quality ethics standards for professional accountants around the world and facilitating the convergence of international and national ethics standards. Overall, considering the release of this exposure draft, coupled with the exposure draft concerning the structure of the IESBA Code, we believe the amount of material exposed for comment is significant. This could lead to a low response rate or ineffective responses due to "comment fatigue."

Overall, we support this project and believe that it will enhance the clarity and the effectiveness of the IESBA Code. However, as noted in our response to the exposure draft concerning Phase 1 of this project, significant revisions to the conceptual framework approach in the Code could result in a substantial burden on member bodies to revise their Codes. This burden may hinder efforts to effectively converge with the IESBA Code. While the project proposal describes the project as the review of safeguards for appropriateness and effectiveness, the material in Phase 1 includes revisions to the entire Conceptual Framework approach.

In terms of this Exposure Draft for Phase 2 of this project, we broadly support the proposals in that the majority of the edits are conforming in nature and seem appropriate. We do disagree with the proposal to extend the scope of the prohibition on recruiting services to all audit clients as noted below. We also have other commentary as noted in our responses to request for specific comment.

Responses to 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 25(h) above to all audit client entities? If not, please explain why.

Recruiting services

No, we do not agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 26 (h) of the exposure draft to all audit client entities. The AICPA Code, which is applicable to non-PIEs in the United States, states that if the General Requirements for Performing Nonattest Services¹ are applied, the threats to independence would be at an acceptable level when a member performs certain executive or employee recruiting services for an attest client. Specifically, the AICPA Code would permit a professional accountant to perform the following activities for an audit client:

- Solicit and screen candidates based on client-approved criteria, such as required education, skills, or experience.
- Recommend qualified candidates to the attest client for their consideration based on client-approved criteria.

We believe that provided the candidates recommended by the professional accountant are based on specific client-approved criteria and the requirements in proposed paragraph R600.8 are met, threats could be reduced to an acceptable level. Depending on the role of the candidate and the interaction the individual would have with the audit engagement team, we acknowledge that in addition to the requirements set forth in R600.8, safeguards might be necessary to reduce threats to an acceptable level. Accordingly, in addition to the possible safeguard of using professionals who are not audit team members to perform the service, we recommend the IEBSA consider

¹ The General Requirements for Performing Nonattest Services [Interpretation 1.295.040 of the AICPA Code] prohibits a professional accountant from performing management responsibilities when providing nonattest services and sets forth requirements comparable to those in R600.8 of the exposure draft.

adding the following safeguard when the professional accountant provides recruiting services to a non-PIE audit client:

- Having a professional who was not involved in providing the recruiting services review any audit work performed that was based on discussions with, or documents prepared by, the individual recommended by the firm.

With regard to the factors that are relevant in evaluating the level of any threat created by providing recruiting services, we recommend that the IESBA consider including the following additional factor:

- The level of involvement the individual will have with the audit team or with issues reviewed by the audit team.

General

Proposed paragraph 600.4 A3 lists factors that are relevant in evaluating the level of any threats created by providing a non-assurance service to an audit client and includes:

- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
 - ***The extent of the audit client's involvement in determining significant matters of judgment.*** (emphasis added)

While we acknowledge that the third sub-bullet above is currently included as a factor to consider for purposes of valuation services in the extant Code, we do not believe it should be included as a factor in evaluating threats for all non-assurance services and ask the IESBA to reconsider whether it should remain as a factor for purposes of valuation services. We believe that the client should be responsible for determining all significant matters of judgment and therefore, do not believe “the extent of the audit client’s involvement in determining” such matters is relevant and could imply that the client might not have to be involved in determining significant matters of judgment. This would appear to be inconsistent with the proposed requirement in paragraph R600.8 that states “...the firm or a network firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management.” We therefore ask that the IESBA reconsider the inclusion of this factor.

Materiality

We support the inclusion of paragraph 600.5A1 to clarify the concept of materiality. However, we believe the last sentence could use clarification to indicate, consistent with the language in ISA 320, that it is the auditor’s perceptions and not those of the users being referred to:

600.5 A1 The subsections that follow refer to materiality in relation to an audit client’s financial statements. The concept of materiality is addressed in ISA 320, *Materiality in Planning and Performing an Audit*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by ***the auditor’s*** perceptions of the financial information needs of users.

Multiple Non-assurance Services to an Audit Client

We support the inclusion of paragraph 600.6 A1 to remind firms to consider the combined effect of threats created from providing multiple non-assurance services to the same assurance client. However, we recommend that the IESBA consider whether an exception should be made for any possible threats resulting from the provision of multiple non-assurance services by other network firms. The AICPA Code includes an Interpretation, *Cumulative Effect on Independence When Providing Multiple Nonattest Services* [1.295.020], that requires the professional accountant to evaluate whether the performance of multiple services by the firm in the aggregate create significant threats to independence that cannot be reduced to an acceptable level by the application of safeguards in the *General Requirements for Performing Nonattest Services* Interpretation.² The PEEC, however, agreed that the firm should not have to consider the possible threats created due to the provision of multiple non-assurance services by other network firms:

.04 For purposes of this interpretation, the member is not required to consider the possible threats to independence created due to the provision of nonattest services by other network firms within the firm's network.

Specifically, the PEEC acknowledged that most network firms are independently owned, separate legal entities, and monitoring all permitted non-assurance services for purposes of such an evaluation could prove to be challenging and an onerous requirement. Due to the fact that most network firms are separate legal entities and not controlled by the firm, any threats created by the provision of multiple "permitted" non-assurance services by such network firms would likely not be significant to the firm itself. Accordingly, we recommend that the IESBA include a similar provision that would limit the evaluation of threats to the non-assurance services performed only by the firm.

Accounting and bookkeeping services

Proposed paragraph 601.3A1 includes new application material to describe the nature of accounting and bookkeeping services and states as follows:

Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records and financial statements.
- Bookkeeping and payroll services.

We do not believe it is clear to describe "accounting and bookkeeping" services while using the term bookkeeping as an example. We suggest the second bullet read as follows: "Recording transactions and payroll services."

Information Technology Systems Services

Paragraph 606.4 A1 lists factors that are relevant in evaluating the level of any threat created by providing IT systems services to an audit client and includes the following:

- The nature of the services.
- The nature of IT systems.
- The degree of reliance that will be placed on the particular IT systems as part of the audit.

² Ibid.

We suggest that the second bullet be revised to also take into consideration the system's impact on the client's accounting records or financial statements. For example,

- The nature of IT systems ***and the extent to which they impact or interact with the client's accounting records or financial statements.***

Corporate finance services

Paragraph 610.4 A2 provides examples of actions that might be safeguards to address advocacy or self-review threats created by providing a corporate finance service to an audit client including

- Using professionals who are not audit team members to perform the service.
- 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. (emphasis added)

It is our understanding that the IESBA did not believe that providing advice to the audit team would be a safeguard and therefore removed this language from example of safeguards. If so, we ask the Board to consider whether the above (bold italicized) language should be deleted.

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

Where applicable to the provisions in Section 950, the same comments in no. 1 above apply to Section 950.

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?

Except as noted in 1. above, we do not have any other safeguards to recommend for NAS.

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

With the exception of our comment below, we agree with the conforming amendments. However, since most of these conforming amendments stem from the changes made in the Phase 1 exposure draft of this project, our comments from our letter to that exposure draft are applicable. Specifically, revisions to the conceptual framework approach in the Code could result in a substantial burden on member bodies to revise their Codes. As such, we recommend that enhancements that result from this project result in clarifying edits as opposed to changes in approach in applying the conceptual framework.

Fees

In paragraph 410.4A2, the Board is proposing that external quality control reviews and consultations with a third party would be considered safeguards. It is our understanding that such actions would no longer be considered safeguards under the Board's approach and therefore, this treatment is inconsistent with how such actions are treated elsewhere in the IESBA Code.

Fees

Requirements and Application Material

14. Paragraphs 410.3 A2 and 410.3 A4 of Structure ED-1 are revised as follows:

410.4 A2 Examples of actions that might be safeguards to address threats created by the firm's dependence on fees charged to the audit client include:

- Increasing the client base in the firm to reduce dependence on the audit client.
- External quality control reviews.
- Consulting a third party, such as a professional or regulatory body or a professional accountant, on key audit judgments.

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

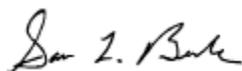
We believe IESBA should clarify the approach that it has taken for purposes of differentiating between a “safeguard” and a factor that is relevant in evaluating the level of threats. For example, in paragraph 330.5A 2, the following are considered to be relevant factors for evaluating threats created by contingent fees:

- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.

We believe that both these factors could reduce threats to an acceptable level yet the Board does not consider them to be safeguards. The Board, however, has concluded that having a review by an independent third party of the work performed by the professional accountant would qualify as a safeguard. It would appear that this safeguard is comparable to having an independent third party review the outcome or result of the transaction since in doing so, the third party would likely be reviewing the work of the professional accountant. We understand that the proposed safeguard is an action imposed by the professional accountant whereas the factor in this case is a condition typically imposed through law or regulation, however, it is not clear how the IESBA has reached the conclusion that one is a safeguard and the other is not. Since professional accountants might identify other actions that could be applied to reduce threats, it is important that the IESBA Code explain the principle or approach used to distinguish between safeguards and relevant factors.

We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the IESBA's Exposure Draft.

Sincerely,



Samuel L. Burke, CPA
Chair, Professional Ethics Executive Committee

cc: Brian Caswell, CPA, IESBA Member
Lisa Snyder, CPA, CGMA, Senior Director – Professional Ethics