

Supplement 2 to Agenda Item 4-A

Safeguards Phase 2 – Compilation of Responses to Questions

Note 1: This supplement has been prepared for information only. A comprehensive summary of the significant comments received as of May 17, 2017 on the January 2017 Exposure Draft, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#) (Safeguards ED-2) and the Task Force’s related analysis are included in Agenda Item X-A. All comment letters on the ED can be accessed [here](#).

Please consider the environment before printing this supplement.

Question 1

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.

Note: Members of the Monitoring Group are shown in bold below.

#	Respondent	Detailed Comment in Response to S600
1.	ACCA	<p>We broadly support the proposals in section 600. However, care should be taken not to extend the length of the Code as a consequence of inflexible application of the outcomes of Phase 1 of the structure project. Many of our comments below are related to this general observation.</p> <p>Paragraph 600.4 A2 does not add value. Instead, it implies that changes in the business environment are the main reason that an exhaustive list of permitted non-assurance services cannot be included in the Code. This undermines the conceptual framework approach, and so the paragraph should be removed. (The same is true of paragraph 950.4 A2.)</p> <p>The application material is important to help the professional accountant identify threats to independence. Therefore, paragraph 600.4 A3 is drafted too narrowly, ie the word ‘will’ is used where ‘might’ is more appropriate. (The same is true of paragraph 950.4 A3.) So, in paragraph 600.4 A3, the factors that are relevant should include:</p> <ul style="list-style-type: none"> the nature of the service, and the degree of reliance, if any, that might be placed on the outcome of that service as part of the audit

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		<ul style="list-style-type: none"> • whether the outcome of the service <u>might</u> affect matters reflected in the financial statements on which the firm will express an opinion, and, if so: <ul style="list-style-type: none"> ○ the extent to which the outcome of the service <u>might</u> have a material effect on the financial statements ... <p>In some of the subsections discussing specific services, these factors are repeated. This lengthens the Code and so, in these places, we would prefer to see references to the conceptual framework. For example, paragraph 606.4 A1 would be replaced by a reference to the factors in paragraph 600.4 A3 and a reference to the conceptual framework, which would then no longer be required in paragraph 606.2.</p> <p>With regard to materiality, given the heading ‘Materiality in Relation to an Audit Client’s Financial Statements’, the first sentence of paragraph 600.5 A1 is redundant. The materiality of a threat (or threats) must be considered in combination with all non-assurance services provided, and so paragraph 600.6 A1 should appear under the heading of ‘Materiality’, ie the heading ‘Multiple Non-assurance Services to an Audit Client’ should be removed.</p> <p>The order of paragraphs R600.9 and R600.10 should be reversed. This would allow the removal of the first sentence of R600.10, and also allow R600.9 to be expanded to include a related entity in 600.10 later becoming a public interest entity (PIE).</p> <p>Although the agreement in principle to the Phase 1 consultation on the structure of the Code determined that there should be an introduction to each section of the Code, it is not necessary to include an introduction to each subsection of the independence sections. Therefore, the first paragraph of each subsection 601 to 610 may be removed, and the second paragraph of each subsection significantly reduced.</p> <p>Paragraph 601.5 A1 discusses safeguards when providing accounting and bookkeeping services. However, the preceding paragraphs do not explain how such services (which are not the responsibility of management) might present a threat. Therefore, this subsection lacks logical flow.</p> <p>Paragraph R601.8 provides an exception in respect of PIE audits, although it cross-refers to paragraph R601.6, which in fact concerns non-PIEs.</p> <p>In respect of administrative services, paragraphs 602.1, 602.3 A1 and 602.3 A2 could all be combined to provide a clear and concise message. The conclusion to that message would be that providing administrative services will rarely create a threat. We hold a similar view in respect of other parts of section 600 (eg paragraphs 604.5 A1, 604.9 A1, 604.12 A1 and 604.15 A1).</p>

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		With regard to recruiting services, it should be noted that the extension of the prohibition to apply to non-PIEs falls beyond the scope of this safeguards project. Given the safeguards that will be in place to avoid the risk of assuming management responsibility (R600.8), we do not believe that the extension of the prohibition is necessary, and it would be particularly harmful to SMEs.
2.	AE	<p>Regarding the combined effect of threats (600.6 A1), although it is labelled as application material, it is phrased as a new requirement – “applying the conceptual framework <u>requires</u> the firm to consider any combined effect of threats” – or a simple thought process that has to be always present. The professional accountant has to identify, evaluate and address each threat. As it is currently drafted, the assessment of the combined effect of threats seems procedural and could lead to an additional administrative burden without benefit.</p> <p>As general application material in section 600 of the Code, IESBA proposes a list of factors that are relevant in evaluating the level of any threat created by providing a non-assurance service to an audit client (600.4 A3). Additionally, IESBA proposes a list of factors for specific services, such as Information Technology Systems (606.4 A1) and Litigation Support (607.4 A1). In some cases, this overlaps with the list included in the general application material, without added-value.</p> <p>Regarding the provision of certain non-assurance services to related entities, it is stated in the Explanatory Memorandum that the changes to this requirement were limited to restructuring and are not intended to change the meaning of the requirement in the extant Code. Nevertheless, this restructuring emphasizes more on the fact that the related entity cannot be an audit client and this could lead to unintended consequences. For instance, in a group situation, this would mean that the auditor of a PIE should apply the same PIE rules to a sister company (because of the definition of PIE and related entity), although that sister company may not be a PIE, and hence non-PIE rules would be sufficient given that the sister’s financial statements will never be included in the PIE Financial Statements. This was never the intention of the extant Code and therefore IESBA should make sure that the restructuring of this requirement cannot lead to such restrictive interpretations.</p> <p>Lastly, the extension of the scope of the prohibition on recruiting services to all audit client entities falls outside the remit of this ED. Additionally, we fail to see the reasoning for addressing this service in particular, as well as the evidence that led to the conclusion that safeguards are not capable of reducing the threat to an acceptable level in this specific case.</p>
3.	AGNZ	We note the objective of the International Ethics Standards Board for Accountants (the IESBA) is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international

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		<p>and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate Code of Ethics for Professional Accountants (the Code).</p> <p>We agree with the IESBA that auditors' public interest responsibilities can only be discharged if auditors' ultimately enjoy the trust of the public. That trust can only be gained (and retained) if auditors' are, and are seen to be, independent.</p> <p>In our view, the Code does not establish the high standard of independence that entitles auditors' to enjoy the trust of the public. And we have expressed this view to the IESBA in previous submissions. Our most recent submission, dated 21 March 2016, discussed the conceptual underpinnings to the term 'acceptable level' in the context of 'safeguards' and in the application of the important 'reasonable and informed third party' test.</p> <p>The IESBA has decided not to respond to our most recent submission at this time. Whilst we accept that consideration of this and other fundamental matters is not part of the IESBA's current work plan, it is our wish that the IESBA consider if the current setting of the Code is consistent with serving the public interest – hopefully sometime soon.</p> <p>We have no comments to make on the Exposure Draft.</p>
4.	AICPA	<p><i>Recruiting services</i></p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>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</p>

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.

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		<p>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 IESBA consider adding the following safeguard when the professional accountant provides recruiting services to a non-PIE audit client:</p> <ul style="list-style-type: none"> • 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. <p>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:</p> <ul style="list-style-type: none"> • The level of involvement the individual will have with the audit team or with issues reviewed by the audit team. <p><i>General</i></p> <p>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:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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. ○ <i>The extent of the audit client's involvement in determining significant matters of judgment.</i> (emphasis added) <p>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</p>

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		<p>decisions that are the proper responsibility of management.” We therefore ask that the IESBA reconsider the inclusion of this factor.</p> <p><i>Materiality</i></p> <p>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:</p> <p style="padding-left: 40px;">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, <i>Materiality in Planning and Performing an Audit</i>. 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.</p> <p><i>Multiple Non-assurance Services to an Audit Client</i></p> <p>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, <i>Cumulative Effect on Independence When Providing Multiple Nonattest Services</i> [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 <i>General Requirements for Performing Nonattest Services</i> 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:</p> <p style="padding-left: 40px;">.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.</p> <p>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</p>

² Ibid.

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		<p>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.</p> <p><i>Accounting and bookkeeping services</i></p> <p>Proposed paragraph 601.3A1 includes new application material to describe the nature of accounting and bookkeeping services and states as follows:</p> <p style="padding-left: 40px;">Accounting and bookkeeping services comprise a broad range of services including:</p> <ul style="list-style-type: none"> • Preparing accounting records and financial statements. • Bookkeeping and payroll services. <p>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.”</p> <p><i>Information Technology Systems Services</i></p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>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,</p> <ul style="list-style-type: none"> • The nature of IT systems and the extent to which they impact or interact with the client’s accounting records or financial statements. <p><i>Corporate finance services</i></p> <p>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</p> <ul style="list-style-type: none"> • Using professionals who are not audit team members to perform the service.

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		<ul style="list-style-type: none"> Having a professional who was not involved in providing the corporate finance service <i>advise the audit team on the service and</i> review the accounting treatment and any financial statement treatment. (emphasis added) <p>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.</p>
5.	AOB	<p>However, the AOB wishes to draw attention to para R601.8 of the Proposed Restructured Code which provides an exception where a firm may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity (PIE).</p> <p>The AOB is of the view that providing accounting and bookkeeping services to PIE audit clients creates a self-review threat that cannot be eliminated or reduced to an acceptable level through safeguards. This is regardless of the materiality of the services to be rendered or whether they are of routine or mechanical nature.</p> <p>As such, the AOB strongly recommends the prohibition of providing such services to PIE audit clients, and the divisions and related entities thereof. This is consistent with existing auditing licensing requirements 1 in Malaysia as well as paras 290. 172 and 290.1852 of the Malaysian Institute of Accountants By-Laws (On Professional Ethics, Conduct and Practice) ("MIA By-Laws"), as highlighted in our earlier letter dated 4 July 2014.</p>
6.	APESB	<p>Subject to our specific comments below, APESB is supportive of the proposed amendments in the Safeguards project. The amendments improve the readability of the content and clearly articulates the correlation between threats and safeguards. We are of the view that this is a significant improvement on how safeguards are described in the extant Code.</p> <p>APESB is also supportive on extending the proposed prohibition on recruiting services to all audit clients and emphasising the extant prohibition on assuming management responsibilities.</p> <p>However, we have noted that the improvements proposed in the Safeguards 2 ED, apart from the two listed above, have effectively restructured the extant content with limited substantive changes or additions. The reorganisation of the content has improved the readability of these provisions but it has also highlighted how limited the requirements and the effective safeguards are in relation to the provision of NAS services to audit and assurance clients.</p> <p>Sections 600 in effect imposes requirements on Firms and Network Firms to comply with the applicable independence requirements. We believe that this should be clearly stated in the title. For example, 'Provision of Non-Assurance Services by</p>

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		<p>Firms and Network Firms to Audit Clients'. Further in certain paragraphs it is not clearly stated who should consider or comply with the relevant obligation (e.g. Paragraphs 600.4 A3, 600.7 A4, 609.3 A1, 610.4 A1, and 950.4 A3).</p> <p>APESB believes that the requirements in both Section 600 and Section 950 could be strengthened by reinforcing the need to apply the conceptual framework to address threats. The introductory paragraphs in these sections refer to the conceptual framework, but it is not specifically referred to in a requirement paragraph. Paragraphs R600.4 and R950.4 require firms to determine whether providing a non-assurance service will create a threat to independence. These paragraphs could include an additional sentence to require firms to apply the conceptual framework or to specify the need to reduce the threats to an acceptable level.</p> <p>APESB also believe the IESBA should perform a comprehensive review of the requirement paragraphs and the factors relevant in evaluating the level of threats created.</p> <p>The requirement paragraphs should be reviewed to ensure that actions specified can be undertaken by a professional accountant in public practice. Paragraphs R600.8 and R950.6 require a professional accountant to ensure management undertake specific actions. The actions listed are outside of the control of the professional accountant in public practice and, as such, professional accountants may misunderstand the requirement. We recommend that the IESBA consider revising the start of the second sentence to 'The client's management are responsible for...'. It would also be appropriate for this sentence to be moved into an application paragraph as it is not a responsibility of the professional accountant in public practice.</p> <p>A review of the factors that are relevant in evaluating the level of threats should also be undertaken to:</p> <ul style="list-style-type: none"> • consider whether the factor 'Whether the service is provided by an audit team member' in paragraph 608.5 A1 is applicable when evaluating threats in respect of other NAS; • consider whether the factor 'the legal and regulatory environment in which the service is provided' should be included as an additional factor in paragraph 608.5 A1; • remove duplicated points where there is a cross reference to other paragraphs. For example, paragraph 604.7 A1 lists factors to consider in addition to the factors listed in paragraph 604.4 A2 however, both paragraphs include a factor relating to the complexity of the tax law/regime and the degree of judgement necessary in applying it; and • clarify factors that are too broad, for example the factors in paragraph 606.4 A1 for Information Technology Systems Services could be improved by focusing on the potential impact of IT systems services to the audit client's financial reporting

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		<p>systems; the accounting records and financial reports and the surrounding internal controls over the client’s financial reporting systems and processes.</p> <p>Additional comments on the proposals in Section 600 are noted below:</p> <ul style="list-style-type: none"> • Avoiding Management Responsibilities <p>APESB agrees that professional accountants in public practice must not assume management responsibilities for audit clients. However, the heading in relation to these requirements talks about “avoiding” the responsibilities. APESB is of the view that this title could be amended to ‘Prohibition on Assuming Management Responsibilities’ to reflect the purpose of the provisions rather than using “avoiding” in the title.</p> <ul style="list-style-type: none"> • Independence and PIEs <p>APESB is of the view that whether an entity is a public interest entity (PIE) is not a relevant factor in evaluating the level of threats to independence (last bullet point of paragraph 600.4 A3).</p> <p>Drafting Suggestions</p> <p>We recommend that the IESBA consider the following proposed editorial amendments:</p> <ul style="list-style-type: none"> • Paragraph 600.2 (and 950.2) can be strengthened by deleting the reference to “might”. The provision of NAS to audit and assurance clients “will” create threats to the fundamental principles and independence; • Review the use of the term ‘significant’ in paragraph R606.6(a) which is different to paragraphs R605.7, R604.8 ad R603.6 which uses the term ‘material’; • Paragraph R601.6 (b) does not state “threats should be reduced to an acceptable level”; • Revise paragraph 604.7 A2 to address inconsistency in the terms used, i.e. “tax professionals” in first bullet point vs “a professional with appropriate expertise” in second bullet point; • Rename ‘Corporate Finance Services’ to ‘Corporate Finance and Advisory Services’ to highlight the advisory component of these services; • Review the cross reference in paragraph R601.8 which directs readers to paragraph R601.6 but we believe should be to R601.7;

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		<ul style="list-style-type: none"> • Ensure that each paragraph and dot point can be understood if read in isolation (for example by removing or replacing the word ‘such’ in paragraphs 604.12 A3 and 602.3 A2); • Reviewing the Safeguard 2 ED content for incorrect punctuation and duplication of words (paragraphs 321.5 A1, 603.4 A2, R605.4 (a)(ii), 609.4 A2 and 950.8 A2); • Review the sections for consistent numbering convention, for example the numbering convention for paragraphs 604.12 A3 to 604.14 A1 is different to the numbering applied to similar provisions in paragraphs 604.16 A2 to 604.16 A4; and • Review numbering of paragraph 604.4 A2 and, within the compiled Code document, paragraph 606.4 A2.
7.	AAT	AAT supports the proposals in Section 600 including the proposal relating to recruiting services. While this is unlikely to apply to many of our members, we support the principle that these services may be considered high risk regardless of whether it relates to a PIE or not.
8.	BDO	<p>Overall, we support the proposed revisions to Section 600 except for the proposed changes to recruiting services.</p> <p>Recruiting services – 25 (h):</p> <p>We do not support extending the scope of the prohibition on recruiting services to all audit client entities. Non-PIE audit clients may not have the management bandwidth to conduct the full selection process themselves. In addition the industry specialism commonly found in audit firms could be a valuable insight and support to management. We acknowledge there is a heightened threat to independence in circumstances where the auditor has been instrumental in the recruitment of senior staff but feel this can be addressed through a detailed threats and safeguards assessment. Therefore a blanket prohibition is not necessary.</p> <p>We also believe that it would be helpful to provide application guidance on what would be included in ‘<i>searching for and seeking out</i>’ candidates in a future project.</p> <p>We also have the following specific comments:</p> <p>1.1 Section 600 – Provision of Non-assurance Services to an Audit Client - 600.4 A3</p> <p>This section lists the factors that are relevant in evaluating the threat created by providing non- assurance services. We found the factor, ‘<i>The level of expertise of the client’s employees with respect to the type of service provided.</i>’ too broad. We believe that similar to R600.8, avoiding the risk of assuming management responsibility, the factor should be ‘<i>The level of skill, knowledge and experience of the client’s employees with respect to the type of service provided.</i>’</p>

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		<p style="text-align: center;">1.2 Section 604 – Taxation Services – 604.4 A2</p> <p style="text-align: center;">For factors that are relevant in evaluating the level of threat, we would recommend adding in the fee arrangement (contingent fees, time and materials, value billing etc).</p>
9.	CAANZ	<p>We are supportive of the proposals in Section 600, including the extension of prohibiting recruitment services to all audit clients. However, we have specific comments on several matters contained within the proposals which need to be considered by the board:</p> <p>(a) We would like to bring an observation to the IESBA in relation to the last bullet point in paragraph 600.4 A3. This bullet point says</p> <p>“Factors that are relevant in evaluating the level of any threats created by providing a non-assurance service to an audit client include:</p> <ul style="list-style-type: none"> • Whether the audit client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.” <p>We believe that the threat to independence is the same for all types of entities. We acknowledge that the reputational damage is ordinarily greater for a public interest entity but do not believe the threat to independence is driven by the type of entity.</p> <p>(b) Paragraph 600.8 and the equivalent paragraph 950.6 require that the firm or network firm (the firm) ensures that the client’s management performs specific tasks and activities. While we believe that it is appropriate for the firm to obtain acknowledgement of management’s specific responsibilities when entering into an engagement, the firm does not have the power to ensure that management subsequently performs those tasks and activities. If the firm had the power to ensure this occurred, it is likely they would not be independent of the client as it would require exercising management power. We recommend that these paragraphs be reworded in terms of the firm obtaining an acknowledgment from management of their responsibilities or that the professional accountant is required to understand management’s actions, processes or controls.</p> <p>(c) Paragraph 609.6. Our members were supportive of extending the prohibition of recruitment services as these types of services would represent a threat to perceived independence.</p> <p>(d) Paragraph 604.7 A2 contains the use of the term ‘tax professional’ which may have different meanings in different jurisdictions where certain types of tax services require specific registrations or qualifications. It would be more appropriate to use a term such as “professional with appropriate tax expertise” or similar.</p>

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10.	CHI	<p>We generally support the proposals in Section 600.</p> <p>With respect to paragraph 21 in the Explanatory Memorandum, definitions should be consistent between all standard setters. If not, there is the risk of misunderstandings in practice. If necessary, IESBA has to create new terms, not try and use alternative meanings for established terms in IAASB standards.</p> <p>The summaries in paragraph 26 about the revisions relating to specific NAS are clear. Adding a subsection on “administrative services” is sensible. We would question whether it is right for an audit firm to provide corporate secretarial services to a PIE audit client.</p> <p>We note the discussion presented in paragraph 26 (h). There is a case for extending the prohibition on recruitment to cover all entities. The discussion notes that some SMPs have questioned this.</p> <p>However, we question whether the proposed extension is necessary. Safeguards could be developed, such as involving professionals who have no connection with the audit engagement now or in the future.</p> <p>It would be helpful if IESBA could cite examples of failings that have arisen from the existing approach. We could be persuaded to change our view in light of such examples. If examples cannot be given then we question whether the change is required</p>
11.	CNCC	<p>As mentioned in our general comments, the existence of relevant factors should enable the professional accountant to reach the conclusion that there is no threat or that the threat is at an acceptable level.</p> <p>This is not conveyed through the wording of the whole section 600 where we consider that the wording proposed may be interpreted as presuming the existence of a threat. In any case.</p> <p>This is particularly true in paragraph 600.4. A3 which states "Factors that are relevant in evaluating the level of any threats created by providing a non-assurance service to an audit client include [... Such wording may imply that there is always a threat created by the provision of any non-assurance services.</p> <p>For this reason, we propose to add to paragraph 600.4 A3, a new paragraph describing the case in which the professional accountant examines the factors and concludes his evaluation by an absence of a threat or an acceptable level of threat. In this case, the professional accountant should be able to accept the engagement without additional safeguard.</p> <p>In addition, we believe that it is necessary to clarify the definition of factors to clearly state that some of them are safeguards when they are used on a voluntary basis. Such is the case of joint audit for instance, which, following the new definition of</p>

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		<p>safeguards/factors, could be considered as a factor when required by law, but as a safeguard when applied on a voluntary basis.</p> <p>Besides those comments of substance, we have two additional more formal comments:</p> <p>Regarding the requirement R600.9, we consider that it is not a requirement In itself, but rather a statement of facts.</p> <p>Regarding the Subsection 603 about Valuation Services, the Requirement paragraphs, marked by an R, are positioned after the Application Material, which Is strange In terms of rationale and layout.</p> <p>Finally, as mentioned in our general comments, we consider that the extension of the prohibition on recruiting services In section 609 to all audit client entitles falls outside the scope of this exposure draft on safeguards and should not be included.</p>
12.	CPAA	<p>CPA Australia supports the proposed revisions pertaining to safeguards in the non-assurance services sections of the Code and the proposed scope of prohibition on recruiting services to all audit client entities, subject to the following comments.</p> <p>We are of the view that the last bullet point of paragraph 600.4 A3 should be removed or redrafted. This point includes as a factor that is relevant in evaluating the level of any threat:</p> <p>‘Whether the audit client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.’</p> <p>As we mentioned in our submission: Improving the Structure of the Code of Ethics for Professional Accountants - Phase 1, we do not support the view that the level of threat is dependent on the status of the entity, i.e. whether it is a public interest entity or not. Rather, we are of the view that the status of the entity may impact the possible consequences but not the existence of the threat itself. We, therefore, urge IESBA to remove this criterion as its existence may lead to the perception that different levels of acceptable standards and principles for different types of entities are prescribed.</p> <p>Paragraphs R600.8 and R950.6 require the firm to ensure that the client’s management fulfils certain requirements. We are of the view that this should be rephrased, as it is the responsibility of the client’s management to ensure and for auditor to confirm or assess the appropriateness of management’s actions. Our suggestion would also better align the Code with the International Standards on Auditing (ISA).</p>
13.	CPAC	<p>Yes, we generally support the proposals in Section 600.</p> <p>In reviewing this Section, we noted two provisions that would benefit from additional clarity as follows:</p>

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		<p>Page 19 regarding 600.4 A3, second bullet, third point – we believe a clearer explanation of the concern and/or an example would be useful, and</p> <p>Page 21 regarding R600.10 – we believe that further clarity could be provided regarding the conditions specified and that the overall format would be improved if the conditions were presented first.</p> <p>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?</p> <p>Not entirely as we received input that there should be a change made in regards to review engagements in recognition of the services provided by small and medium sized practitioners (SMPs) and sought out by their clients. In Part 4A of the Code, it was noted that the term “audit” also refers to reviews and as such, the prohibition would apply to all audit and review engagements. The feedback we received indicates that rather than a strict prohibition applicable to reviews, a threats and safeguards approach should be required and considered sufficient.</p>
14.	DTT*	<p>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:</p> <p><u>Paragraph 600.6 A1</u> – When already providing other NAS to an audit client, the impact of the new services should be assessed <i>prior</i> 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.</p> <p><u>Paragraph 605.6 A1</u> – 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 audit client. It would be beneficial to move this section further up in the subsection, perhaps to the “General” section of 605.</p> <p><u>Paragraph 606.4 A1</u> – 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.</p> <p><u>Section 606</u> – 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.</p>

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		<p>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.</p> <p>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.</p> <p>Appendix 1 – Drafting suggestions</p> <p>604.4 A2 Both include the complexity of the relevant tax law and degree of judgement</p> <p>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.</p> <p>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 <u>public</u> tribunal or court.”</p> <p>R605.7 “[...] (b) Financial accounting <u>Information technology</u> 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”</p> <p>R606.6(b) “Generate information that is significant to the client’s accounting records or <u>material to the</u> financial statements on which the firm will express an opinion.”</p> <p>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 <u>is</u> using professionals who are not audit team members to perform the service.”</p> <p>610.4 A2 “[...]”</p>

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		<ul style="list-style-type: none"> 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. <p>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 <u>on which the firm will express an opinion</u> and:[...]”</p>
15.	EFAA	<p>We do not believe that IESBA has made a strong enough case for the proposal to extend the provisions of paragraph 290.210 of the Code currently applicable to PIEs to all audits as proposed in R609.6. We have significant concerns and do not believe a sweeping prohibition of recruitment services for key posts is warranted in all audit and review circumstances. Recruiting services may vary considerably in terms of their significance to the audit or review. There is a significant difference between independence in fact / mind and independence in appearance depending on whether the audit or review is provided for an entity, a difference acknowledged in the last bullet point in 600.4 A3. In practice there is little public interest impact for SMEs, which would result in perceptions about independence. SMEs often will not have sufficiently qualified personnel possessing the ability to recruit suitably qualified individuals for the key positions contemplated in R609.6. An SME’s auditor may well be the best suited person to be able to advice on the necessary profile and experience of potential candidates; especially for financial positions such as the CFO. It is customary for SMEs to involve the auditor in such an advisory capacity during the recruiting process. Hence the material in 609.3 A1 ought to continue to serve as an essential clarification in a non-PIE context. Paragraph 609.1 points out that such recruiting services create a self-interest, familiarity and intimidation threat. In our view, if the auditor is involved in the recruiting process, such as assisting in the selection of candidates, but not in making a management decision then the threat is not as significant as the IESBA proposal implies. Indeed, assisting in the selection of suitable candidates does not create any threats to the auditor’s independence, but instead provides helpful and welcome assistance to the client. We do accept, however, that there would be a significant threat if the auditor assumed ultimate responsibility for a recruitment decision.</p> <p>In relation to Section 604 Tax Services we note that 604.7 A2 proposes as a safeguard that tax calculations be undertaken by a tax professional that is not a team member (also in 604.10 A2). In SMPs the tax calculations will almost always be computed by a team member, because there are no special tax professionals and indeed no separate tax department as one finds in larger accounting firms. In addition, the team member knows the client and has the knowledge about specific facts that demand specific treatment in the tax returns. In the smallest SMPs there may not be a professional who is not a team member. Even where there is such a person available synergies will be lost and costs increased. Unless the tax is of a particularly</p>

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		contentious nature the risk of material misstatement ensuing from a self-review threat will likely be relatively insignificant. Where this is not the case, we agree that a safeguard would be appropriate.
16.	EYG	<p>Yes. In general we agree with the proposals in Section 600 and consider that the revisions made by the Board as part of the Phase 2 project have further strengthened the clarity and structure of the Code. However, we have a number of specific comments which are set out below.</p> <p><u>Use of the term “might”</u></p> <p>As explained in the Agreed-in-Principle document, <i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1 and Proposed Revisions Pertaining to Safeguards in the Code - Phase 1</i>, dated January 2017 the Board has decided to use the word “might” to replace “may” in certain situations:</p> <p style="padding-left: 40px;">“when the term ‘might’ is used in the Code it denotes the possibility of a matter arising, an event occurring or a course of action being taken”.</p> <p>We consider that the use of the word “might” versus “may” appears to weaken the requirements re identifying threats to independence. Many technical resources regarding English language suggest that “might” is normally viewed as suggesting something more remote than “may”. For example, Merriam-Webster indicates that “might” suggests “less probability or possibility” than “may”. Where the substitution of “may” with “might” appears to function in the sections presented in Phase 1 of Safeguards and Structure projects project, it appears inappropriate in the context of Section 600 and non-audit services as it appears to understate the true level of risk that such a threat may exist. For example, the statement “Providing valuation services to an audit client might create self-review threats” appears to suggest that a self-review threat would be remote when in reality it is likely in most situations.</p> <p>We suggest using some other wording that reflects more accurately the risks of threats occurring. The Merriam-Webster dictionary definition of “may” implies it can be used interchangeably with the word “can” which we consider is a better alternative to “might”. In the context of safeguards, the introduction of a conditional word such as “might” appears appropriate because it reminds the PA that the safeguard may not always be effective as a means of reducing a threat. However, the word “can” would seem to reflect more accurately the probability or possibility that the safeguard would be adequate.</p> <p><u>Management responsibilities</u></p>

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		<p>We support placing “management responsibilities” as a dedicated section separate to “non-assurance services” as such responsibilities may be triggered by a number of NAS. We agree that the re-positioning of this material in Section 600 provides an enhanced prominence to this important overarching prohibition in the Code.</p> <p>In addition to the above comments other detailed observations and suggestions for improvements are included in an attachment to this letter.</p> <p>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.</p> <p>Yes. We agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) to all audit client entities. We consider the self-interest, familiarity and intimidation threats posed by such recruitment activities applies equally for PIE and non-PIE audit clients and that the extension of the requirements to non-PIEs is in the public interest. In any case, the auditor continues to be able to play an important role, particularly in the SME segment, of interviewing candidates and advising on their suitability for a financial accounting, administrative or control position.</p> <p>Drafting Suggestions included in the table to the appendix to the EYG letter.</p>
17.	FAR	<p>FAR has no objection to the proposals. In FAR's opinion recruiting services should not be provided to an audit client, PIE or non-PIE.</p>
18.	FSR	<p>The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Proposed Revisions Pertaining to Safeguards in the Code — Phase 2 and related conforming amendments.</p> <p>We refer to the comments dated 21. April from Accountancy Europe.</p>
19.	GAO	<p>We support the IESBA's proposals in Section 600. We believe that the following proposals would strengthen professional accountants' ability to apply the conceptual framework to eliminate threats to compliance with the fundamental principles or reduce these threats to an acceptable level when considering whether to provide non-assurance services (NAS) to an audit client.</p> <ul style="list-style-type: none"> Clarifying that when providing NAS to clients, firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate, and address threats to independence.

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		<ul style="list-style-type: none"> • Including the new heading “Avoiding Management Responsibilities” and separate paragraphs with examples of actions that might be safeguards to address threats created by providing specific NAS in order to emphasize these concepts in the code. • Stating that in certain situations, providing certain NAS to an audit client is expressly prohibited because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level. • Including guidance regarding factors that might be relevant in evaluating the level of any threats created by providing NAS to an audit client. • Including new application material to remind firms that when providing NAS to an audit client, applying the conceptual framework requires a firm to consider any combined effect of threats created by other NAS provided to the audit client. • Explaining that the examples of safeguards are “actions that might be safeguards” to address the threat created by providing the specific type of NAS. • Removing “seeking advice from another party” as an example of a safeguard because it does not meet the revised definition of a safeguard. • Adding new application material to explain the concept of materiality in relation to the audit client’s financial statements. • Including new application material regarding factors that are relevant in evaluating the level of threats created by providing information technology systems services or litigation support services to an audit client. <p>We agree with the proposal to extend the scope of the prohibition on recruiting services for public interest entities to all audit client entities. Under GAGAS, committing the audited entity to employee compensation or benefit arrangements and hiring or terminating the audited entity’s employees impair an external auditor’s independence with respect to an audited entity.</p>
20.	GTI*	<p>Advocacy threats when performing tax dispute, litigation or legal services</p> <p>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</p>

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		<p>materiality of the outcome of the dispute on the financial statements (Paragraphs R604. 16(b), 607.4 A1, third bullet point, and R608.8).</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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

#	Respondent	Detailed Comment in Response to S600
21.	HICPA	<p>We support the proposed revisions in the Exposure Draft. In particular, we agree with the proposal and rationale to extend the scope to prohibit the provision of recruiting services to all audit clients with respect to a director, officer or senior management who are in a position to exert significant influence over the preparation of a client's accounting records or the financial statements.</p> <p>1. Paragraph 603.4 A1 sets out the factors that are relevant in evaluating the level of threat created by providing valuation services to an audit client. We note that the proposed paragraph does not include the following two factors which are included in paragraph 290.172 of the extant Code:</p> <ul style="list-style-type: none"> • The availability of established methodologies and professional guidelines; and • The reliability and extent of the underlying data <p>We consider that the above two factors are also relevant in evaluating the level of threat created when providing valuation services to an audit client and therefore, recommend the IESBA to include these two factors in the Code.</p> <p>2. Paragraph 604.4 A2 sets out the factors that are relevant in evaluating the level of threat created by providing taxation services. to audit clients. In addition to the factors proposed in the paragraph, we consider that the materiality of the amount involved in the financial statements on which the firm will express an opinion should also be considered by an auditor when evaluating the level of threat created by providing taxation services to audit clients. We recommend that the IESBA includes such a factor in the paragraph.</p> <p>3. One of the safeguards that the Exposure Draft proposes to address threats created by providing taxation services. to an audit client is using tax professionals who are not audit team members to perform the services. We note that the extant Code contains a similar safeguard but does not explicitly require such individual to be a tax professional. We consider that the proposal may imply that the provision of taxation services have to be performed by tax professionals. It is not clear whether the wording in the ED is consistent with the IESBA's intention. We believe that certain types of taxation services, e.g. preparing calculations of current and deferred taxation for an audit client for the purpose of preparing accounting entries, do not necessarily need to be performed by a tax professional. They can be performed by a professional accountant who has knowledge on the matter. Therefore, we recommend that the IESBA reconsiders the safeguard in this context in order to ensure consistent application of the Code.</p>
22.	IBRACON	<p>Answer – Overall, we agree with the proposals in Section 600. However, we have the following suggested wording for paragraph 600.7.A3:</p>

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		<p>Taking responsibility:</p> <ul style="list-style-type: none"> o For the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework subject to audit or attestation work; o For designing, implementing, monitoring or maintaining internal control related to the financial reporting process of the audited entity or subject to attestation work. <p>Regarding the proposal to extend the scope of the prohibition on recruiting services, we also agree that there would not be safeguards that would be capable of reducing the resulting threats to an acceptable level regardless of the type of entity (PIE or Not PIE).</p>
23.	ICAEW	<p>Except as noted below, we support the proposals.</p> <p>We are not persuaded of the necessity of the proposed extension of the recruitment services prohibition that is currently applicable only to PIE audits, to all audits. IESBA offers no evidence in the EM of an independence problem arising with the provision of recruitment services to non-PIE audit clients, only an assertion that no safeguards could be thought of, so the threats and safeguards approach is to be overridden. This is not an evidence-based approach to regulation and the logic undermines the general approach with non-PIE audit clients: apply the conceptual framework and allow the action to fit the many variations in individual circumstances.</p> <p>R600.8a refers to designating an individual to be responsible for management decisions. This could be read to require the same person to be responsible for every decision – we assume that is not what is meant as organisations operate in a variety of ways.</p> <p>R601.8 includes an exception cross reference to 601.6: we believe it should refer to 601.7.</p> <p>In 603.3A2 we believe that the last part of the last sentence should state ‘the application material....applies.’</p> <p>In 604.5A1, the statement that ‘Providing tax return preparation services does not usually create a threat’ is slightly more sweeping than the equivalent comment in the existing 290.179, which includes an important caveat.</p> <p>We note that the discussion in the area from 600.7 onwards is generally around ensuring that the auditor does not assume a management responsibility. However, the title is ‘Avoiding management responsibilities’. ‘Avoiding’ is acquiring a negative connotation in some countries (in the context of tax avoidance) so we would prefer the title to be ‘Not assuming management responsibilities’. The same comment also applies to 950.5.</p>

#	Respondent	Detailed Comment in Response to S600
24.	ICAP	<p>We support the overall proposals in section 600 as it relates to clarify the safeguards in the NAS sections of the Code and, more broadly, enhance the requirements for addressing threats that are created by providing NAS to audit clients.</p> <p>With regard to proposed change in Recruiting Services ICAP generally 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, as the safeguards are not capable of reducing self-interest or familiarity threats created.</p> <p>However, in our local scenario, this could be an issue for small sized entities (SSEs). Ground realities are different as many SMPs are currently providing recruiting services to their audit clients who are SSEs and have limited resources and staff to recruit director or senior management personnel for certain positions. This prohibition would also be cumbersome for SMPs as it will affect their business.</p>
25.	ICAS	<p>We are broadly supportive of the proposals contained in Section 600 of the proposed restructured Code. The following are more detailed points which we believe IESBA should consider before finalising this section.</p> <p>We believe that in paragraph 600.1 consideration should also be given to also making reference to addressing threats to the fundamental principles as well as to independence. This comment appears to be backed by the content of paragraph 600.2 (see below).</p> <p><i>“600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.</i></p> <p><i>“600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.”</i></p> <p>Likewise, in paragraphs 600.3 and R600.4, should reference only be to addressing threats relating to independence as opposed to also the fundamental principles?</p> <p>Reference is made through the Code to applying the safeguard whereby another professional accountant undertakes a review of work that has been performed. However, there appears to be an inconsistency in how this safeguard is referred to at different parts of the Code.</p> <p>At paragraph 601.5 A1 it makes clear that the reviewer is someone <i>“with appropriate expertise to review the work performed.”</i> Similar wording is used at paragraph 604.7 A2.</p>

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		<p>In contrast, paragraph 603.4 A2 does not refer to “<i>appropriate expertise</i>”. Likewise, this approach is used in many other places.</p> <p>We would prefer a consistent approach in this regard with reference made to include “<i>appropriate expertise</i>.”</p> <p>At paragraph 604.2 – we would prefer that the text “<i>...because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level</i>” be replaced by “<i>because the threats cannot be eliminated or safeguards applied to reduce them to an acceptable level</i>” or “<i>because neither the threats can be eliminated nor safeguards applied that can reduce them to an acceptable level</i>” or “<i>because the threats cannot be eliminated or no safeguards <u>applied</u> to reduce them to an acceptable level</i>.”</p> <p>This would then need to be applied where similar wording is used elsewhere in the restructured Code. We would also highlight the typo at paragraph 606.2 where the word “to” is missing in the second last sentence.</p> <p>At paragraph 604.16 A3 we would prefer the wording of the first sentence to be as follows:</p> <p><i>“In addition to paragraph 604.4 A2, factors that are relevant in evaluating the level of any threat created by assisting <u>an audit client</u> in the resolution of a tax dispute to an audit client include:....”</i></p> <p>We believe that there would be merit in reversing the order of the following paragraphs. The latter appears to highlight the threat which follows on from the previous paragraph, whereas the former suggests a possible safeguard.</p> <p><i>“605.5 A2 An example of an action that might be a safeguard to address self-review threats created by providing internal audit services is using professionals who are not audit team members to perform the internal audit service.</i></p> <p><i>605.6 A1 When a firm uses the work of an internal audit function in an audit engagement, International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:</i></p> <p><i>(a) Appropriately evaluating those results; or</i></p> <p><i>(b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.”</i></p>

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		<p><i>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.</i></p> <p>We believe that this new proposed extension of scope goes beyond the intended purpose of this restructuring project. We therefore believe that this matter should not be considered at this time.</p>
26.	IDW	<p>Extension of a Specific Prohibition from PIE-Audit Clients to All Audit Clients</p> <p>The most significant revision contemplated in phase 2 of this project concerns the proposed extension in paragraph R609.6 of a prohibition currently applicable only to audits of PIEs.</p> <p>This change would mean that audit clients – irrespective of their circumstances or degree of public interest significance – could no longer turn to their auditor for relatively routine assistance in recruiting a director or officer of the entity or senior management in a position to exert significance over the preparation of the client's accounting records or financial statements that will be subject to audit.</p> <p>We do not believe this change is warranted in the manner proposed and refer to our response to question no. 1 in the appendix to this letter, where we explain our views on this particular issue.</p> <p>Support for a Clear and Concise Code</p> <p>As previously expressed in our comment letter dated 21 March 2016, the IDW supports the IESBA's Safeguards initiative. Achieving a Code that is clearer and easier to read is in the public interest, not least because it will be more suitable for impacting the behaviour of professional accountants in practice. Whilst the ED includes many requirements expressed more clearly, we also note, however, instances in the ED where proposed revisions of subsections of the extant Code mean that certain sections would become far longer and repetition introduced.</p> <p>Subsection 607 provides just one example where two paragraphs have been increased to make five. At the very least we question whether adding new text as an "introduction" in each subsection has added value.</p> <p>The explanatory memorandum mentions the notion of (unnecessary) repetition between the IESBA Code and ISQC 1 and ISAs. There is still material that could be streamlined or removed to reduce duplication.</p> <p>Challenges to Potential Commenters</p> <p>The complexity, volume, and interaction of this ED with other material at various stages of development combined with the fact that the IESBA has addressed both this and the related Structures project in two-phases means that following these proposals is challenging.</p>

#	Respondent	Detailed Comment in Response to S600
		<p>In addition, the issuance of three documents for comment within such a relatively short period of time inevitably increases the challenge to those wishing to comment.</p> <p>Those wishing to comment may well find it difficult to determine whether issues have or have not been previously exposed, and when. In this context, whilst we agree that the proposed replacement of the term “significant” with “an acceptable level” in relation to the evaluation of threats is a step in the right direction, we note the similarity between the IESBA’s treatment of threat evaluation and the approach to risk adopted by the IAASB and their use of the term “reduced to a suitably low level”. As PPAPs familiar with the IAASB’s standards are familiar with this concept, we would suggest that IESBA’s alignment of terminology in finalizing the restructured Code be given a more thorough consideration.</p> <p>The Link Between Non-Audit Services and the Code’s Fundamental Principles</p> <p>Under the Code’s new structure Section 600 forms part of the Independence Standard “Part 4A”. The relationship between independence and the Code’s fundamental principles is explained in paragraph 400.5, which links independence to the fundamental principles of objectivity and integrity, but not to the other fundamental principles.</p> <p>The second sentence of 600.2 of the ED is based on 290.154 of the extant Code which reads “Providing non-assurance services may create threats to the independence of the firm or members of the audit team”. The proposed insertion of a reference to the fundamental principles in 600.2 (without specifying which ones) means that the scope becomes unclear. This proposed addition is thus not helpful.</p> <p>Delineation Between Requirements and Guidance</p> <p>The new text introduced in 600.6.A1 and 950.7A1 is presented as application material. However, it actually requires an additional consideration of the combined impact when a firm or network provides more than one NAS. If retained, these paragraphs ought to be rephrased as requirement paragraphs. It would also be helpful for IESBA to clarify how any such requirement would be intended to work in practice. Specifically does IESBA expect that the perception of the combined threat can exceed the perceived sum of the individual threats? Further clarification and possibly guidance is therefore needed in this area in both sections 600 and 950.</p> <p>Public Expectations</p> <p>The IAASB’s ISQC 1.21 et seq. require firms to “establish policies and procedures designed to provide the firm with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence”.</p> <p>We are concerned that the IESBA proposals may give the impression that a higher degree of precision is attainable, since when R600.4 is read in conjunction with 600.4A2 it becomes clear that the overriding requirement to determine whether a NAS</p>

#	Respondent	Detailed Comment in Response to S600
		<p>would or would not create a threat applies to each and every NAS that a firm may be asked to provide; not only those specifically dealt with in subsequent subsections of section 600. There needs to be a clear acceptance that only threats above a certain threshold fall under this consideration. For example where any threat from a service is clearly trivial it would be appropriately disregarded, particularly in terms of documentation requirements. In the absence of appropriate clarification others including regulators, peer reviewers etc. will make their own demands in this area.</p> <p>Implications of Application of Technology for Service Provision by Firms</p> <p>We note that proposed 600.4A2 and 950.4A2 explain that various changes make it impossible to draw up an exhaustive list of non-assurance services in these two sections. We would, however, have expected IESBA to explicitly address issues such as the (growing) use of technology by firms who provide accounting and bookkeeping services within its Safeguards project. In a number of jurisdictions firms offer a range of accounting services using cloud-based technology. This use of technology will potentially impact a number of issues relevant to the Code, including but not necessarily limited to client confidentiality and accounting and bookkeeping services. Conceivably, safeguards could include having in place adequate data security (confidentiality) or in an area where the PPAPs professional involvement is reduced (bookkeeping automation might impact issues beyond that of a routine or mechanical nature). Of course there may be threats created too. We would encourage the IESBA to explore this further.</p> <p>We comment on specific aspects as follows:</p> <p><u>Recruiting Services – R609.6</u></p> <p>We do not believe that IESBA has provided sufficient justification for the proposed extension of the prohibition in R609.6 to all audits. For many non-PIEs, and smaller SMEs in particular, the auditor may be the most appropriate person to assist in the recruitment of key personnel, particularly where an audit client's staff may be less able to define a profile for potential candidates. We fail to see the potential for a significant self-interest threat where relatively routine assistance such as seeking possible candidates and performing reference checks are concerned.</p> <p><u>Avoiding Management Responsibilities – R600.8</u></p> <p>Proposed R600.8 is derived from paragraph 290.162 of the extant Code. In our view, it would have been appropriate for the IESBA to address a practical issue that is problematical in an SME environment. The requirement for the firm (or network firm) to ensure that the client's management delegates <u>an individual who possesses suitable skills, knowledge and experience</u> to be responsible at all times for the client's decisions and to oversee the non-audit service will be problematical for any entity that lacks such an individual, in particular, for SMEs whose employees and management will often comprise so called all-rounders. Indeed they may seek to engage the auditor solely to benefit from his or her expertise. We fully accept that it is important that</p>

#	Respondent	Detailed Comment in Response to S600
		<p>client management takes full responsibility for the outcome of a non-assurance service provided to an audit client. However, we believe that there needs to be more flexibility in prescribing the exact way in which this responsibility is acknowledged by the audit client. We suggest the IESBA move this part of the proposed requirement to application material, as this should be a possible safeguard rather than a requirement in every case.</p> <p><i>The Link Between Non-Audit Services and the Code’s Fundamental Principles</i></p> <p>Under the Code’s new structure Section 600 forms part of the Independence Standard “Part 4A”. The relationship between independence and the Code’s fundamental principles is explained in paragraph 400.5, which links independence to the fundamental principles of objectivity and integrity, but not to the other fundamental principles.</p> <p>The second sentence of 600.2 of the ED is based on 290.154 of the extant Code which reads “Providing non-assurance services may create threats to the independence of the firm or members of the audit team”. The proposed insertion of a reference to the fundamental principles in 600.2 (without specifying which ones) means that the scope becomes unclear. This proposed addition is thus not helpful.</p> <p><i>Extension of a Specific Prohibition from PIE-Audit Clients to All Audit Clients</i></p> <p>The most significant revision contemplated in phase 2 of this project concerns the proposed extension in paragraph R609.6 of a prohibition currently applicable only to audits of PIEs.</p> <p>This change would mean that audit clients – irrespective of their circumstances or degree of public interest significance – could no longer turn to their auditor for relatively routine assistance in recruiting a director or officer of the entity or senior management in a position to exert significance over the preparation of the client’s accounting records or financial statements that will be subject to audit.</p> <p>We do not believe this change is warranted in the manner proposed and refer to our response to question no. 1 in the appendix to this letter, where we explain our views on this particular issue.</p>
27.	IFIAR	<ol style="list-style-type: none"> 1. As mentioned in previous IFIAR comment letters, we support IESBA’s project to enhance provisions and clarity regarding safeguards. This being said, regarding this part of the “safeguards” project which deals with non-audit services, we strongly suggest the Board consider wider revisions for stronger requirements in the non-audit services section in the Code. 2. The most recent IFIAR inspection survey¹ indicates a high number of findings relating to independence and ethical requirements, most of which refer to failure to consider and evaluate non- audit services provided to the audited entity.²

#	Respondent	Detailed Comment in Response to S600
		<p>While inspection findings indicating that some auditors have failed to comply with standards in a particular area, do not necessarily indicate a problem with those standards, we encourage IESBA to strengthen the Code in the area of the provision of non- audit services, where findings are frequent.</p> <p>3. We have observed an increasing trend globally whereby jurisdictions have strict prohibitions against the performance of certain non-audit services along with a “threats and safeguards” approach. Therefore, we strongly suggest the Board consider stronger prohibitions in the current proposals for non-audit services to enhance the effectiveness and international usefulness of the Code.</p> <p>4. In particular, we believe that, in the current context, some non-audit services should not be permissible since they create familiarity and self-review threats. For example, the non-permissible services should at least include bookkeeping services and some administrative services, but potentially also other services. We urge IESBA to initiate a project to review non-audit services that are prohibited in individual jurisdictions to determine what further prohibitions should be made to the Code in order to enhance its effectiveness.</p> <p>5. Furthermore, we believe it is important that the professional ethical standards for auditors are relevant and responsive to the evolutions³ in audit and especially in the field of non-audit services. We draw the Board’s attention to the fact that the Code should be able to adapt to and to respond to the rapid changes in the types of non-audit services the auditor might wish or might be requested to provide. To that end, the non-audit services sections of the Code should include sufficiently strong provisions to provide direction for new types of services.</p> <p><i>Concepts like “materiality” or “significance” impair the effectiveness and enforceability of the Code</i></p> <p>6. The proposal includes factors that are relevant for the auditor in evaluating the level of threats related to non-audit services. One of those factors is related to the “material” effect of the services provided on the financial statements. A reference to ISA 320 dealing with “materiality” in an audit of financial statements is provided (in paragraph 600.5.A1), but no other indication about how to assess the material effect of services is provided in the Code. We believe the concept of “materiality” should be avoided, because even immaterial non-audit services could impair independence.</p> <p>16. However, if maintained in the Code to evaluate the threat to independence, we believe more specific descriptions are needed to reach a consistent application of this concept and to prevent abuse. The same difficulty has been identified in relation to what is considered to be ‘significant’ allowing the auditor to assess the threat to independence as low in cases where services are not “material” or “significant”, without further explanation of what those terms mean, impairs consistent application of the Code. We encourage the Board to reconsider the use of the concept of “significance”.</p>

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		<p>17. The concept of “significance” is also used in relation to some other services (internal audit (605.4.A1/R605.7) and information technology services (R606.5/R606.6)), which impairs the effectiveness of the provisions. We believe further explanations also would be necessary to allow for consistent application of this notion of “significance”.</p> <p><i>Taking into account the effect of multiple services</i></p> <p>19. We agree that the combined effect of the provision of multiple non-audit services should be taken into consideration to assess the threats on the independence of the auditor (par. 600.6 A1), but believe that this should be a requirement in the Code rather than included solely in the application material.</p> <p>Scope of the provisions should be clarified</p> <p>20. The Code should be clearer on whether the provisions described in revised section 600 (and subsections) are applicable to the audit firm and the network firms in all instances, and on whether the provisions on non-audit services in the Code apply to both services provided to the audited entities and related entities (subsidiaries and parent companies).</p> <p>21. In particular, we disagree with the exception which allows the auditor to provide prohibited non-audit services and to assume management responsibilities for related entities of the client (described in R600.10) (see also our comment on the need to avoid exceptions).</p> <p>Avoid management responsibilities</p> <p>22. We believe insufficient clarity is provided for avoiding management responsibilities. In particular, we believe that the difference between providing advice and recommendations versus assuming management responsibilities is difficult to distinguish in practice. Thus we do not support the statement (in par.600.7.A4), which seems to convey the message that advice and recommendations are always acceptable. Providing advice and/or recommendations can create self-review threats which may well impair the auditor’s independence, and should be evaluated depending on the particular circumstances.</p>
28.	IMCP	<p>The Professional Ethics Commission supports the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities.</p> <p>In addition, the PEC believes that IESBA should propose to extend the scope of the prohibition on providing <i>Accounting and Bookkeeping Services</i> described in <i>Subsection 601</i> since these kind of services indeed create, not “might create”, a self-review threat.</p>

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29.	IOSCO	<p>We have observed an increased trend globally whereby more jurisdictions are including strict prohibitions against the performance of certain non-assurance services rather than a pure “threats and safeguards” approach. While a “bright-line” approach with respect to non-assurance services is not without its shortcomings we believe it can provide increased confidence to investors regarding the auditor’s independence both in fact and appearance, given it generally removes the self-interest bias that is more inherent in a threats and safeguards approach in this area. In light of global developments, we believe it would be appropriate and timely for the Board to engage in an effort to analyze the pros and cons of the “threats and safeguards” approach as compared to a “bright-line” approach to auditor independence with respect to non-assurance services to determine which approach is more effective in promoting the auditor’s independence and contributing to audit quality.</p> <p>Substantive Safeguards</p> <p>As you noted in paragraph 3 of the Paper:</p> <p style="padding-left: 40px;">“Some regulators suggested that the IESBA should:</p> <p style="padding-left: 80px;">(a) Clarify the safeguards that are not clear in the extant Code and eliminate those that are inappropriate or ineffective;</p> <p style="padding-left: 80px;">(b) Better correlate a safeguard with the threat it is intended to address; and</p> <p style="padding-left: 80px;">(c) Clarify that not every threat can be addressed by a safeguard.”</p> <p>While we appreciate the Board’s initiative to address the above concerns, we believe the Code should be further revised to apply specific safeguards to address the specific threats which they were intended to mitigate. With the cumulative years of experience of the firms and the profession as a whole in mitigating threats to independence we anticipated more substantive and targeted safeguards that addressed specific threats.</p> <p>Relatedly, we strongly believe that two of the more commonly used safeguards in the Paper are inappropriate. Specifically, where the Board suggests that in instances where there is a threat to the firm’s or network firm’s compliance with auditor independence requirements, safeguards can include:</p> <ul style="list-style-type: none"> • “Using professionals who are not audit team members to perform the accounting and bookkeeping service, and • If such services are performed by an audit team member, using a partner or senior professional who is not an audit team member, with appropriate expertise to review the work performed.”

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		<p>If the provision of a service creates a threat to the auditor independence requirements of the <i>firm</i> or <i>network firm</i>, how then can any professional within that firm or network firm be used as an effective safeguard? Since “the firm” performed the service for its audit client, the professional staff member may be incentivized to make judgments that protects the economics and other interest of the firm rather than the public interest and needs of investors. The threats to independence is with respect to the entire firm or network firm therefore other safeguards outside of the firm or network firm would be more effective in mitigating any risk with respect to an audit engagement in those circumstances. We are concerned that the language and implicit message in the Paper would lead the public accountant to conclude that self-interest and self-review threats are only confined to the individuals on an engagement team, rather than to the entire audit and/or network firm itself.</p> <p>Evaluating a Safeguard</p> <p>Throughout the Paper the Board provides examples of actions that might be safeguards. This suggests that auditors can also establish their own safeguards to mitigate a threat to the auditor’s independence. If auditors are allowed to establish their own safeguards, we believe the Board needs to establish an enhanced and more robust framework that explains to an auditor how to identify and establish a safeguard and evaluate its effectiveness. This must be balanced with a resign-first mindset when there is non-compliance with auditor independence requirements.</p> <p>Use of Auditing Concepts</p> <p>We noted instances in the Board’s approach to auditor independence that seem to borrow from concepts embedded in the audit of financial statements. Two of the more significant issues noted are as follows:</p> <ol style="list-style-type: none"> 1. The threats and safeguards approach seems to deal with auditor independence similar to how the auditor approaches the audit of the financial statements, namely, <i>reasonable assurance</i> about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. This suggests that if certain safeguards are applied by the auditor, then the non-assurance service could be performed particularly when it is not strictly prohibited. 2. The concept of materiality has different implications with respect to auditor independence as compared to the audit of financial statements. <p>The threats and safeguards approach seems to rely on the auditor’s judgment and therefore provides the auditor more flexibility in interpreting what is acceptable versus what is not. We believe an auditor is either independent or not independent—it is not a reasonableness test as is used in the audits of financial statements. We also question whether the typical quantitative and qualitative factors used to assess materiality in the financial statement context, are appropriate in determining</p>

#	Respondent	Detailed Comment in Response to S600
		<p>whether the auditor is independent. We could envision circumstances where the nature, scope and magnitude of a service, although not material to the financial statements, could bear on the auditor's objectivity. For example, the service might be important to the audit firm's local office and/or line of business; therefore, the interests of the firm could impact the objectivity of the auditor. We believe the concept of materiality in assessing auditor independence and the permissibility of non-assurance services should be very limited in, if not totally eliminated from, its use in the Code.</p> <p>Notwithstanding this, we have observed that where the concept of materiality is used to determine the permissibility of a non-assurance service in the Paper, the language used often implies that where the service is immaterial to the financial statements it is permissible. For example, paragraph R603.5 states:</p> <p style="padding-left: 40px;">“A firm or a network firm shall not provide a valuation service to an audit client that is not a public interest entity if:</p> <p style="padding-left: 40px;">(a) The valuation involves a significant degree of subjectivity; and</p> <p style="padding-left: 40px;">(b) The valuation will have a material effect on the financial statements on which the firm will express an opinion.”</p> <p>In this instance, the Paper suggests that if the valuation service will not have a material effect on the financial statements then the service is permissible. If the Board continues to believe that a very limited use of a materiality concept is necessary, then we believe that even if the effect of a service is not always quantitatively or qualitatively material to the financial statements, the auditor should consider other factors since the performance of that service may in some cases still create a threat to the auditor's independence and must be evaluated accordingly. It may be more appropriate for the Board to structure the language in such sections to indicate that in addition to the material impact of the service on the financial statements there needs to be consideration of broader factors consistent with those outlined above.</p> <p>List of Services or Exceptions</p> <p>While we note that requirements generally begin with “shall not” language, we have observed that in some sections, the application material in the Paper often reflects a list of permitted services or exceptions to the requirement. This gives the impression of focusing auditors on ways to enhance revenues or navigate the rules rather than the guidance meant to promote the auditor's objectivity. We believe it would be useful if the application material assisted auditors in understanding more precisely what a requirement means or is intended to cover as this concept is familiar to auditors who use ISAs issued by the IAASB.</p> <p>Lack of Clarity</p>

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		<p>We have noted that the content of the Code includes language that is too subjective and not enforceable. For example, paragraph R603.5 and R603.5 A1 states:</p> <p>“A firm or a network firm shall not provide a valuation service to an audit client that is not a public interest entity if:</p> <p style="padding-left: 40px;">(a) The valuation involves a <i>significant degree of subjectivity</i>; and</p> <p style="padding-left: 40px;">(b) The valuation will have a <i>material effect</i> on the financial statements on which the firm will express an opinion.</p> <p>Certain valuations do not involve a <i>significant degree of subjectivity</i>. This is likely to be the case when the underlying assumptions are either established by law or regulation, or are <i>widely accepted</i> and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different” (emphasis added).</p> <p>We are not sure how the terms “significant degree of objectivity,” “material effect,” and “widely accepted” are defined or will be measured. We see a risk of terms such as these not being consistently interpreted or being applied liberally by auditors. Further, due to the lack of clarity, regulators will not have a basis to enforce such standards.</p>
30.	IRBA	<p>1.1. The provision of non-assurance services by the firm or network firm is a topical subject. Legislation as well as company boards have set independence requirements relating to the provision of non-assurance services that are more stringent than the Code. For example, the South African Companies Act 2008, Act 71 of 2008, has more stringent requirements relating to the non-assurance services of bookkeeping and certain secretarial services than the Code.</p> <p>1.2. We agree that an exhaustive list of non-assurance services alone will not be helpful, especially considering the growing number of additional non-assurance services that firms are providing. However, the general provisions of the Code should be adequately robust to highlight the threats created by non-assurance services provided to a client that is also an audit or review client of the firm. This will ensure that the user of the Code has sufficient direction to make an informed decision on whether to provide certain non-assurance services.</p> <p>1.3. When an audit firm is engaged in both the audit and another non-assurance engagement, the risk does also arise that the quality of the non-assurance engagement may suffer due to the firm also being engaged in the audit. There are many reasons why this could happen. The IESBA should address this.</p>

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		<p>1.4. It is also necessary to address in Section 600 that this applies equally when the non-assurance services are not remunerated or not specifically procured. For example, we have found that at certain times the non-assurance services are not specifically procured but rather supplied on an ad-hoc basis or as “on the job” assistance.</p> <p>1.5. We agree with the extension of Recruitment Services under Paragraph 25(h) to non-Public Interest Entities (PIEs). This level of the threat is too significant to consider the use of safeguards.</p> <p><u>Enhanced general provisions for providing non-assurance services to Audit Clients</u></p> <p>1.6. We welcome paragraph 600.4 A3 that anticipates evaluating the level of any threat created by providing non-assurance services. This includes some important general concepts to consider before undertaking a non-assurance service.</p> <p>1.7. Other possible considerations to include in paragraph 600.4 A3 are as follows:</p> <ul style="list-style-type: none"> • Whether the segregation of responsibilities between the audit or review engagement and the non-assurance engagement is possible. • The tenure of providing the non-assurance service. • The possibility of scope creeps as, for example, it is likely that a non-assurance engagement could start off as one service and then have additional services added during the engagement. • Whether the non-assurance service is supported by laws or regulations or rules that are clearly articulated. A non-assurance engagement that is based on a recognised framework is less likely to compromise independence on the audit engagement. • The degree of subjectivity of the non-assurance engagement. • The reliability and availability of underlying data on which the non-assurance service is provided. • Whether the engagement is based on past or future events. • The operating structure of the firm or network firm. • The purpose and use of the non-assurance service. <p>1.8. In addition, the network firm will need to consider whether the quality of the non-assurance service will be impacted by the audit or review service.</p>

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		<p>Materiality in Relation to Audit of Financial Statements</p> <p>1.9. The introduction of a definition of materiality is helpful as it will promote consistent application.</p> <p>1.10. Materiality is mentioned several times in this section. However, it would be appreciated if additional application material is included to explain this concept further, especially the qualitative factors to consider when making ethical decisions. For example, the scope of the engagement, the threats to independence in appearance and reference to the reasonable informed third party test.</p> <p>Multiple Non-assurance services to an Audit Client</p> <p>1.11. We welcome the addition of paragraph 600.6 A1. However, this should be included as a requirement rather than application material.</p> <p>1.12. Further application material is required to assist the registered auditor when dealing with multiple non-assurance services, how to assess the aggregate threat, as well as possible suggestions on implementing actions that could mitigate the aggregated threat.</p> <p>1.13. An audit client's dependency on a firm or network firm should be considered quantitatively and qualitatively. We have found that certain audit committees consider the total fee from the non-assurance engagement compared to the total fee from the audit firm in determining whether the firm is suitable to be appointed as independent auditors. This ratio may be a useful indication that an audit client over-relies on a firm or network firm's non-assurance services. We suggest that the Board considers including the following requirement in the Code:</p> <p style="padding-left: 40px;">“Rxx A registered auditor shall consider the total of the non-assurance audit fee of an audit client.</p> <p style="padding-left: 40px;">Axx When the total non-assurance fee from an audit client represents a large proportion of the total fee from the firm expressing an audit opinion, the dependence on that client's non-assurance services and concerns about losing the client may create self-interest, self-review and intimidation threats.”</p> <p>1.14. We believe that this is a good example of where the qualitative factors of materiality should be considered.</p> <p>Network firms</p> <p>1.15. We agree that differentiating between firm and network firm will make responsibilities clearer. The firm will be responsible for performing the audit or review engagement. The network firm's acceptance of non-assurance services will also need to be considered by the firm for conflicts of independence.</p>

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		<p>1.16. However, certain paragraphs seem to have omitted reference to network firms. Some of the requirements refer to both firm and network firm, while other paragraphs only refer to the firm. This can be confusing.</p> <p>1.17. Examples where network firms have been erroneously omitted are referred to in the table below. Proposed amendments have been reflected as underlined text.</p> <table><tr><th>Paragraph no</th><th>Suggested Amendment</th></tr><tr><td>600.7 A1</td><td>600.7 A1 Providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm <u>or network firm</u> assumes a management responsibility. Assuming a management responsibility also creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management.</td></tr><tr><td>R600.8</td><td>R600.8 To avoid the risk of assuming management responsibility when providing non-assurance services to an audit client, the firm or a network firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client’s management: (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client’s decisions and to oversee the services. Such an individual, preferably within senior management, would understand: (i) The objectives, nature and results of the services; and (ii) The respective client and firm <u>or network firm</u> responsibilities.</td></tr><tr><td>601.3 A4</td><td>601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the</td></tr></table>	Paragraph no	Suggested Amendment	600.7 A1	600.7 A1 Providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm <u>or network firm</u> assumes a management responsibility. Assuming a management responsibility also creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management.	R600.8	R600.8 To avoid the risk of assuming management responsibility when providing non-assurance services to an audit client, the firm or a network firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client’s management: (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client’s decisions and to oversee the services. Such an individual, preferably within senior management, would understand: (i) The objectives, nature and results of the services; and (ii) The respective client and firm <u>or network firm</u> responsibilities.	601.3 A4	601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the
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601.3 A4	601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the									

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				<p>conversion of existing financial statements from one financial reporting framework to another. Examples include:</p> <ul style="list-style-type: none"> • Complying with group accounting policies. • Transitioning to a different financial reporting framework such as International Financial Reporting Standards. <p>Such services do not usually create threats provided the firm <u>or network firm</u> does not assume a management responsibility for the client.</p>
			R601.8	<p>R601.8 As an exception to paragraph R601.6, a firm <u>or network firm</u> may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members and:</p> <p>(a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or</p> <p>(b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.</p>
			603.3A2	<p>603.3 A2 If a firm <u>or network firm</u> is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the application material set out in paragraphs 604.12 A1–604.14 A1, relating to such services apply.</p>

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		604.4 A2	<p>604.4 A2 Factors that are relevant in evaluating the level of any threat created by providing taxation services to audit clients include:</p> <ul style="list-style-type: none"> • The particular characteristics of the engagement. • The level of tax expertise of the client's employees. • The system by which the tax authorities assess and administer the tax in question and the role of the firm <u>or network firm</u> in that process. • The complexity of the relevant tax regime and the degree of judgment necessary in applying
		604.16 A2	<p>604.16 A2 Paragraph R604.16 does not preclude a firm <u>or network firm</u> from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:</p> <ul style="list-style-type: none"> • Responding to specific requests for information. • Providing factual accounts or testimony about the work performed. • Assisting the client in analyzing the tax issues in the matter.
		605.4 A1	<p>605.4 A1 Performing a significant part of the client's internal audit activities increases the possibility that firm <u>or network firm</u> personnel providing internal audit services will assume a management responsibility. If the firm's <u>or network firm's</u> personnel assume a management responsibility when providing internal audit services to an audit client, the threat created cannot be eliminated or reduced to an acceptable level by applying a safeguard.</p>
		605.4A2	<p>605.4 A2 Examples of internal audit services that involve assuming management responsibilities include:</p>

#	Respondent	Detailed Comment in Response to S600		
				<ul style="list-style-type: none"> • Setting internal audit policies or the strategic direction of internal audit activities. • Directing and taking responsibility for the actions of the entity's internal audit employees. • Deciding which recommendations resulting from internal audit activities to implement. • Reporting the results of the internal audit activities to those charged with governance on behalf of management. • Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges. • Taking responsibility for designing, implementing, monitoring and maintaining internal control. • Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm <u>or network firm</u>: <ul style="list-style-type: none"> o Is responsible for determining the scope of the internal audit work; and
			605.6 A1	<p>605.6 A1 When a firm uses the work of an internal audit function in an audit engagement; International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm <u>or network firm</u> accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:</p> <p>(a) Appropriately evaluating those results; or</p>

#	Respondent	Detailed Comment in Response to S600	
			<div data-bbox="621 261 1671 391"> <p>(b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm <u>or network firm</u>.</p> </div> <p>1.18. In addition, paragraph R400.51 requires a network firm to be independent of the audit client, but this requirement has been omitted under Section 600.</p> <p>Avoiding Management Responsibility</p> <p>1.19. This subsection is clearer than the extant Code. However, it is unlikely that the amendments will lead to a change in ethical behaviour. Therefore, the Board may consider strengthening this subsection by reinforcing that taking on management responsibility should be considered both in mind and appearance.</p> <p>1.20. The second requirement in this section seems to provide an exemption that could be abused by registered auditors. Additionally, the wording suggests that these are the steps through which the registered auditor will “avoid the risk” of management responsibility, rather than being cognisant not to take on those responsibilities.</p> <p>Consideration of Certain Related Entities</p> <p>1.21. A suggestion would be to consider the scope of the non-assurance engagement at the related party and whether that has any direct or indirect impact on the audit client.</p> <p>Preparation of Financial Statements</p> <p>1.22. The Board may have to consider relooking at this section in more detail. The preparation and fair presentation of financial statements creates self-review and self-interest threats at all audit clients. In addition, it is more likely for the registered auditor to take on management responsibility at a smaller client than at a PIE, due to possible resource limitations at the audit client. Therefore, the prohibition on the preparation of financial statements for PIEs and not all entities does not seem to be at the correct level.</p> <p>1.23. For example, a factor to consider when evaluating the level of the threat is whether the appointment of the preparer of the financial statements has been approved by the shareholders, as they are an important stakeholder that may ultimately suffer some loss if the threats are not eliminated or mitigated to an acceptable level.</p> <p>1.24. In addition, paragraph 601.4 A1 states:</p>

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		<p>Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgment by the professional accountant. Some examples of these services are:</p> <ul style="list-style-type: none"> • Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records. <p>However, the IAASB International Standards on Related Services (ISRS) 4410, (ISRS 4410), <i>Compilation Engagements</i>, paragraph 22 and related application material requires that a practitioner exercises professional judgement when conducting a compilation engagement. Therefore, there appears to be a misalignment between the ISRS 4410 and the Code.</p> <p>Tax Consulting</p> <p>1.25. Preparation of a tax return is prohibited for PIEs, but a similar prohibition is not extended to tax planning. We believe that this is misaligned.</p> <p>1.26. Preparation of a tax return is based on historical information, while tax planning is based on future events and estimates. Though tax planning may not affect the current financial statement, it can have a material impact on the future financial statement of the audit client and increase the self-review or advocacy threat.</p>
31.	ISCA	<p>We noted that consistent with the proposed paragraph 609.2 which indicates that in some circumstances, “providing recruiting services to an audit client is expressly prohibited because the threat cannot be eliminated or there can be no safeguards to reduce them to an acceptable level”, the proposed paragraph R609.6 has also expressly stated that “a firm or network firm shall not provide a recruiting service to an audit client with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion if the service involves searching for or seeking out candidates for such positions and undertaking reference checks of prospective candidates for such positions”.</p> <p>On the other hand, the recruiting services indicated in the proposed paragraph 609.3 A1 (e.g. reviewing the professional qualifications of applicants, interviewing candidates, providing advice on candidates’ competence and suitability for the post, etc) are not usually considered to create threats.</p> <p>In our view, given the above paragraphs, it is unclear whether the recruiting services in the proposed paragraph 609.3 A1 are permitted in situations pertaining to a director or officer of the entity or senior management in a position to exert significant</p>

#	Respondent	Detailed Comment in Response to S600
		<p>influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.</p> <p>The position to be recruited is an important consideration in prohibiting the services in the proposed paragraph R609.6. Also, it may be unusual in practice for a recruitment process to be divided into different stages handled by different firms. Usually, one firm will manage the entire process. Hence, the IESBA may wish to consider if all other recruiting services, including those in the proposed paragraph 609.3 A1, should be prohibited as well, if the recruitment involves any of the aforementioned key positions.</p>
32.	JICPA	<p>We believe that you actually mean paragraph 26 (h) instead of paragraph 25 (h) as described in the question above, we will respond as such.</p> <p>We 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.</p> <p>We expect the rationale behind will be described in the basis for conclusion, and as such, we believe the following point should be clearly described as well in addition to the background information.</p> <p>Although it is concluded in the exposure draft that safeguards are not capable of reducing the threat of self-interest or familiarity in this regard, we believe the illustrated example of the safeguard as provided in paragraph 609.4 A2 (use of professionals who are not audit team members to perform the service) can be still an applicable option. Therefore, we are of the view that it is essential to clearly articulate the rationale behind concluding that such option is not acceptable and thus any safeguards are not capable of reducing those threats.</p> <p>Concerning Section 600 as a whole, we support your proposals except for the issues discussed below and we would like to make the following proposals for the drafting conventions specific to Section 600:</p> <p>1) Subheadings</p> <p>The requirements and application material discussed in Phase 2 are expected to be referred to and applied in practice more frequently compared to those in Phase 1. We believe it is desirable to provide additional subheadings because it would be more readable and usable to provide the subheadings of (Threat), (Scope of services), (Example of possible services), (Relevant factors in evaluating the level of threat), (Example of possible safeguards), and (Prohibitions) throughout subsections 601 to 610, while it is difficult to understand what the text of each paragraph in the current draft means without reading all the text. (Please refer to the following proposal as an example at the end of our response to the question 1.</p>

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		<p>Proposed revisions are underlined.) In this manner, it will be quicker and easier to discern the content, thus enhancing the convenience of the user.</p> <p>2) Repetitive paragraphs</p> <p>We are doubtful of the merit of repeating the text of paragraph 600.3 in each subsection (paragraphs 601.2, 602.2, 603.2, 604.2, 605.2, 606.2, 607.2, 608.2, 609.2, and 610.2) even though this conforms to the drafting guidelines. We are concerned that the excessive formality of repetitive paragraphs will hinder the convenience of readers by increasing the number of paragraphs unnecessarily, considering that the section on non-assurance services already has numerous subsections and is frequently referred to in practice. Also from the viewpoint of readability, we believe it desirable to reduce the overall number of paragraphs as much as possible by deleting all the paragraphs mentioned above, and to make it simpler to refer to.</p> <p>(Example of proposal)</p> <p>Subsection 606 - Information Technology Systems Services</p> <p>Introduction</p> <p><u>(Threat)</u></p> <p>606.1</p> <p>606.2</p> <p>Requirements and Application Material</p> <p>General</p> <p><u>(Scope of services)</u></p> <p>606.3A1</p> <p><u>(Example of possible services)</u></p> <p>606.3A2</p> <p><u>(Relevant factors in evaluating the level of threat)</u></p> <p>606.4A1</p>

#	Respondent	Detailed Comment in Response to S600
		<p><u>(Example of possible safeguards)</u></p> <p>606.4A2</p> <p>Audit Clients That Are Not Public Interest Entities</p> <p><u>(Prohibitions)</u></p> <p>R606.5</p> <p>Audit Clients That Are Public Interest Entities</p> <p><u>(Prohibitions)</u></p> <p>R606.6</p>
33.	KICPA	<p>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.</p> <p>We support, in general, the proposed revisions pertaining to safeguards to be applied in case of the provision of NAS to an audit client in that clarifying the necessity of applying the conceptual framework set out in Section 120 to identify, evaluate, and address threats to independence, contributes to increasing consistency of the Code.</p> <p>Clarifying (1) illustrative examples of actions that might serve as safeguards to address threats arising from the provision of individual NAS and (2) the concept of “materiality” to be used in the provision of NAS to an audit client could assist professional accountants in addressing threats to independence when providing NAS.</p> <p>In addition, arranging requirements and application material relevant to providing certain NAS in a consistent manner enhances the understand ability of the Code.</p> <p>However, we advise the Board rethink over extending the prohibition of recruiting services to a non-public interest entity of an audit client, thereby making it impossible to (1) search for or seek out their prospective candidates for managerial, executive, or director position or to (2) undertake reference checks of prospective candidates for an executive or director position. The Code of Professional Conduct, AICPA’s independence requirements, does not include prohibition of recruiting services with respect to a director or officer of the entity or its senior management, and the SEC regulation S-X 2-01 (c)(4) to be applicable in case an audit client is an listed entity, banns the above (1) and (2) to the audit client that is an listed entity. Considering this, we suggest the Board apply the prohibition to public interest entities only just as the current Code does.</p>

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		<p>After all, the recruiting services are not direct engagements in decision-making over employment of a director or officer of the entity or senior management, but assistances for the management who is an audit client to search for appropriate ones, thereby making it difficult for a professional accountant to be considered as assuming the responsibility of the management. Accordingly, if safeguards to exclude a professional accountant who assists recruiting services from auditing non-public interest entities, are applied, it would be appropriate for relevant audit firms to be allowed to audit the non-public interest entities.</p>
34.	KPMG	<ol style="list-style-type: none"> 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.

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35.	MIA	<p>Section 600</p> <p>With regard to those non-assurance services for which the same requirements and application material apply to both public interest entities (“PIEs”) and non-PIEs, we suggest that for better clarity, the IESBA explicitly state as such in the Code. In the past, we received enquiries from professional accountants in public practice that sought clarification as to whether a particular ethics standard applied to PIEs or both the PIEs and non-PIEs.</p> <p>Paragraph R600.10</p> <p>We find that Paragraph R600.10(ii) may be redundant as it has similar implication as Paragraph R600.10(i).</p> <p>Paragraph R601.8</p> <p>The equivalent paragraph of R601.8 in the extant Code is paragraph 290.170 which states that:</p> <p>“Despite paragraph 290.169, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, of a routine or mechanical nature for divisions or related entities of an audit client that is public interest entity if the personnel providing the services are not members of the audit team and:</p> <p>(a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or</p> <p>(b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.”</p> <p>The exception for a firm to provide accounting and bookkeeping services to divisions of related entities of an audit client that is a public interest entity under paragraph 290.170 made reference to paragraph 290.169. Similarly, we think that paragraph R601.8 should be made reference to paragraph R601.7, instead of paragraph R601.6.</p>
36.	MICPA	<p>Yes, MICPA agrees 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.</p>
37.	MNP	<p>Overall, we agree with the proposed revisions to the safeguards pertaining to the provision of non-assurance services. We would, however, like to bring the following concerns to the Board’s attention:</p>

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		<ul style="list-style-type: none"> • We do not believe that a firm or network firm should be permitted to assume management responsibilities to the related entities outlined in paragraph R600.10. The ability to control, lead or direct an entity that has control or significant influence over the assurance (i.e., audit and review) client may create a situation whereby the client's business is impacted, negatively or positively, because of decisions made at the related entity level. We believe that the inter-relationship between an assurance client and the related entities referred to in paragraph R600.10 is too significant. • In our view, acting as an expert witness for an assurance client creates a significant advocacy threat that cannot be appropriately mitigated when that expert witness offers opinions on the litigation matter. This is a different role than that of a fact, factual or fact-finding witness who recites the facts of the matter in litigation and the results of the litigation support services engagement. Therefore, we recommend the Board consider adding a prohibition to the Code, to disallow the provision of litigation support services for public interest entities for the purpose of advancing the entity's interest in a legal proceeding or investigation with respect to amount(s) that are material to the financial statements subject to audit or review. • Paragraph 608.4 A1 which describes the types of independence threats that may be created as a result of the provision of legal advisory services should also refer to advocacy threats. • We have concerns with the prohibition in paragraph R609.6 related to the provision of recruiting services with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or financial statements. We would like to recommend that the prohibition continue to be restricted to public interest entities only as presented in the extant Code. We believe that smaller review and audit clients may not have the necessary knowledge or skill to effectively recruit candidates with the appropriate competence for financial accounting, administrative or control positions.
38.	NASBA	<p><i>Overall, we are in agreement with the proposals in Section 600, but do offer the following comments for consideration:</i></p> <ul style="list-style-type: none"> • <i>The use of terms "generally or "usually" in Sections 601.3 A4, 604.5 A1 and 609.3 A1 introduces ambiguity that can cause difficulty for regulators to interpret.</i> • <i>On page 24, R601.6, consider replacing the double negatives "shall not" and "that is not" in the first sentence of this section.</i> <p>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.</p> <ul style="list-style-type: none"> • <i>NASBA supports the extended prohibition on recruiting services as described in paragraph 25(h).</i>

#	Respondent	Detailed Comment in Response to S600
39.	NBA	<p>In the Netherlands we have not implemented the CoE as is, but we have extracted the requirements and have implemented them in bylaws in accordance with Dutch regulation for standard setting. Based on this exposure draft we conclude that it will not be possible for us to adopt the current structure. Part of this results from the fact that the structure still mixes requirements with application material, and therefore does not comply with the Dutch rules for writing regulation.</p> <p>We suggest in the public interest, even if IESBA decides to mix application material and requirements, to start with the requirements and afterwards provide application material. To us the current structure almost seems to focus on what is allowed and not on what is restricted.</p> <p>One of the examples of safeguards relates to an independent reviewer that was not involved with the team. We wonder whether an EQCR partner could perform this role? If that is the case it might be a good idea to make this clear.</p>
40.	NZAuASB	<p>The NZAuASB supports the proposed revisions to clarify and enhance the safeguards-related provisions in the independence section of the Code pertaining to non-assurance services provided to audit clients.</p> <p>The NZAuASB has the following comments on specific paragraphs.</p> <p><i>Paragraph 600.5 A1</i></p> <p>As noted in the introduction, the use of “audit” to mean “audit or review” is problematic in paragraph 600.5 A1 where the concept of materiality is referenced to ISA 320, <i>Materiality in Planning and Performing an Audit</i>. There is no reference made to materiality in a review engagement.</p> <p>The second sentence could be moved to a footnote and revised as follows</p> <p><u>“The concept of materiality is addressed in ISA 320, <i>Materiality in Planning and Performing an Audit</i>, and ISRE 2400, <i>Engagements to Review Historical Financial Information</i>, for audit and review engagements respectively.”</u></p> <p><i>Paragraph R600.10</i></p> <p>This paragraph is labelled as a requirement but does not contain requirement language. The clarified wording is less clear than the extant wording. In addition, reference to the prohibitions may also be helpful.</p> <p><u>A firm or network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited under Section 600-prohibits assuming management responsibilities or</u></p>

#	Respondent	Detailed Comment in Response to S600
		<p>providing certain non-assurance services to audit clients. As an exception to those requirements, a firm or network firm may assume management responsibilities or provide non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:...</p> <p>(iv) The firm applies the conceptual framework to eliminate <u>or reduce to an acceptable level</u> any threats created or reduce them to an acceptable level.</p> <p><i>Paragraphs R601.6 and R601.7</i> – These paragraphs are complicated and confusing. The extant wording is much clearer and easier to understand. The reference to audit client implies that the professional accountant will be expressing an opinion (or in the case of a review engagement, a conclusion). Accordingly, the words “on which the firm will express an opinion, or financial information which forms the basis of the financial statements on which the firm will express an opinion” may not be necessary in this context. In addition, accounting and bookkeeping services is defined in paragraph 601.3 A1.</p> <p>R601.6 A firm or a network firm shall not provide to an audit client that is not a public interest entity, services related to accounting and bookkeeping services on which the firm will express an opinion, or financial information which forms the basis of the financial statements on which the firm will express an opinion, <u>to an audit client that is not a public interest entity unless only if:</u></p> <p>(a) The services are of a routine or mechanical nature; and</p> <p>(b) The firm addresses any threats created by providing such services <u>are reduced to an acceptable level.</u></p> <p>R601.7 A firm or a network firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements <u>to an audit client that is a public interest entity.</u></p> <p><i>Paragraph R605.7</i> – In sub-paragraph (b) “significant” is changed to “material”. The NZAuASB supports this change. The NZAuASB also notes that in this paragraph and throughout the Code, when referring to materiality, the words “separately or in the aggregate” are used. Throughout the International Standards on Auditing, the wording used is “individually or in the aggregate.” The NZAuASB encourages the IESBA to continue to work with IAASB to ensure that, where possible, consistent wording is used throughout the standards set by the IFAC standard setting boards.</p>

#	Respondent	Detailed Comment in Response to S600
		<p>In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 26(h) to all audit client entities? If not, please explain why.</p> <p>Response:</p> <p>The NZAuASB supports the proposal to extend the scope of the prohibition on recruiting services with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion to all audit clients.</p> <p>Drafting suggestions</p> <p><i>Paragraph 600.2</i> – delete repetition of “threats to” in the last sentence. Also the use of “might” in the first sentence is confusing. When might is used in the Code it denotes the possibility of a matter arising, an event occurring or a course of action being taken. Rather than using “might” to denote possibility, it may be more accurate to use “may” indicating that such non-assurance services are permitted or alternatively, state that this is “often” the case.</p> <p>Firms and network firms might <u>often</u> provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.</p> <p><i>Paragraph 600.3</i> –The last sentence can be simplified by changing “...there can be no safeguards to reduce them to an acceptable level” to “...reduced to an acceptable level.” This wording is consistent with paragraph R120.10³. Also, in the second sentence, “specific” and “relevant” are not both necessary. It is the requirements and application material that are specific to the providing certain non-assurance services.⁴</p> <p>Section 600 sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material <u>specific</u> relevant to providing certain non-assurance services to audit clients and indicate the types of threats that might be created as a result. In some cases, these subsections expressly prohibit a firm or network firm from</p>

³ See Compilation of Proposed Restructured Code (as of January 2017), page 20

⁴ This comment applies to paragraphs under the heading “introduction” in each of the Sections and Subsections of the proposed Code.

#	Respondent	Detailed Comment in Response to S600
		<p>providing certain services to an audit client because the threats cannot be eliminated or there can be no safeguards to reduced them to an acceptable level.</p> <p><i>Paragraph 600.4 A2</i> - In accordance with the Structure project drafting guidelines, refer to “the Code” rather than “this Code.”</p> <p>New business practices, the evolution of financial markets and changes in information technology, are amongst the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit client. As a result, this <u>the</u> Code does not include an exhaustive listing of all non-assurance services that might be provided to an audit client.</p> <p><i>Paragraph 600.4 A3</i> – In the last sentence, it is not clear whether “more specific factors” means, (1) additional factors, (2) factors that are more specific than those identified in the current paragraph, or (3) factors that are specific to providing a particular type of non-assurance service. The words “more specific” could be deleted from this paragraph to clarify its meaning.</p> <p>...The subsections that follow include more specific factors that are relevant in evaluating the level of any threats created by providing certain non-assurance services.</p> <p><i>Paragraph 600.7 A2</i> - Consider placing paragraph 600.7 A2 before 600.7 A1 so that management responsibilities are described before discussing the threats that assuming a management responsibility can create.</p> <p><i>Paragraph 601.1</i> – Providing accounting and bookkeeping services to an audit client does create a self review threat. Delete “might” in this paragraph.</p> <p>Providing accounting and bookkeeping services to an audit client might create <u>a</u> self-review threat.</p> <p><i>Paragraph 601.3 A1</i> – In the second bullet point, remove “bookkeeping and” as bookkeeping is already included in the lead in to the paragraph.</p> <p>Accounting and bookkeeping services comprise a broad range of services including:</p> <ul style="list-style-type: none"> • Preparing accounting records and financial statements. • Bookkeeping and Payroll services.

#	Respondent	Detailed Comment in Response to S600
		<p><i>Paragraph 602.3 A2</i> – Consider deleting the word “audit” in the final bullet point. The other bullet points do not specify audit client.</p> <ul style="list-style-type: none"> • ... Monitoring statutory filing dates, and advising an audit client of those dates. <p><i>Paragraph R601.8</i> – The exception in this paragraph should reference R601.7.</p> <p>As an exception to paragraph R601.6<u>7</u></p> <p><i>Paragraph R603.6</i> –The wording “separately or in the aggregate” is used throughout the Code when referring to materiality whereas the IAASB’S standards use “individually or in the aggregate.” The NZAuASB supports consistency of wording between the sets of international standards, where possible.</p> <p><i>Paragraph 604.1</i> – The NZAuASB considers that providing taxation services to an audit client <u>does</u> create a self-review or advocacy threat, accordingly the NZAuASB recommends deleting “might”. In addition, the extant Code indicates that providing certain tax services creates both self-review and advocacy threats.</p> <p>Providing taxation services to an audit client might <u>creates</u> a self-review or <u>and</u> advocacy threats.</p> <p><i>Paragraph 604.3 A1</i> – The wording of the final sentence in this paragraph is clearer in the extant Code.</p> <p>While this subsection deals with different types of taxation services <u>are</u> described <u>[in the Code]</u> above separately under separate headings, in practice, the activities involved in providing taxation services are interrelated.</p> <p><i>Paragraph 604.16 A2</i> – in the third bullet point, the words “in the matter” are repetitive of the lead-in and are not needed.</p> <p>Paragraph R604.16 does not preclude a firm from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:...</p> <ul style="list-style-type: none"> • Assisting the client in analyzing the tax issues in the matter. <p><i>Paragraph 604.16 A3</i> – Consider the following rewording to simplify the third bullet point in this paragraph.</p> <p>Whether the <u>firm or network firm provided the</u> advice which is the subject of the tax dispute has been provided by either the firm or network firm.</p>

#	Respondent	Detailed Comment in Response to S600				
		<p><i>Paragraph R605.4</i> – In sub-paragraph (a)(ii), the NZAuASB questions the addition of “monitoring” and recommends that it be deleted. The Glossary of Terms to the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements defines internal control as, “the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.” As noted previously, the NZAuASB supports consistency of wording across the international standards.</p> <p>(a)(ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control.</p> <p><i>Paragraph 607.2</i> – Section 600 sets out both requirements and application material. Accordingly, the second sentence should read,</p> <p>...The <u>requirements and</u> application material set out in Section 600 is<u>are</u> relevant to this subsection.</p> <p><i>Paragraph 608.1</i> – As drafted, this paragraph implies that self-review and advocacy threats are mutually exclusive. This is not the case. Accordingly, the NZAuASB recommends using the following wording.”</p> <p>Providing legal services to an audit client might<u>may</u> create a self-review <u>and</u> or advocacy threats.</p> <p><i>Paragraph R610.6</i> – To avoid repetition</p> <p>A firm or network firm shall not provide corporate finance advice to an audit client where the effectiveness of corporate finance <u>such</u> advice depends on a particular accounting treatment or presentation in the financial statements and: ...</p>				
41.	PWC*	<p>Subject to the detailed drafting comments in the appendix we agree with the proposals relating to Section 600 of the code (Question 1).</p> <table><tr><th>Paragraph</th><th>Comment/observation</th></tr><tr><td>600.4 A3</td><td>The 3rd bullet states as a factor in evaluating the threat to independence “The level of expertise of the client’s employees with respect to the type of service provided”. Given the discussion in R600.7 (and following) and the</td></tr></table>	Paragraph	Comment/observation	600.4 A3	The 3 rd bullet states as a factor in evaluating the threat to independence “The level of expertise of the client’s employees with respect to the type of service provided”. Given the discussion in R600.7 (and following) and the
Paragraph	Comment/observation					
600.4 A3	The 3 rd bullet states as a factor in evaluating the threat to independence “The level of expertise of the client’s employees with respect to the type of service provided”. Given the discussion in R600.7 (and following) and the					

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			<p>responsibilities of management we recommend that this bullet references management as well as employees. The same applies to 604.4 A2.</p> <p>The 5th bullet contains a reference to a “higher” level of threat in contrast to the Explanatory Memorandum which indicates on page 14 that reference to a “higher” level is no longer made. Accordingly, this seems to warrant review.</p> <p>The factors relevant “to evaluating the level of any threats created by providing a non-assurance service to an audit client” seem to focus solely on “management responsibilities” and the “self-review” threat. The Board may wish to consider adding other factors that pertain to the other types of threats. For example:</p> <ul style="list-style-type: none">• Whether the firm will have an interest in the results or outcome of the service• Whether the firm will advocate the interests of the audit client to third parties.	
		R600.8	<p>While we recognise that this paragraph was subject to recent amendment, we wonder, on reflection, whether the words “would understand” in sub-bullet (a) might better read “would set and agree” so this would read:</p> <p><i>Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client’s decisions and to oversee the services. Such an individual, preferably within senior management, <u>would set and agree:</u></i></p> <p><i>(i) The objectives, nature and results of the services; and</i></p> <p><i>(ii) The respective client and firm responsibilities.</i></p>	
		R601.8	<p>This is an exception to para .7 (not .6)</p>	

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		604.5 A3	In the extant code, paragraphs 604.5 A1 and A3 are more clearly linked, with the latter being the explanation of why tax preparation return services does not usually create a threat. As a new stand-alone paragraph A3 is read as a mere statement and the conclusion to be drawn from it is not clear.
		R604.11	This paragraph references “tax advisory services” in contrast to the section heading “Tax planning and other advisory services”. These might be better aligned.
		604.16 A3/4	These paragraphs seem out of order. They are intended to address services that are not prohibited by R604.16 (and A1/2) but this is not clear. We suggest that these paragraphs either follow 604.15 A2 or that the context for these paragraphs is made clear.
		605.4 A1	The effective prohibition on assuming a management responsibility has already been covered in R605.4 and does not, in our view, need to be repeated here (second sentence). The first sentence is a warning as in the extant code and works well without the second sentence.
		605.5 A1 (third bullet)	We recommend that the word “service” is changed to “function”.
		605.6 A1	In the extant code this paragraph is an explanation of the third bullet in 605.5.A1 above. Given this structure 605.6 A1 is effectively de-linked from the bullet and, as a result, reads as a stand-alone paragraph without any clear conclusion or explanation.
		R609.6	In the extant code this is a specific prohibition (290.210). As redrafted this is written such that a service that “involves” certain activities is prohibited and so this could be read to be a broader prohibition than intended and this

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			appears to represent an unintended change to the code. We suggest that this be amended to “if the service comprises” or similar.
42.	RSM*	<p>We generally support the Board’s proposals in Section 600 because they create a clear and logical process that builds on the extant Conceptual Framework Approach.</p> <p>However, we have some concerns regarding the proposed extension of the prohibition in Section R609.6 to non-PIE audit clients. For non-PIE audit clients, the audit firm may well be able to use their knowledge of the business to provide useful search and reference checking activities on a range of candidates. If management makes the ultimate decision on which candidate to employ, then this could mitigate the self-interest and familiarity threats.</p> <p>We therefore believe that IESBA should provide the bases for extending the prohibition of recruitment services beyond PIE audit clients as this further explanation would enhance the likelihood that the provision is applied consistently in practice.</p>	
43.	SAICA	<p>SAICA support the proposals subject to the below considerations</p> <ul style="list-style-type: none"> Referencing to International Standards of Auditing (ISAs) should be considered. In certain paragraphs of the extant code and the Safeguards ED general references to the ISAs are used, in 600.5 A1 an exact reference to ISA 320 is included. The exact reference may present a quality risk, should the ISA numbering or structure changes which IESBA may or may not detect timeously, this will require a conforming change due to an outdated and incorrect reference. It may thus be better to just refer to “The ISA standard used in determining Materiality in Planning and Performing an Audit” This suggestion is consistent with the rest of the Code where no specific number references are used but just a general reference, refer to 291.2 ; 290.12; 290.194; 225.38 of extant code. Also see par 605.6 A1 of the current ED refers to an ISA but does not specifically refer to ISA610 (the standard being referred to). A consistent approach should be used in the code. A foot note with specific standard detail and highlighting the version (date) being referred to, may be a solution in this regard. The wording in par 601.2 is repeated throughout the following sections up to and including par 610.2. This is very repetitive and does not necessarily add any value to the provisions of the Code, bearing in mind that the code is not to be applied in terms of individual paragraphs but as a document in its totality. Also, bearing in mind that the type of service that is prohibited is already addressed in the headings to each paragraph 601 to 610. We would suggest whether it would not be possible to include a general introduction to the section and include that paragraph. 	

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		<ul style="list-style-type: none"> • Par 602.3 2A. SAICA would like to request that the provision of payroll services is also dealt with. The question arises on whether the provision of payroll services also fall under administrative services as many firms provide payroll services. • 606.4 A1. The Factors sighted would be better understood if they were accompanied by examples, e.g.: <ul style="list-style-type: none"> ○ The nature of the services: An example of performing routine system vulnerability or penetration testing compliments the audit approach and is not a threat, whereas advising on implementing an ERP system, could result in self review threats. ○ The nature of the IT system – An example designing a system used to measure consumer satisfaction is not as much of a threat as a system that projects estimated future revenue that would form part of audit assumptions that need to be tested. • 609.3 A1. Another example of recruitment services that does not usually create threats and that could be included is “Assisting the client with Visa applications for their staffing requirements.” • 609.4 A1. Factors to consider when evaluating the threat by providing recruitment services consider adding an additional factor “ Any appearance of conflicts of interest or relationships of candidates to the firm providing the advice or services.” <p>Editorial suggestion</p> <ul style="list-style-type: none"> • 609.4 A2 Insert a full stop “.” at the end of the sentence. <p><i>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.</i></p> <p>SAICA is supportive of the prohibition of recruitment services, as this type of service frequently is used for senior executives. It may also lead to a conflict with other existing audit clients as the person to be recruited is from another one of the professional accountant’s audit clients. It will make it easier to apply and also strengthen independence of the auditor at non-PIEs.</p> <p>Drafting Suggestions</p> <p>SAICA would like to suggest that the reference to “firms and network firms” be consistently used throughout the Code.</p> <ul style="list-style-type: none"> • Par 600.1 where it only refers to “Firms are....”, whilst para 600.2 refers to “Firms and network firms” • R600.10 – Section 600 prohibits a firm or network firm assuming.....

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		<ul style="list-style-type: none"> • Para. 601.1 and all similar paragraphs starting a subsection of NAS should start with: “<u>Firms or network firms</u> providing....” • Para. 601.2 <u>and all similar paragraphs</u> starting a subsection of NAS should read: “....framework when <u>firms or network firms</u> providing an audit client with accounting.... There are circumstances in which <u>firms or network firms</u> providing accounting.... • Para 603.4 A1 – “....created by <u>firms or network firms</u> providing valuation.... • Para 604.5 A1 – “<u>Firms or network firms</u> providing tax return....” • Para 604.6 A1 – “<u>Firms or network firms</u> preparing calculations....” • Para 604.7 A1 – “created by <u>firms or network firms</u> preparing tax calculations....” • Para 604.9 A1 – “<u>Firms or network firms</u> providing....” • Para 604.12 A1 – “<u>Firms or network firms</u> providing....” • Para 604.15 A1 – “<u>Firms or network firms</u> providing....” • Par 600.3 – in our view it would make sense to indicate that threats to independence should be identified, evaluated and addressed “before” and “during” providing non-assurance services to audit clients. The current wording seems to suggest that this only occurs “when” an auditor performs these services, while it is possible that the services are never performed due to the independence threats being at too high a level. This is highlighted in R600.4 but should also be indicated in this paragraph. • Par 600.4 A3 bullet point 3 is not clear why this is a factor to consider to evaluate the level of threats. It is also contradictory to R600.8 (a) where it is indicated that the client individual is not required to possess the expertise to perform or re-perform the services. • R600.9 seems to refer to NAS currently in progress and previously performed as per (a) and (b). Should this not be indicated in the start of the paragraph? “A non-assurance service <u>currently or previously</u> provided....”. And should (b) then not refer to “<u>Non-assurance</u> services <u>currently in progress</u> that....” • R600.9 – SAICA request that the use of “and in para (b) implies that all three (a) to (c) applies to the situation or whether this should be “or”. • R600.9 – We question the relevance of (a). Will this not always be the case that the NAS provided to the non-PIE will comply with the requirements and application material of section 600? We are not sure what exceptions will arise. • Para. 603.1 – suggest that the “advocacy threat” is added as a valuation can be performed for an audit client by the audit firm for example in merger and acquisitions transactions. It can be viewed by the other party (buyer or seller) or other third parties that the audit firm is advocating their audit client.

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		<ul style="list-style-type: none"> Para. 604.4 A2 bullet point 2 is not clear why this is a factor to consider to evaluate the level of threats. It is also contradictory to R600.8 (a) where it is indicated that the client individual is not required to possess the expertise to perform or re-perform the services. Para 604.9 A1 – Advocacy threat is mentioned here but not addressed/mentioned again in the rest of “Tax Planning and Other Tax Advisory Services” (but the self-review threat is) <p>Editorial suggestions:</p> <ul style="list-style-type: none"> Par 600.6 A1 – very last part of the sentence insert the following: “....provided to the <u>same</u> audit client.” Para. 601.5 A1 – the word “professionals” should be “professional”. Or the word “partner” should be “partners” with subsequent changes Para. R601.8 – it should refer to “<u>R601.7</u>” and not “R601.6” Para. R605.7 (b) and (c) – consider removing the word “the” before the word “aggregate” Subsection 606 refers to IT <u>systems</u> services. This is not consistently used in the subsection in several paragraphs – sometimes it refers to IT services only. For example, para. 606.2 “.... providing an IT service to an audit client...” Para. 606.2 – “....can be no safeguards <u>to</u> reduce...” Para 606.3 A1 – use abbreviation “IT” as it was explained in the previous paragraph Para 606.3 A2 – “(d)....with respect to <u>an IT</u> system Para 607.3 A1 – “Litigation support services <u>performed by firms or network firms for an audit client</u> might....” Para 607.3 A1 – remove full stop and include a comma after the sentence Para 608.4 A1 – “Legal advisory services <u>performed by firms or network firms</u> that support an audit client....” Para 608.4 A2 – refer to “<u>audit clients</u>” in first sentence and bullet point 4, similar to bullet point 2 Para 608.5 A2 – “....created when <u>firms or network firms provide... to an audit client</u> include” Para. 609.4 A2 – remove following: “....recruiting services include is using professionals...” Para. 609.4 A2 – “....created by <u>firms or network firms</u> providing....<u>to an audit client</u> include using....” Para. 610.3 A1 – “....serviced performed by <u>firms or network firms to an audit client</u> that might....”
44.	SMPC	<p>The SMPC has some concerns with the proposals. These are outlined in more detail below.</p> <p>Para 600.2 – Scope</p> <p>In its entirety, the Code is concerned with the accountants’ compliance with the fundamental principles. However, Part 4A deals solely with independence for audits and reviews. The introductory text in paragraph 400 et seq. clarifies that Part 4A relates to independence, and compliance with the fundamental principles that are linked to independence (which according to</p>

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		<p>Para 120.12 A1 are objectivity and integrity). We therefore do not see the necessity to add a reference to the possibility of threats to compliance with the fundamental principles beyond independence for individual themes addressed in Part 4A. Indeed, we are concerned that this additional text will introduce confusion.</p> <p>We further note that this proposed wording goes beyond the extant Code. Specifically, the proposed second sentence of paragraph 600.2 reads “Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.” This text is noted as derived from 290.154 of the extant Code which reads “Providing non-assurance services may create threats to the independence of the firm or members of the audit team”. Indeed, beyond potentially impairing objectivity, we fail to see how the provision of NAS might impact the Code’s remaining fundamental principles. For example, how might NAS threaten compliance with the principles of confidentiality or professional competence and due care? Thus, we would suggest that Para 600.2 be amended to read “Providing non-assurance services to audit clients might create threats to independence.” The same rationale will also apply to Para 950.2</p> <p><i>Para R600.4 – Application to all NAS</i></p> <p>When R600.4 is read in conjunction with 600.4 A2, it becomes clear that the overriding requirement to determine whether a NAS would or would not create a threat applies to each and every NAS that a firm may be engaged to provide; not only those specifically dealt with in subsequent paras under section 600. However, implications for the firm or network’s documentation of such determination have not been addressed. A lack of application material on the extent of documentation is not helpful, since others including regulators, peer reviewers etc. will make their own demands in this area.</p> <p>From an SMP perspective in particular, excessive documentation that uses resources otherwise available for engagement performance is undesirable. At a minimum, it would be helpful for the IESBA to acknowledge that documentation should be appropriate to the engagement circumstances, for example, a note of a “no significant threat” determination may suffice in some cases. Whereas for highly contentious services, it may be appropriate to document reasons, but that a check list weighing up all the factors listed in 600.4 A3, in some cases against one another, may only be appropriate in respect of NAS of high significance.</p> <p>We would like to point out that the IAASB’s ISQC 1.21 et seq. require firms to “establish policies and procedures designed to provide the firm with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements maintain independence....”. Therefore it is not appropriate for the IESBA to give the impression that a higher degree of precision is indeed attainable.</p> <p><i>Para 600.4 A3 – Factors that are relevant in evaluating the level of threats created</i></p>

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		<p>Larger entities may employ individuals with expertise in specific areas, whereas an SME's employees and management will often comprise so called "all-rounders". Thus, in practice, many small businesses may lack the (higher) degree of internal expertise, which might reasonably be expected to exist in larger entities. Proposed 600.4 A3 refers to the level of expertise of the client's employees with respect to the type of service provided as a factor relevant to the evaluation of the level of threat that may be created by providing a non-assurance service to an audit client. This would logically appear to imply that the higher the level of expertise, the lower the threat to auditor independence, and conversely the lower the expertise, the higher the threat, although this is not explicitly clarified as such in the ED. If this interpretation is what the IESBA intended, then SME auditors are likely to be at a general disadvantage, unless the IESBA can provide appropriate clarification to address this.</p> <p>The SMPC re-iterates that the application of the related safeguards to mitigate the threats identified through the evaluation of all the factors as indicated in Para 600.4 A3 is highly dependent on whether the client is a PIE or otherwise. Hence, the Board should consider giving more prominence to this factor as compared to the others. Furthermore, it could assist understanding if more examples can be provided under each of the factors listed.</p> <p><i>Para R600.8 – Risk of assuming management responsibility</i></p> <p>Proposed R600.8 follows extant paragraph 290.162 in specifically requiring the firm (or network firm) to ensure that the client's management delegates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the (non-audit) service as a safeguard to address the risk of assuming management responsibility when providing any non-assurance service to an audit client. This section also clarifies that that individual is not required to possess the expertise to perform or re-perform the services.</p> <p>In our view, the IESBA should clarify what the requirement in R600.8 for the auditor to "ensure" is intended to mean in practical terms in this context. The auditor cannot "force" a client to designate a person with a particular set of skill, knowledge and experience – certainly not when unavailable to the client. Beyond considerations of how "ensuring" is to be evidenced, the implication is that where the auditor cannot ensure this skill-set is present in the individual, the auditor would fail the "test" that would permit provision of the service. Consequently, unless a different interpretation of "ensure" is intended, the provision of services to many SME audit clients would be prohibited.</p> <p>In practice, in many cases concerning SMEs, the client does not have, or desire to have, such a designated person, because the client intends to place a certain degree of trust in the auditor, whilst retaining decision making about the service and its outcome. In addition, in an SME environment supervisory elements are not very common, as they are inevitably related to additional costs and in most cases are usually undertaken by the proprietor or owner-manager. We agree that an express acknowledgement of client responsibility for decision making and overseeing the services should remain the key focus of the</p>

#	Respondent	Detailed Comment in Response to S600
		<p>requirement. We also accept that it is reasonable to require an individual to understand the objectives, nature and results of the services as well as the respective client and firm responsibilities. However in an SME context, we believe it will generally be excessive and counterintuitive to specifically require “suitable skill, knowledge and experience” in an individual to be designated to these tasks.</p> <p>Consequently, we would strongly encourage the IESBA to take the opportunity to revisit and amend the existing text, specifically by moving the material detailing the personal attributes (skill, knowledge and experience) of a designated individual to application material instead. If not, there needs to be an explicit recognition within the Code that any skill-set be appropriate to the service and what can be reasonably expected of the particular client in relation to that service. As it currently drafted, paragraph R600.8 could potentially prohibit the provision of many services to SME audit clients.</p> <p><i>Para 604 – Taxation services</i></p> <p>Para 604.7 A2 proposes that tax calculations be undertaken by a tax professional that is not a team member (also in 604.10 A2) as a safeguard. In SMPs, the tax calculations will almost always be computed by a team member, because there are no special tax professionals (i.e. no tax department like in big audit firms) and the team member knows the client and has the knowledge about specific facts that have to be accorded specific treatment in the tax returns. In the smallest firms, there may not be a professional who is not a team member and even where there is such a person available, synergies could be lost and costs unnecessarily increased to the extent that it will render such assignment unviable. In other jurisdictions, this may also not be possible because of the limited number of appropriately qualified personnel. Unless the tax is of a particularly contentious nature (usually, not for an SME), the risk of material misstatement ensuing from a self-review threat ought to be relatively insignificant. Where this is not the case, we agree that a safeguard would be appropriate.</p> <p><i>Delineation of Requirements and Guidance</i></p> <p>The proposed delineation between requirements and application material needs to be considered more carefully in some instances. Specifically, given the significance of the statement in 600.7 A4 for the SMP community in particular, and its relevance in understanding the requirement of R600.7, we suggest this to be more prominently located - preferably added as a second sentence to R600.7.</p> <p>In many instances, the Board has proposed a short requirement separate from the safeguards, usually placing the latter within the application material. In contrast, R606.5 offers a mix of both requirements and safeguards within the same paragraph. We believe the Board should be consistent.</p>

#	Respondent	Detailed Comment in Response to S600
		<p>In addition, it appears that the new text in 600.6.A1 whilst ostensibly application material, actually requires an additional consideration of the combined impact when a firm or network provides more than one NAS. This new consideration appears to be in addition to the consideration of each NAS in isolation. Such consideration could potentially be onerous and highly subjective especially as IESBA's intent in this context remains unclear. For example, it would be counterproductive to require the firm to determine (and document) that individual safeguards can limit sufficiently the threats from individual NAS in isolation, if a combined consideration can be deemed to lead to the conclusion that the perception of the combined threat exceeds the perceived sum of the individual threats. Further clarification is therefore needed in this area from the Board.</p> <p>The same observation here is also applicable for Para 950.7 A1.</p> <p><i>Prohibition on recruiting services to all audit client entities</i></p> <p>We do not believe that IESBA has made a case for the proposal to extend the provisions of paragraph 290.210 of the Code currently applicable to PIEs to all audits as proposed in R609.6. In the absent of any academic research, the SMPC has significant concerns and does not believe an across the board prohibition of recruitment services for key posts is warranted in all audit and review circumstances.</p> <p>Recruiting services may vary considerably in terms of their significance to the audit or review. There is a significant difference between independence in fact, and independence in appearance, depending on whether the audit or review is provided for an entity. The fifth bullet point in 600.4 A3 acknowledges this fact. Generally, there is little public interest impact for SMEs, which would result in perceptions about lack of independence. In addition, usually the owners or proprietors of SMEs tend to be more 'hands-on' and thus, the risk of assuming management decision making by the auditors in this context is very much reduced. SMEs often will not have sufficiently qualified personnel possessing the ability to recruit suitably qualified individuals for the key positions contemplated in R609.6. An SME's auditor may well be the best suited person to be able to advise on the necessary profile and experience of potential candidates; especially for positions such as the CFO.</p> <p>In practice, we understand that it is quite common to involve the auditor in such an advisory capacity during the recruiting process. Thus the material in 609.3 A1 ought to continue to serve as an essential clarification in a non-PIE context. Paragraph 609.1 points out that such recruiting services create a self-interest, familiarity and intimidation threat. In our view, if the auditor is involved in the recruiting process, e. g. selecting various candidates, but not in making a management decision, the threat is not of the magnitude that the IESBA proposal implies. Indeed, assisting in the selection of suitable candidates does not create any threats to the auditor's independence, but instead provides helpful assistance to the client. We accept that there would be a significant threat if the auditor assumed ultimate responsibility for a recruitment decision.</p>

#	Respondent	Detailed Comment in Response to S600
		<p>As an alternative, the Board could provide a list of factors in the Application Material that ought to be considered by a practitioner when accepting or continuing an engagement to provide recruitment services to an audit client. This would facilitate the practitioner to use their professional judgment to determine whether to accept, or to continue with, the engagement, rather than an outright prohibition of such services. It would assist the practitioner in identifying possible threats that might be encountered while providing such services and to take the most suitable action(s), including the application of safeguards, or to withdraw from the engagement where appropriate.</p>
45.	UKFRC	<p>When we responded to the IESBA's 2014 consultation on proposed changes to certain non-audit assurance services provisions we identified a number of areas where the proposed changes to the IESBA Code were less stringent than the requirements established in the EU Audit Regulation for public interest entities (PIEs). We noted that the IESBA's analysis of responses to its benchmarking survey shows that a significant number of jurisdictions reported they have more restrictive provisions (typically around half or more of the respondents for each of the services discussed). We also noted that IOSCO's Committee on Issuer Accounting, Audit and Disclosure stated that, in order to improve the Code, IESBA may consider the regulatory requirements of large jurisdictions as the Committee believes the Code appears to reflect a number of compromises to address perceived practical issues in some, particularly smaller, jurisdictions. We support the view of the IOSCO committee – to serve the public interest, and alleviate concerns about threats to auditor independence and objectivity, ethical principles for auditors of PIEs should not be subject to such compromises.</p> <p>We are concerned that the proposed requirements for PIEs in Section 600 do not address those earlier comments and that they remain less stringent than the EU Audit Regulation. We strongly encourage IESBA to give further consideration to aligning the Code more closely with the position introduced under the EU Audit Regulation for PIEs. Not only would it be helpful, especially for auditors of international groups, if the Code were brought more into line with the EU Audit Regulation but it would also further assist in reducing perceived threats to auditor independence arising from the provision of non-audit services.</p> <p>Significant examples of the inconsistencies include:</p> <ul style="list-style-type: none"> • bookkeeping and preparing accounting records and financial statements - the EU Audit Regulation establishes an outright prohibition. The proposed IESBA requirements for PIEs allow conditional exceptions for [collectively immaterial] "services of a routine or mechanical nature for [collectively immaterial] divisions or related entities". • designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems - the EU Audit Regulation establishes an outright prohibition. The proposed IESBA requirements for PIEs apply only to IT systems

#	Respondent	Detailed Comment in Response to S600
		<p>services that form a significant part of the internal control over financial reporting; or generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.</p> <ul style="list-style-type: none"> • services related to the audited entity's internal audit function - the EU Audit Regulation establishes an outright prohibition. The proposed IESBA requirements prohibit for PIEs only internal audit services relating to: a significant part of the internal controls over financial reporting; financial accounting 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 amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion. • services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, (except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity) - the EU Audit Regulation establishes an outright prohibition. The proposed IESBA revisions for all entities (there are no PIE specific requirements) apply only to a narrower range of 'corporate finance services' where: the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and the audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and the outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion. <p>Management responsibilities</p> <p>Paragraph 600.7 A4 states "Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility." This is unchanged from the proposed guidance that we commented on in 2014. We stress again that whilst providing advice and recommendations may not, in itself, constitute the assumption of a management responsibility, it may in substance amount to that. The EU Audit Regulation prohibits auditors of PIEs from providing "services that involve <u>playing any part</u> in the management or decision-making of the audited entity" and does not, therefore, address this from the perspective of whether such services constitute the assumption of a management responsibility. Depending on the interpretation of "playing any part", it may have a very wide ranging impact and may in effect prohibit the auditor from "providing advice and recommendations to assist management in discharging its responsibilities". We strongly encourage IESBA to explore this potential conflict with the EU Audit Regulation and how it might be addressed in finalising the changes to the Code.</p>

#	Respondent	Detailed Comment in Response to S600
		<p>Administrative services</p> <p>Subsection 602 does not include any requirements and may be better presented as part of subsection 601 on accounting and bookkeeping services. Paragraph 602.1 states “Providing administrative services to an audit client <u>does not usually</u> create a threat.” This implies that there may be circumstances where it does create a threat and we believe it would be appropriate to give direct attention to that in this subsection rather than just referring to the Conceptual Framework and the more general requirements set out in the Section 600. In our 2014 response we stated that auditors should not be permitted to provide such services to PIEs to avoid the perception of threats to their independence.</p> <p>Threats</p> <p>We note that, with the exception of administrative services, which are stated to not usually create a threat (see our comments above) and recruiting services, all the subsections identify self-review as a possible threat. Advocacy is also identified as a possible threat for certain tax services and legal and corporate finance services. It is only for recruiting services that other possible threats of self-interest, familiarity or intimidation are identified.</p> <p>We agree that self-review will be a general threat for most non-audit services. However, other threats can also arise in relation to more services than IESBA's guidance suggests and we strongly recommend that the guidance is amended to clarify that these may be the primary threats that arise, however there may be other threats to be addressed. The statement in paragraph 600.1 that “Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence” is not sufficient to address this when the start of each subsection is worded in a way that suggests the specific threat(s) identified there are the only ones relevant to a particular service. For example, the self-interest threat, which could include reputational risk, is likely to be more wide ranging than just for recruiting services.</p> <p>We are concerned that the limited identification of threats and the related actions that might be safeguards (see below) will result in firms too easily, and inappropriately, concluding that, subject to complying with the specified restrictions, any service can be provided as long as a different team is used and / or there is review by a professional who is not part of the team.</p> <p>Safeguards</p> <p>Given that self-review is the most commonly identified threat it is not surprising that the most common action identified that might be a safeguard is using professionals who are not audit team members to perform the non-audit service. It would be helpful to be clearer that “audit team” is a defined term and includes persons other than those directly involved in the audit (i.e.</p>

#	Respondent	Detailed Comment in Response to S600
		<p>also those persons in the firm or network who can directly influence the outcome of the audit engagement). This is important as the IAASB does not define “audit team” for the purpose of International Standards on Auditing (ISAs) but the IAASB (and IESBA) include “engagement team” as a defined term. The significant difference between the definitions of audit team and engagement team, and the fact that audit team is not an IAASB defined term, is unhelpful and risks inconsistent application of the terms, particularly by auditors who may be focussed on the definition of engagement team for purpose of the ISAs.</p> <p>The other possible safeguard generally identified is review of the audit / service by a professional who is not a member of the audit team / not involved in providing the service. How this is described varies depending on the particular non-audit service. For accounting and bookkeeping services it is suggested that if such services are performed by an audit team member (i.e. the safeguard of not using audit team members has not been applied), a safeguard is using a partner or senior professional who is not an audit team member, with appropriate expertise, to review “the work” performed. With respect to this, it is not clear whether “the work” is the audit, the service or both. The accounting service should be reviewed by someone who is not a member of the audit team. The audit engagement should also be reviewed by someone, with relevant expertise to ensure the accounting services performed have been properly and effectively assessed in the context of the audit engagement.</p> <p>We do not agree that in relation to certain tax work a safeguard could be “obtaining pre-clearance from the tax authorities”. Such pre-clearance would have no mitigating effect on the possible self-review or advocacy threats, even if the tax authorities would provide any sort of pre-clearance.</p> <p>Recruiting services</p> <p>We agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph [26(h) of the Explanatory Memorandum] to all audit client entities, not just PIEs as in the current Code.</p>
46.	WPK	<p>The current prohibition of providing certain recruiting services to audits of PIEs shall be extended by R609.6 also to non-PIE audit clients. Irrespectively of the respective circumstances, non-PIE audit clients could no longer turn to their auditor for relatively routine assistance in recruiting a director or officer of the entity or senior management in a position to exert significance over the preparation of the client’s accounting records or financial statements that will be subject to audit. We do not see a compelling need for the proposed extension of the prohibition in R609.6 to all audits in general. For many (smaller) non-PIEs the auditor is the most appropriate person to assist in the recruitment of key personnel. Accordingly we do not see the potential for a significant self-interest threat where relatively routine assistance such as seeking possible candidates and performing reference checks are concerned.</p>

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#	Respondent	Detailed Comment in Response to S600
		Even though proposed R 600.8 is derived from paragraph 290.162 of the extant Code, we suggest contemplating about a relaxation of this requirement especially in an SME environment. The requirement for the firm to ensure that the client's management delegates an individual who possesses suitable skills, knowledge and experience to be responsible at all times for the client's decisions and to oversee the non-audit service will be problematical for any entity that lacks such an individual. More flexibility should be added in prescribing the manner in which this responsibility is acknowledged by the audit client.

Question 2

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

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

#	Respondent	Detailed Comment in Response to S950
1.	ACCA	<p>We broadly support the proposals in section 950 but, as that section mirrors some of the provisions in section 600, some of our comments under Question 1 above are relevant to section 950 also.</p> <p>We assume the final versions of the independence standards will have been carefully reviewed for typing errors, repetition and unnecessary inconsistencies. In particular, unnecessary inconsistencies between sections 600 and 950 risk causing confusion. For example, professional accountants may question why paragraph R950.6 starts with the words 'When providing services ...', whereas paragraph R600.8 starts 'To avoid the risk of assuming management responsibility when providing <i>non-assurance</i> services ...' (emphasis added).</p> <p>Paragraph 950.7 A1 (as stated in the exposure draft) aligns to paragraph 600.6 A1. However, its positioning is completely different in each section. These paragraphs both relate to the combined effect of threats when considering the significance of threats. Therefore, the proposed paragraph 950.7 A1 should follow paragraph 950.4 A4.</p>
2.	AE	Regarding the combined effect of threats (950.7 A1) and the list of factors that are relevant in evaluating the level of any threats (950.4 A3), please refer to our answer to the previous question.
3.	AGNZ	See response to Q1
4.	AICPA	Where applicable to the provisions in Section 950, the same comments in no. 1 above apply to Section 950.
5.	AOB	n/A
6.	APESB	<p>There are paragraphs in section 950 that replicate content in Section 600. Please refer to the comments in question 1 in relation to:</p> <ul style="list-style-type: none"> Amending the title of section 950 to refer to Firms and Network Firms; Reviewing requirement paragraphs to ensure proposed actions can be undertaken by the professional accountant (paragraph R950.6); and

#	Respondent	Detailed Comment in Response to S950
		<ul style="list-style-type: none"> The heading for avoiding management responsibilities. <p>Subject to these specific comments, APESB is supportive of the proposals in Section 950.</p>
7.	AAT	AAT generally supports the proposals in Section 950. However, we suggest a reconsideration of the wording at 950.6 (a) as to whether it is practical to insist that a single individual be responsible 'at all times' for the client's decisions. In reality, a number of individuals may be required for such responsibility.
8.	BDO	<p>Overall, we support the proposed revisions to Section 950. We do have the following specific comments:</p> <p>Section 950 - Provision of Non-assurance Services to an Assurance Client - 950.4 A3</p> <p>We have the same comment as in Section 1.1 above. We found the factor, '<i>The level of expertise of the client's employees with respect to the type of service provided.</i>' too broad. We believe that it should be '<i>The level of skill, knowledge and experience of the client's employees with respect to the type of service provided.</i>'</p> <p><i>Examples of Safeguards</i></p>
9.	CAANZ	<p>We are supportive of the proposals in Section 950, subject to our comment in 1(b) above in relation to paragraph R950.6 (and 600.8).</p> <p>We also encourage the board to consider the consistency of drafting across the sections of the revised Code. As an example R950.6 begins "When providing services..." whereas paragraph R600.8 begins "To avoid the risk of assuming management's responsibilities when providing non-assurance services..." Also, paragraph 950.7 A1 is positioned differently within Section 950 than is 600.6 A1 (the equivalent paragraph in Section 600).</p>
10.	CHI	We support the proposals in Section 950.
11.	CNCC	Our same comments of substance expressed on section 600 apply to section 950. In particular we believe that the same new paragraph that we recommended to be added to paragraph 600.4 A3 should also be to paragraph 950.4 A3.
12.	CPAA	CPA Australia supports the proposals in section 950. However, as mentioned above, we do not think auditors can ensure management undertakes certain actions but instead auditors can assess whether acceptable actions have been taken or conditions are in place.

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#	Respondent	Detailed Comment in Response to S950
13.	CPAC	Yes, we generally support the proposals in Section 950. We did note that the title of Section 950 could be improved with the insertion of “Other” immediately before “Assurance Client”.
14.	DTT*	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.
15.	EFAA	We have no comments.
16.	EYG	Yes. We support the proposals in Section 950. The attachment to this letter also addresses our observations and suggestions for improvement of this section. Drafting Suggestions included in the table to the appendix to the EYG letter.
17.	FAR	FAR has no objection to the proposals.
18.	FSR	The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Proposed Revisions Pertaining to Safeguards in the Code — Phase 2 and related conforming amendments. We refer to the comments dated 21. April from Accountancy Europe.
19.	GAO	We support the IESBA's Section 950 proposals, which are generally consistent with the enhancements in Section 600. We believe that the proposals would strengthen professional accountants' ability to apply the conceptual framework to eliminate threats to compliance with the fundamental principles or reduce these threats to an acceptable level when considering whether to provide NAS to an assurance client.
20.	GTI*	Grant Thornton is supportive of the proposals in Section 950.
21.	HICPA	Paragraph 950.4 A3 sets out the factors that are relevant in evaluating the level of threat created by providing a non-assurance service to an assurance client. We note that the following two factors are included in the proposed paragraph: <ul style="list-style-type: none"> • The extent of the assurance client's involvement in determining and accepting its responsibilities for those matters where they involve significant professional judgement.

#	Respondent	Detailed Comment in Response to S950
		<ul style="list-style-type: none"> The extent of the assurance client's involvement in determining significant matters of judgement. <p>We consider that both factors relate to the extent of a client's involvement in matters which require significant professional judgement; but it is not clear how these two factors are different from each other. Therefore, we recommend that the IESBA clarifies the two factors.</p>
22.	IBRACON	We agree with the proposals in Section 950. No comments.
23.	ICAEW	Apart from a detailed comment on 950.5, referred to in paragraph 10 above, we support the proposals.
24.	ICAP	We support the revisions made in section 950 as most of the enhancements are similar to section 600.
25.	ICAS	<p>We are broadly supportive of IESBA's proposals in Section 950. We question whether the content of paragraph 950.1 should only refer to threats to <i>"independence"</i> as opposed to <i>".....to identify, evaluate and address threats to <u>the fundamental principles and independence.</u>"</i> The content of the subsequent paragraph 950.2 would appear to support this argument <i>"...threats to compliance with the fundamental principles and threats to independence."</i></p> <p>Likewise, the requirement at R950.4 focusses solely on the threat to independence.</p> <p>For consistency purposes, at subsection 950.5 the sub-heading should probably be <i>"Not Assuming Management Responsibilities"</i> as the word "assume" is used throughout this section.</p>
26.	IDW	The main concern we have in this section in the Code relates to expectations, and their impact on documentation levels, which is a practical and cost issue in the provision of many services subject to competition from within but also outside of the profession. We refer to our comment letter to which this appendix is attached.
27.	IFIAR	N/A
28.	IMCP	The PEC supports the proposals in Section 950.
29.	IOSCO	See response to Q1
30.	IRBA	We support the proposals contained in Section 950. However, we have the following comments:

#	Respondent	Detailed Comment in Response to S950
		<ul style="list-style-type: none"> It appears that Section 950 has less stringent independence requirements than Section 600. We believe that independence requirements for other assurance engagements should be at a similar level to review and audit engagements. The general section that is included in Section 600 has not been included in Section 950. We believe it would be helpful to have such general guidance provided for other assurance engagements. Network firms and PIE considerations are not included in Section 950. We believe that similar requirements, as included in Section 600, would be applicable to Section 950. It may be helpful to include a paragraph in Section 950 that refers the registered auditor to Section 600, where applicable guidance is available. <p>Materiality under other assurance engagements has been defined; however, it is only used once in the section. Therefore, it may be considered unnecessary.</p>
31.	ISCA	NA
32.	JICPA	<p>We support your proposals except for the issue discussed below. We would like to make the following proposal for the drafting conventions:</p> <p>As we mentioned in the section I.1 above, the requirements and application material discussed in Phase 2 are expected to be referred to and applied in practice more frequently compared to those in Phase 1. We believe it is desirable to provide additional subheadings because it would be more readable and usable to provide the subheadings of (Threat), (Scope of services), (Example of possible services), (Relevant factors in evaluating the level of threat), (Example of possible safeguards), and (Prohibitions) throughout Section 950, while it is difficult to understand what the text of each paragraph in the current draft means without reading all the text. (Please refer to the example proposed in the section I.1. above)</p>
33.	KICPA	<p>We are generally for the proposed revisions pertaining to safeguards to be applied in case of the provision of NAS to an assurance client, given that the revisions clarify the necessity of applying the conceptual framework set out in Section 120 and of complying with not only independence requirements but the fundamental principles, which could contribute to increasing the consistency of the Code.</p> <p>In particular, providing additional application materials that could be helpful in accounting firms to identify, evaluate and address threats to independence, created by the provision of non-assurance services to an assurance client when the Code</p>

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#	Respondent	Detailed Comment in Response to S950
		does not provide clear and explicit statements in such non-assurance services, could support professional accountants to address threats to independence in their provision of non-assurance services, as we believe.
34.	KPMG	n/a
35.	MIA	We agree with the proposals in Section 950. However, we suggest that the IESBA align the sequence of similar matters. For instance, in the Exposure Draft, “Multiple Non-Assurance Services to an Audit Client” is followed by “Avoiding Management Responsibilities” under Section 600; while “Avoiding Management Responsibilities” is followed by “Multiple Non-Assurance Services to an Assurance Client” under Section 950.
36.	MICPA	Yes, MICPA supports the proposals in Section 950.
37.	MNP	n/a
38.	NASBA	NASBA supports the proposals in Section 950.
39.	NBA	See response to Q1
40.	NZAuASB	The NZAuASB supports the proposals in Section 950, however, as noted in the introductory comments, the NZAuASB considers the framework proposed for auditors [and reviewers] is equally appropriate to other assurance practitioners. Applying the same safeguards-related provisions in the independence section of the Code pertaining to non-assurance services provided to audit and review clients to non-assurance services provided to other assurance clients will increase quality, be more consistent with other assurance standards and the expectations of the users of assurance reports, avoid confusion and streamline the Code.
41.	PWC*	<p>Subject to the detailed drafting comments in the appendix we agree with the proposals relating to Section 950 of the code (Question 2).</p> <p>R950. 4 A2 - Given that this section of the Code (dealing with non-audit assurance engagements) does not address any specific non-assurance service, unlike the section dealing with audit engagements, we question whether it is necessary or appropriate to include the following paragraph, as a conforming change. In our view this does not seem appropriate.</p>

#	Respondent	Detailed Comment in Response to S950
		<p>New business practices, the evolution of financial markets and changes in information technology are amongst the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.</p> <p>950.7 A1 - We note the parallel change in the section dealing with audits but in this context where the focus is on non-assurance services that may be related to an assurance service we recommend that the word “related” be added back in as below:</p> <p><i>A firm might provide multiple non-assurance services to an assurance client. When providing a non-assurance service to an assurance client, applying the conceptual framework requires the firm to consider any combined effect of threats created by other related non-assurance services provided to the assurance client.</i></p> <p>950.8 A2 - On balance, proposed (a) does not seem to add anything and the two examples that follow it are both examples of services <i>related to the subject matter information of an assurance engagement</i>. We recommend (a) be deleted, leaving:</p> <p><i>Examples of non-assurance services that might create self-review threats include:</i></p> <p><i>(a) Preparing subject matter information which is subsequently the subject matter information of an assurance engagement, such as, if the firm developed and prepared prospective information and subsequently provided assurance on this information, and</i></p> <p><i>(b) Performing a valuation that forms part of the subject matter information of an assurance engagement.</i></p>
42.	RSM*	<p>We support the proposed revisions of Non-Assurance Services to an Assurance Client and have no further comments other than those consistent with comments on section 600.</p>
43.	SAICA	<p>SAICA supports section 950 as it extended the responsibility of the accountant to deal with threats to compliance with the fundamental principles and with non-compliance with the independence requirements to assurance services other than audits.</p> <p>950.4 A4 - We wish to advise that a consistent approach should be used with regards to referencing of ISAs. A consistent approach should be used in the code. A foot note with specific standard detail and highlighting the version (date) being referred to, may be a solution in this regard.</p>

#	Respondent	Detailed Comment in Response to S950
44.	SMPC	<p>Similarly with Section 600, the SMPC has concerns with the proposals in Section 950. In particular, the Scope and Delineation of Requirements and Guidance.</p> <p>In addition, observations raised under Para R600.4 (Application to all NAS) and Para R600.8 (Risk of assuming management responsibility) are equally relevant to Section 950.</p> <p>Ultimately, when it comes to requirements, it is a matter of expectation and, by extension, the eventual impact on documentation. The IESBA should consider the circumstances in which SMPs operate. If requirements like client acceptance checklists (as an example) was to exceed a certain format as part of the evaluation process, it will disproportionately burden the SMPs.</p>
45.	UKFRC	<p>Section 950 addresses the provision of non-assurance services to an assurance client. A case may be made for less stringent requirements applying to private reporting engagements, where all parties are knowledgeable of the circumstances and there may, for example, be less perception risk. However, we consider the independence considerations for public interest assurance engagements are the same as those for audit engagements. When we revised our Ethical Standard we developed it to apply to audit and other “public interest assurance engagements” and we recommend the IESBA takes the same approach.</p> <p>In the Explanatory Memorandum IESBA comments that it “concluded that it is appropriate to incorporate in Section 950 proposed enhancements that are <u>similar to most</u> of those that apply when providing a NAS to an audit client.” However, Section 950 is considerably shorter than Section 600 and does not include any subsections specific to particular types of non-assurance service. The rationale for the inconsistency with Section 600 is not clear.</p>
46.	WPK	<p>Please refer to our general comments regarding the “re-characterization” of certain safeguards as factors.</p> <p>...we have concerns in relation to the “re-characterization” of some former safeguards as factors. This re-characterization increases the complexity of the Code and makes it more difficult especially for SMEs to understand the application of the safeguards approach. A clear distinction between factors relevant in evaluating the level of threat and safeguards applied in order to reduce the level of threat may not always be unambiguously possible. At least the documentation effort is expected to increase.</p>

Question 3

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?

#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
1.	ACCA	This is a particular issue for SMPs, and was deemed to be an area of focus for this safeguards project. We acknowledge the difficulty in identifying effective safeguards for a sector in which resources are more limited. However, we believe the IESBA could do more to research additional safeguards that might be appropriate.
2.	AE	As mentioned in our cover letter, IESBA is adopting a very strict definition of safeguards, disregarding important practical implications, especially regarding SMPs. As described in the explanatory memorandum of the ED, the aim of this project is to improve the clarity, appropriateness and effectiveness of the safeguards. We would have preferred IESBA to have provided examples of safeguards that meet such criteria and not simply reduced the number of available safeguards for professional accountants.
3.	AGNZ	See response to Q1
4.	AICPA	Except as noted in 1. above, we do not have any other safeguards to recommend for NAS.
5.	AOB	n/a
6.	APESB	APESB commends the work of the IESBA in enhancing the clarity of examples of safeguards including re-characterisation of extant safeguards into actions that might be safeguards or factors relevant to evaluating levels of threats. APESB agrees that seeking advice from another party does not meet the revised definition of a safeguard. However, it is an action that assists professional accountants in public practice in considering an issue and evaluating the level of threats to compliance with the fundamental principles. APESB encourages the IESBA to retain this guidance within the Code as it is a valuable procedure that can be undertaken by professional accountants. We have also noted that with the re-characterisation, the examples of safeguards provided are limited to either having another independent professional perform the service or review the work that was performed. In certain circumstances, these

#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
		<p>safeguards offer limited guidance and may be difficult to implement in practice, in particular for small and medium practices and sole practitioners.</p> <p>APESB encourages the IESBA to consult further with small to medium practices and sole practitioners to determine appropriate safeguards in respect of each specific NAS to include in the Code.</p>
7.	AAT	AAT has no further comments at this time.
8.	BDO	<p>Our suggestions for other actions that might be considered safeguards for NAS and other sections are:</p> <p>3.1 Financial Interests - retirement benefit plan - R510.13 (b) There are no safeguards suggested in the extant code or the ED. We would suggest the following safeguard: investments made by the firm's retirement benefit plan should be made through a collective investment scheme. If auditing the firm's benefit plan provider, the audit team should not be members of the firm's retirement benefit plan. An alternative plan could be made available for those individuals.</p> <p>3.1 Close Business Relationships - Buying Goods and Services - 520.8 A2</p> <p>For purchases of goods and services by an audit team member or any of that individual's immediate family, we would suggest the following additional safeguard:</p> <ul style="list-style-type: none"> • Having a professional accountant review the work of the audit team member. <p>3.2 Litigation Support Services - Section 607</p> <p>There are no safeguards suggested in the extant code or the ED. We would suggest the following safeguard:</p> <ul style="list-style-type: none"> • Using professionals who are not audit team members to perform the litigation support services. <p>In addition, litigation support services includes activities such as acting as a witness, including an expert witness. As a future project, it would be helpful to provide application guidance including safeguards for consideration when acting as an expert witness.</p> <p><i>Conforming Amendments Arising from the Safeguards Project</i></p>
9.	CAANZ	The main safeguards included in the proposed Code are to segregate work between the audit team and other partners and employees of the firm or to have another person not connected to the audit engagement review the team's work. These types

#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
		of safeguards are effective but are difficult for small and medium practices. We encourage IESBA to identify and include safeguards that are more practicable for small and medium practices.
10.	CHI	<p>Reference could be made to the use of independent external consultants as a safeguard measure for certain of the activities recorded in the Code. This will particularly relevant to some small and medium practices, where access to appropriate qualified and experience independent internal expertise might be limited.</p> <p>For example, an independent external consultant could review accounting or bookkeeping work (601), valuation work (603), certain taxation work (604), and corporate finance services (610)</p>
11.	CNCC	<p>As mentioned in our general comments, we regret that the project which was supposed to seek additional safeguards, especially for SMPs, ends up reducing, by way of the new definition; the number of possible safeguards without adding any. We therefore suggest the three following additional safeguards:</p> <p>Clients' consent/ client's information,</p> <ul style="list-style-type: none"> o The fact of informing the client of a NAS performed and of obtaining its consent should in certain circumstances constitute an appropriate safeguard to accept an assurance engagement. <p>Third party's advice</p> <ul style="list-style-type: none"> o The fact of obtaining an advice from a third party should in certain circumstances constitute an appropriate safeguard. For example, a supervising or a controlling authority. <p>Joint Audit.</p> <ul style="list-style-type: none"> o Joint audit has always been considered as a positive element for the independence of the practitioners and should in certain circumstances constitute an appropriate safeguard.
12.	CPAA	While we agree with the existing and proposed safeguards in the Code, we urge IESBA to consider and provide safeguards that are appropriate and could be applied by Small and Medium Practices.
13.	CPAC	We do not have any suggestions at this time for other actions that would meet the revised description of a safeguard.
14.	DTT*	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

#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
		<p>be a safeguard to address threats. We encourage the Board to revisit these paragraphs and verify these are factors and not actions.</p> <p>Drafting Suggestions</p> <p>320.4 A2 “Factors that are relevant in evaluating the level of any threat created by accepting a new client include:</p> <ul style="list-style-type: none"> Knowledge and understanding of the client, its owners, management and those charged with governance, and business activities.” <p>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.”</p> <p>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.”</p>
15.	EFAA	We have no comments.
16.	EYG	<p>No. We do not have any additional safeguards to those already set out in the Code.</p> <p>Drafting Suggestions included in the table to the appendix to the EYG letter.</p>
17.	FAR	FAR has no further suggestions.
18.	FSR	<p>The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Proposed Revisions Pertaining to Safeguards in the Code — Phase 2 and related conforming amendments.</p> <p>We refer to the comments dated 21. April from Accountancy Europe.</p>
19.	GAO	<p>GAGAS includes the following examples of actions that in certain circumstances could be safeguards in addressing threats to independence:</p> <ul style="list-style-type: none"> involving another audit organization to perform or reperform part of the audit; and

#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
		<ul style="list-style-type: none"> to address individual accountant's impairments, removing an individual from an audit team when that individual's financial or other interests or relationships pose a threat to independence. <p>We suggest that the IESBA consider these as other actions that might be safeguards in the NAS and other sections of the code that would meet the revised description of a safeguard.</p>
20.	GTI*	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.
21.	HICPA	N/A
22.	IBRACON	We have no suggestions for other actions that might be safeguards in the NAS and other sections of the Code.
23.	ICAEW	<p>It seems to be rather late in the process of examining safeguards, to be asking about additional safeguards. Perhaps going forward, this sort of question might usefully be posed at an earlier stage in a project process.</p> <p>Specific safeguards will tend either towards exclusion of relevant individuals from the assignment, or some form of independent review of the work done. For SMPs, the former is often unavailable and the latter will involve review by someone external to the firm. We think some discussion could be had on whether different forms of independent review might be appropriate depending on the 'level' of threat. For example:</p> <p>a) would an independent review always need to be a pre-sign-off 'hot' review;</p> <p>b) could it in some circumstances be restricted to no more than a consultation on the specific issue, rather than something wider, which is perhaps implied by 'review';</p> <p>c) could it be addressed, where the 'level' of threat is at a relatively low level (but above not needing addressing at all) by a post-sign-off 'cold' review.</p> <p>One of the principal threats in respect of potential conflict of interest situations is that a conflict could give rise to a failure to be able to provide genuinely objective advice. If the level of the threat is not so overwhelming as to require refusal or termination – perhaps being restricted to one specific aspect of the engagement, one possible action to mitigate this might be to advise the client(s) to seek alternative, independent advice.</p>

#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
24.	ICAP	No Comments.
25.	ICAS	<p>The ability to be able to implement appropriate safeguards is of crucial importance. Therefore, we believe that this is a matter which should have been considered more thoroughly at an earlier stage in the process. As we highlighted in our earlier response on the first Safeguards ED we agree that “<i>safeguards created by the profession or legislation</i>”, “<i>safeguards in the work environment</i>”, and “<i>safeguards implemented by the entity</i>” in the extant Code do not meet the proposed description of safeguards in the ED.</p> <p>We agree that they are better characterized as “<i>conditions, policies and procedures</i>” that affect the professional accountant’s identification and potentially the evaluation of threats.</p> <p>However, we do believe that there will be a major education exercise required to inform practitioners, particularly those in smaller firms as to the justification for the removal of such matters from the category of “<i>safeguards</i>”. This may also cause issues in relation to ensuring that this proposed change to the Code is translated appropriately.</p> <p>As is clear from the safeguards which are illustrated in the Code, that these are generally restricted to situations where the work of one professional accountant is reviewed by another or where a professional accountant is removed from a team to remove the threat which exists. We believe there is a need to highlight the need for professional judgement to be exercised in relation to the extent of the review that is required in a particular situation. For example, on occasion the review work required may only need to be restricted to specific areas of the work that has been performed.</p>
26.	IDW	<p>Whilst we do not intend to supply a list of additional safeguards, we believe a flexible approach is needed, as it is important that a safeguard shall “match” the degree of threat in individual circumstances. It would be useful if IESBA could emphasize the fact that the circumstances for non-PIE clients are generally very different for those pertaining to larger and PIE audit clients. In particular, public perceptions particularly concerning independence in appearance play a more prominent role in assessing what is an acceptable level.</p>
27.	IFIAR	<ol style="list-style-type: none"> 1. In the current draft, the examples⁴ of actions that might be safeguards are similar or the same for all services and threats, irrespective of the appropriateness and specificity of the type of services envisaged. We believe that the safeguards applied should be responsive to the specific threat that they are intended to mitigate. In addition, we do not believe it would be a sufficient safeguard in all cases to use professionals who are not members of the firm’s audit team to provide the non-audit service, or, if the work is done

#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
		<p>by a member of the audit team, having another professional outside the audit team review the work. We encourage the Board to add specificity to the description of safeguards that are appropriate to mitigate the risk in providing the particular type of non-audit service.</p> <p><i>Situations where no safeguards would be effective should be described</i></p> <p>2. As we previously commented (see appendix - IFIAR letter dated 10 May 2016, par 11.), we encourage the Board to identify those situations where no safeguards can be provided to address the threats that would be created by the provision of non-audit services. In those situations, the auditor should not deliver the services envisaged.</p>
28.	IMCP	The PEC has no comments
29.	IOSCO	See response to Q1
30.	IRBA	<p>Examples of safeguards are a very important part of Section 600. The section acknowledges the possible safeguards to be used by registered auditors.</p> <p>However, similar safeguards have been repeated. This sets a precedent that those safeguards, for example, a review of the work, can be used for all threats. We believe that this is not adequately robust and should be reconsidered.</p> <p>Para 300.8 A1 contains useful examples of the safeguards, however, these are not always considered in the list of safeguards under non-assurance services.</p> <p>We also believe that:</p> <ul style="list-style-type: none"> • The examples need to be clear on whether the independent third party is independent of the audit client and non-assurance engagement, the firm or the network firm or independent of the audit team. • Transparency may be considered as a safeguard. For example, should the audit committee be asked if it is comfortable with the arrangement? • The reasonable and informed third party test will apply. This test has not been used in the context of Section 600.

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#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
31.	ISCA	NA
32.	JICPA	We do not have any suggestion.
33.	KICPA	In result of reviewing NAS and other sections, we conclude that there would be no more suggestions that might be additional safeguards, as the proposals include sufficient actions that might be safeguards to satisfy the revised definition of safeguards.
34.	KPMG	n/a
35.	MIA	We think that the proposed safeguards mentioned in the Exposure Draft are well covered.
36.	MICPA	None.
37.	MNP	n/a
38.	NBA	See response to Q1
39.	NASBA	<i>NASBA agrees with the proposed conforming amendments as identified above.</i>
40.	NZAuASB	The NZAuASB has no further suggestions.
41.	PWC*	Subject to the comment below on paragraph 310, we do not have any further examples of actions that might be safeguards (Question 3).
42.	RSM*	We believe that examples of safeguards against Non-Assurance Services risk the adoption by firms of a checklist approach to independence. In our view the focus should be more on encouraging firms to consider appropriate actions to address specific threats depending on the facts and circumstances of each engagement in the context of the Non-Assurance Services being provided.
43.	SAICA	SAICA is of the view that the following should be added:

#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
		Having another firm or independent PA who is suitably qualified and independent perform an external or peer review over work carried out.
44.	SMPC	<p>As noted above, the circumstances for non-PIE clients are very different for those pertaining to PIE clients, particularly in terms of independence in appearance, which are often driven by perceptions. Indeed, reading the proposed revised text as a whole gives the overall impression that there are many factors to take into account in assessing (and by implication, documenting) threats, quite a few threats that can only be dealt with effectively by (documenting them and introducing) prohibitions and relatively very few safeguards that can be applied to reduce threats.</p> <p>We are concerned that in narrowing the range of safeguards in the way IESBA is now doing to focus only on measures put in place by the firm, and counting factors in the environment as relevant only to the evaluation of the level of threats, may bias the public perception of the effective mitigation of threats, to the detriment of the profession's reputation. The notion that external factors and acceptance by those charged with governance are no longer safeguards for firms have a significant impact on an SMP/SME environment and will take time to become accepted by the business community at large.</p>
45.	UKFRC	<p>Please refer to our comments above regarding the examples of possible safeguards that are currently given in Section 600 of the ED. We also express our concern that the limited identification of threats and the related actions that might be safeguards will result in firms too easily, and inappropriately, concluding that, subject to complying with the specified restrictions, any service can be provided as long as a different team is used and / or there is review by a professional who is not part of the team.</p> <p>We do not believe that our concern will necessarily be resolved by identifying more examples of actions that could be safeguards, although there may be stronger, or more effective examples of safeguards (e.g. Chinese walls and the use of separate teams) that could more effectively illustrate the point. Indeed this could exacerbate the risk that the list of examples is perceived to be complete and applying one or more of them will always serve to reduce threats to an "acceptable level". Our observations in this response are drawn from our own experience of making revisions to the FRC Ethical Standard. In doing so, we sought to focus practitioners on the paramount importance of meeting the ethical outcomes required by our overarching ethical principles and supporting ethical provisions. We believe this will enable practitioners to better understand that this is the context in which the detailed requirements should be interpreted and that meeting those requirements is not in itself enough. In so doing, we are providing users of the standard with greater clarity as to the ethical outcomes they are expected to meet, and are supplementing the overarching principles and provisions with information on certain actions and behaviors that are necessary to meet those ethical outcomes.</p>

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#	Respondent	Detailed Comment – Suggestions for Other Actions that Might be Safeguards
		While it is helpful to give examples of possible safeguards, it is important that threats and safeguards are considered in the light of the specific circumstances and the third party test applied.
46.	WPK	It is important to stress that a safeguard must adequately match the level of threat imposed in an individual situation. The circumstances for non-PIE clients are normally different from those applying to PIE audit clients. Accordingly the measures taken to eliminate or reduce the threat to an acceptable level are generally more rigorous for audits of larger and PIEs audit clients.

Question 4

Conforming Amendments Arising from the Safeguards Project

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](#).

#	Respondent	Detailed Comments Relating to Conforming Amendments
1.	ACCA	<p>(a) Broadly, we agree with the proposed conforming amendments set out in Chapter 2. However, we have concerns about the disregard for the value of consultation in the process of identifying and evaluating threats. We agree that consultation on threats and safeguards is not a safeguard in itself. However, it provides a valuable third party perspective. Therefore, the removal of consultation from paragraph 310.8 A3, for example, should be balanced by suitable reference to consultation in sections 120 and 300.</p> <p>(b) We have no comments in respect of the grey text in Chapters 2 to 5 of the structure Phase 2 exposure draft.</p>
2.	AE	<p>Chapter 2 of this document.</p> <p>IESBA has replaced some of the extant safeguards by “factors that are relevant in evaluating the level of any threats” in proposed sections 310, 320, 321 and 330, adding some examples of “actions that might be safeguards”.</p> <p>IESBA should not follow the strict approach taken in the independence standards. The situations dealt with in these sections have a different nature and should not be treated equally.</p> <p>Secondly, referring to “actions that might be safeguards” adds more uncertainty regarding the application of the safeguards, raising doubts about well-established practices.</p> <p>The gray text in Chapters 2–5 of Structure ED-2.</p> <p>Nothing to report.</p>
3.	AGNZ	See response to Q1
4.	AICPA	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

#	Respondent	Detailed Comments Relating to Conforming Amendments
		<p>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.</p> <p><i>Fees</i></p> <p>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.</p> <p><i>Fees</i></p> <p>Requirements and Application Material</p> <p>14. Paragraphs 410.3 A2 and 410.3 A4 of Structure ED-1 are revised as follows:</p> <p>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:</p> <ul style="list-style-type: none"> • Increasing the client base in the firm to reduce dependence on the audit client. • External quality control reviews. <p>Consulting a third party, such as a professional or regulatory body or a professional accountant, on key audit judgments.</p>
5.	AOB	n/a
6.	APESB	<p>APESB concurs with the proposed conforming amendments, subject to our comments below.</p> <ul style="list-style-type: none"> • In Section 905 Fees, paragraph 905.4 A2 cites consulting a third party as an action that might be a safeguard. This is inconsistent with the view that consultation or seeking advice is not an action that is a safeguard. • Paragraph 905.4 A2 lists examples of safeguards to address threats arising from the relative size of fees. In particular, it specifies 'increasing the client base in the firm to reduce dependence on the assurance client' as a potential safeguard.

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#	Respondent	Detailed Comments Relating to Conforming Amendments
		<p>APESB is of the view that this safeguard would take some time to implement and is difficult to do in practice in a short time frame, particularly from an SMP perspective. We recommend that the IESBA consider revising this safeguard to “implementing strategies to reduce dependence on an assurance client with large fees”.</p> <p>Additional guidance on when a firm will be considered dependent on a particular client in terms of fees could also assist professional accountants in public practice in understanding how to implement this safeguard.</p>
7.	AAT	AAT supports the proposed amendments and the conformity these amendments will bring to the documents.
8.	BDO	We agree with the proposed conforming amendments.
9.	CAANZ	<p>We agree with the proposed conforming amendments.</p> <p>We note that consultation on threats and safeguards has been removed as a safeguard. We agree that consultation is not a safeguard in itself, however it is a vital part of the process of identifying and evaluating threats and allows the professional accountant to obtain a third party’s perspective on the matter being considered. We encourage the board to include appropriate references to the use of consultation in sections 120 and 300.</p>
10.	CHI	We agree with the proposed conforming amendments.
11.	CNCC	<p>Firstly, as mentioned in our general comments above, we would like to emphasize that It is very difficult to analyze the chapter 2 without having the entire consolidated document.</p> <p>We consider that the new wording leads to some confusion between the way to deal with Independence and Conflict of Interests: they are two different Issues which should be addressed in two different ways.</p> <p>In the section 310.8 A1, in our opinion, the principle has been reversed which results in having the Conflict of Interest presumed. The previous wording should be retained.</p>
12.	CPAA	CPA Australia agrees with the proposed conforming amendments.
13.	CPAC	Yes, we agree with the proposed conforming amendments set out in Chapter 2 of the ED.

#	Respondent	Detailed Comments Relating to Conforming Amendments
		Yes, we generally agree with the proposed conforming amendments set out in Chapters 2-5 with an exception noted in 905.4 A2 regarding consultation with a professional body identified as an example of an action that might be a safeguard to address threats set out in 905.4 A1. We did not believe that this would meet the newly intended meaning of a safeguard.
14.	DTT*	<p>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:</p> <p>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.</p> <p>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.”</p> <p>(b) The gray text in Chapters 2–5 of Structure ED-2.</p> <p>No comments.</p>
15.	EFAA	We have no comments.
16.	EYG	<p>Yes. The attachment to this letter also addresses our observations and suggestions for improvement of these sections.</p> <p>Drafting Suggestions included in the table to the appendix to the EYG letter.</p>
17.	FAR	<p>a) Chapter 2 of this document?</p> <p>FAR has no objection to the proposal.</p> <p>b) The gray text in Chapters 2–5 of Structure ED-2</p> <p>FAR has no comments.</p>

#	Respondent	Detailed Comments Relating to Conforming Amendments
18.	FSR	<p>The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Proposed Revisions Pertaining to Safeguards in the Code — Phase 2 and related conforming amendments.</p> <p>We refer to the comments dated 21. April from Accountancy Europe.</p>
19.	GAO	<p>We agree with the proposed conforming amendments set out in chapter 2 of this document and the gray text in chapters 2 through 5 of Structure ED-2. As noted in our letter, <i>GAO's Response to the International Ethics Standards Board for Accountants' December 2015 Exposure Draft, Proposed Revisions Pertaining to Safeguards in the Code—Phase 1</i>, we generally agree with the IESBA's proposed revisions to the code pertaining to the conceptual framework and proposed descriptions of "safeguards" and "acceptable level." However, we suggest retaining "significance of the threat" rather than using "level of threat". We believe that professional accountants and auditors recognize "significance" and "significant," and therefore, these terms will increase the usability and understandability of the conceptual framework. We also suggest adding application guidance explaining the meaning of "significance" in the context of identifying, evaluating, and addressing threats to compliance with the fundamental principles.</p>
20.	GTI*	<p>(a)Chapter 2 of this document.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> o Paragraph 510.6 A1, third bullet point, o Paragraph 510.13 A2, second bullet point, and o Paragraph 510.13 A5, third bullet point <p>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.</p> <p>(b) The grey text in Chapters 2-5 of the Structure ED-2.</p>

#	Respondent	Detailed Comments Relating to Conforming Amendments
		Grant Thornton agrees with the proposed conforming amendments in gray text in Chapters 2-5 of the Structure ED-2.
21.	HICPA	n/a
22.	IBRACON	<p>We agree with the proposed conforming amendments set out in (a) and (b). However, we suggest that the first bullet in paragraph 410.9.A2 be amended to consider the following wording:</p> <p>Obtaining partial payment for a substantial part of overdue fees.</p> <p>The reason for the suggested wording is that a partial payment of a small portion of overdue fees may not be sufficient to reduce the threat to an acceptable level.</p> <p>Additionally, in paragraph 522.5.A3 we suggest the following additional wording:</p> <p>An example of an action that might be a safeguard to address the threats set out in paragraph 522.5 A1 is conducting a review by an appropriate individual of the work performed by the individual as an audit team member.</p>
23.	ICAEW	<p>We support the general approach to conforming amendments, but have a number of detailed comments, set out below.</p> <p>In 310.8A2, 'Separating confidential information' appears to be more of an action that could apply (thus featuring in 310.8A3) rather than a factor in this paragraph.</p> <p>In 320.6A3 we believe that a more relevant factor in evaluating the level of threats created by appointments would be whether the tender or any other document or law, would prevent the prospective accountant contacting the previous accountant.</p> <p>340.4A2 specifically refers to the 'reasonable and informed third party' ('RITP') test, whereas elsewhere this is taken as read given the discussion in s120. It is unclear why this inconsistency is needed.</p> <p>In section 410 paras 14 and 18, we assume the second paragraph referred to in 14 is the same paragraph as is referred to in 18, as they seem remarkably similar.</p> <p>511.4A1 and 2 suggests that an action to deal with a loan to the firm might be to have a reviewing professional from a network firm. This would only work if the network firm were not dependent on the firm in question, as may be the case in some circumstances.</p>

#	Respondent	Detailed Comments Relating to Conforming Amendments
24.	ICAP	<p>We agree with conforming amendments set out in Chapter 2 of this ED and gray text in Chapters 2–5 of Structure ED-2., not included in ED Structure Phase 2 as changes mainly are of removing duplication and using consistent words and revising safeguards.</p>
25.	ICAS	<p>At paragraph 321.5 A1: <i>“Factors that are relevant in evaluating the level of a threat created by providing a second opinion to an entity that <u>are</u> not an existing client <u>is</u> the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.”</i></p> <p>The “are” we have underlined in the above paragraph should be replaced with “is”, and the words “depends on” should replace the underlined “is”. That is, the sentence would read as follows:</p> <p><i>“Factors that are relevant in evaluating the level of a threat created by providing a second opinion to an entity that are <u>is</u> not an existing client <u>is depends on</u> the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.”</i></p> <p>At paragraph 321.5 A2 <i>“Examples of actions that might be safeguards to address the threats created by providing a second opinion include:</i></p> <ul style="list-style-type: none"> • <i>With the client’s permission, obtaining information from the existing or predecessor accountant.</i> • <i>Describing the limitations surrounding any opinion in communications with the client.</i> • <i>Providing the existing or predecessor accountant with a copy of the opinion.”</i> <p>In relation to the last bullet point, would the client’s permission not be required as is the case with the first bullet point?</p> <p>At paragraph 330.4 A4 <i>“Examples of actions that might be safeguards to address threats set out in paragraph 330.4 A2 include:</i></p>

#	Respondent	Detailed Comments Relating to Conforming Amendments
		<ul style="list-style-type: none"> • <i>Adjusting the level of fees or the scope of the engagement.</i> • <i>Assigning a professional with appropriate expertise to review the work performed.”</i> <p>Would the first of these safeguards not require the client’s permission?</p> <p>At paragraph 300.5A 3 - In relation to the review of the independent third party, no mention is made of “<i>expertise</i>”. Also, does the review not need to take account of how the fee is calculated in addition to the “<i>work performed</i>”?</p> <p>At paragraph R400.12 – Should reference only be made to “<i>independence</i>” as opposed to also referencing the fundamental principles?</p> <p>At paragraph 410.9 A2 – The following typo should be corrected:</p> <p>“<i>Examples of actions that might be safeguards to address threats created by overdue fees include:</i></p> <ul style="list-style-type: none"> • <i>Obtaining partial payment of overdue fees.</i> • <i>Having an additional professional accountant, who did not take part in the audit engagement, or review the work performed.”</i> <p>20 At paragraph 511.6 A2 – “<i>If a loan from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client or firm receiving the loan, it might create a self-interest threat. An example of an action that might be a safeguard to address such a threat is having the work reviewed by a professional who is not a member of the audit team that is neither involved with the audit, nor is a beneficiary of the loan. If the loan is to a firm the reviewing professional might be someone from a network firm.</i>”</p> <p>This wording could be truncated by removing either “<i>who is not a member of the audit team</i>” or “<i>neither involved with the audit</i>”.</p>

#	Respondent	Detailed Comments Relating to Conforming Amendments
		<p>At paragraph 520.8 A2 <i>“Actions that might eliminate threats created by purchasing goods and services from an audit client include:</i></p> <ul style="list-style-type: none"> • <i>Eliminating or reducing the magnitude of the transaction.</i> • <i>Removing the individual from the audit team.”</i> <p>Should the <i>“and”</i> condition not be an <i>“or”</i> in the first sentence <i>“...purchasing goods or services...”</i> i.e. it does not need to be both goods and services?</p> <p>At paragraph 521.5 A3 <i>“An example of an actions that might be a safeguards to address the threats set out in paragraph 521.5 A1 is structuring the responsibilities of the audit team so that the audit team member does not deal with matters that are within the responsibility of the immediate family member.</i></p> <p><i>An action that might eliminate the threat is removing the individual from the audit team.”</i></p> <p>The text which has been struck through should be removed.</p> <p>In terms of consistency of language we refer to paragraph 521.7A3 – the action that might eliminate the threat refers to <i>“the individual”</i>. In paragraph 521.8A2, in contrast, it refers to <i>“the professional”</i>.</p> <p>At paragraph 524.7 A2 <i>“An example of an action that might be a safeguard to address threats set out in paragraph 524.7 A1 is having an appropriate professional review any significant judgments made by that individual while on the team. An action that might eliminate such threats is removing the individual from the audit team.”</i></p> <p>On this occasion the phrase <i>“...an appropriate professional...”</i> is used.</p>

#	Respondent	Detailed Comments Relating to Conforming Amendments
26.	IDW	<p>The proposed introduction of the term “questionable issues” in 320.4A2 may be problematical without further clarification of what this term means in a practical sense. It may also be difficult on translation. Also it leaves open the question of whether – in the absence of questionable issues – there is a need to consider client commitment in this area at all.</p> <p>320.6A3 may be problematical in some jurisdictions where client confidentiality requirements may require client permission for auditors to exchange information unless prescribed for in law. This should be acknowledged in the Code.</p> <p>Our understanding of the IESBA’s decision to “reclassify” certain safeguards as factors that impact the evaluation of the level of threat was that external factors such as standards professional rules etc. outside the actions of the PPAP were affected. The proposed relocation of text on this procedures is questionable. In 320.5A3 it was the firm’s <u>compliance</u> with quality control standards that may be a safeguard; thus a firm-driven action. We suggest the IESBA reconsider this particular revision proposal.</p>
27.	IFIAR	n/a
28.	IMCP	n/a
29.	IOSCO	See response to Q1
30.	IRBA	See appendix to IRBA letter with specific drafting suggestions
31.	ISCA	The proposed paragraph 321.5 A1, which states “Factors that are relevant ... to an entity that <u>are</u> not an existing client <u>is</u> the circumstances...”, should be amended to “Factors that are relevant ... to an entity that <u>is</u> not an existing client <u>are</u> the circumstances...” for grammatical accuracy.
32.	JICPA	<p>We support your proposals except for the issue discussed below. We would like to make the following proposal for the drafting conventions:</p> <p>As we mentioned in the section I.1 above, the requirements and application material discussed in Phase 2 are expected to be referred to and applied in practice more frequently compared to those in Phase 1. We believe it is desirable to provide additional subheadings because it would be more readable and usable to provide the subheadings of (Relevant factors in evaluating the level of threat), (Example of possible safeguards), and (Actions to eliminate the threat) throughout Chapter 2,</p>

#	Respondent	Detailed Comments Relating to Conforming Amendments
		<p>while it is difficult to understand what the text of each paragraph in the current draft means without reading all the text. (Please refer to the example proposed in the section I.1. above)</p> <p>(b) We agree with the proposed conforming amendments except for the issues discussed below:</p> <ol style="list-style-type: none"> 1) Although actions that might be safeguards are stipulated in paragraph 900.32 A1 of Part 4B of “Independence for Other Assurance Engagement”, the following action listed in the extant Code as an example has been deleted. We are of the view that the IESBA should consider including it as an example in paragraph 900.32 A1 because such an action continues to be provided for as an example in paragraph 400.32 A1 of Part 4A of “Independence for Audits and Reviews”. <ul style="list-style-type: none"> • Engaging another firm to evaluate the results of the non-assurance service, or having another firm re-perform the non-assurance service to the extent necessary to enable it to take responsibility for the service. 2) In paragraph 200.7 A2 of Part 2, it is stipulated, “in extreme situations, if the circumstances that created the threats cannot be eliminated or safeguards are not capable of being applied to reduce the threat to an acceptable level, <u>it might be necessary for a professional accountant to resign from the employing organization.</u>” However, we believe it is not clearly articulated as to who will determine the necessity of such resignation. In order to clearly define that the necessity of such resignation should be determined by a professional accountant, we propose to change it back to the closed-off text, “<u>a professional accountant may conclude that it is appropriate to resign from the employing organization.</u>”. 3) In paragraph 921.8 A2 (Section 921 of “Independence for Other Assurance Engagements”, provisions concerning family and personal relationships), it is prescribed that “an example of an action that might address threats created by close relationships of assurance team members is structuring the responsibilities of the assurance team so that the <u>audit team</u> member does not deal with matters that are within the responsibility of the individual with whom the assurance team member has a close relationship”. However, since this section deals with the provisions concerning the independence for other assurance engagements, we are of the view that the term “audit team member” should be replaced with “assurance team member”. 4) Paragraph 921.9 A1 provides for the “threats that might be created by a personal or family relationship” and “factors that are relevant in evaluating the level of any threat created by such relationships”. However, because in other instances (e.g., provisions concerned with a close family member in paragraphs 921.7 A1 and 921.7 A2), “threat” and “factors that are relevant in evaluating the level of any threat created by such relationships” are provided for in

#	Respondent	Detailed Comments Relating to Conforming Amendments
		separate paragraphs, we believe that paragraph 921.9 A1 should be divided into two and the factors should be placed as paragraph 921.9 A2. (Consequently, the current paragraph 921.9 A2 will become paragraph 921.9 A3.)
33.	KICPA	<p>We agree with re-classifying examples of some safeguards as elements relevant to evaluating the level of threats, taking into account the current Code that does not satisfy the new definition of safeguards, since the new definition refers to “actions professional accountants take to effectively reduce threats to compliance with the fundamental principles to an acceptable level.”</p> <p>We believe not using the word of “significant” any more and replacing “significance” with “the level of the threat” to explain threats in a consistent manner, in line with the inclusion of “to effectively reduce threats to an acceptable level” in the new definition of safeguards, could support consistency of the Code.</p>
34.	KPMG	n/a
35.	MIA	<p>We agree with the proposed amendments set out in:</p> <p>(a) Chapter 2 of this document; and</p> <p>(b) The grey text in Chapter 2 – 5 of Structure ED-2.</p>
36.	MICPA	Yes, MICPA agrees.
37.	MNP	n/a
38.	NBA	See response to Q1
39.	NASBA	<p><i>On page 45, 330.4 A3- We do not believe that the proposed phrase “Whether the client is aware of the terms of the engagement” is sufficient to demonstrate that the accountant has ensured that the client has a clear understanding of the engagement fees. Not having a clear fee arrangement with the client may be a threat to the accountant’s objectivity and create a conflict of interest.</i></p> <ul style="list-style-type: none"> • <i>On page 48, R410.64 (a) the statement “Disclose to ...; and” appears to be incomplete.</i>

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		<ul style="list-style-type: none"> On page 36, 609.3 A1 allows “advising on” a candidate’s competence... yet R609.6 indicates “a firm or network firm shall not provide a recruiting service”. These instructions appear to be in conflict with each other and may create a self-interest or intimidation threat.
40.	NZAuASB	The NZAuASB generally agrees with the proposed conforming amendments set out in Chapter 2 of Safeguards ED-2 and the grey text in Chapters 2-5 of Structure ED-2. The NZAuASB offers editorial suggestions on Phase 2 of the Safeguards project including conforming amendments in Section II below.
41.	PWC*	<p>Other than a comment on Section 310 below we do not have any further observations on conforming amendments made to Chapter 2 (Question 4).</p> <p>Proposed paragraph 310.8 A2 include “factors” that are relevant in evaluating the level of any threats created by conflicts of interest. These include, for example, “Separating confidential information physically and electronically”. We observe that these appear to be “actions that the professional accountant takes to effectively reduce threats to compliance with the fundamental principles to an effective level” and would be better placed, in line with the revised approach, in 310.8 A3 (safeguards). The factors that would need to be considered in evaluating the level of the threat appear to be more related to the circumstances mentioned in 310.4 A1. For example, where the firm has a self-interest in advising a client on acquiring a business which the firm is also interested in acquiring that is likely to be a factor in evaluating the level of threats to compliance with the fundamental principles.</p>
42.	RSM*	We agree with proposed conforming amendments set out in Chapter 2 of this document and the grey text in Chapters 2–5 of Structure ED-2.
43.	SAICA	<p>SAICA agrees with proposed conforming amendments. Please note the following:</p> <p>330.4 A4: The safeguard Adjusting the fee or scope of the engagement while ensuring adequate audit coverage is maintained and provided the adjusted fee is justifiable and does not create new threats.</p> <p>Editorial suggestions:</p> <ul style="list-style-type: none"> 320.5 A2 second bullet, suggest a change of “... subject matters.” to “<u>subject</u> matter.”

#	Respondent	Detailed Comments Relating to Conforming Amendments
		<ul style="list-style-type: none"> 320.6 A4 Second bullet “of” needs to be reinserted to now read “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 <u>of</u> before deciding whether to accept the engagement...” 321.5 A1 Suggest change as follows “Factors that are relevant in evaluating the level of threat created by providing a second opinion to an entity that <u>is</u> not an existing client depends on the circumstances of the request...” 410.9 A2 Second bullet, delete “or” to read as follows “Having an additional professional accountant, who did not take part in the audit engagement review the work performed.” 521.5 A3 delete 2 X “s”, to now read: “An example of an <u>action</u> that might be a safeguard to address threats set out in paragraph 521.5 A1 is:” <p>a) <i>The gray text in Chapters 2–5 of Structure ED-2.</i></p> <p>Response:</p> <p>SAICA has no comments on the changes.</p> <p>Editorial suggestion:</p> <ul style="list-style-type: none"> 940.5 A1 last bullet page 61 of marked version, “Whether there have been any recent changes in the individual or individuals <u>who are responsible</u>, or, if relevant, senior management.”
44.	SMPC	<p>The deletion of the third bullet point in 310.8 A3 is not appropriate as far as the fundamental principle of professional competence and due care is concerned when facing a conflict of interest. Recourse to a professional body, legal counsel or another accountant will certainly be perceived by the public as an appropriate measure in certain circumstances.</p> <p>The proposed introduction of the term “questionable issues” in 320.4 A2 may be problematical without further clarification of what it means in a practical sense. It may also be difficult on translation. In addition, it leads to the question of whether in the absence of questionable issues, there is a need to consider client commitment in this area.</p>
45.	UKFRC	<p>We will address the text in Structure ED 2 in our response to that ED.</p> <p>With respect to the conforming amendments in Chapter 2, we disagree with some of the examples of “actions that might be safeguards”. While it could be argued that some of these are possible safeguards against the threats to compliance with the</p>

#	Respondent	Detailed Comments Relating to Conforming Amendments
		<p>fundamental principles of competence, integrity and professional behavior, they should rather be presented as requirements to be met if a professional accountant is to undertake an engagement. For example:</p> <ul style="list-style-type: none"> • Assigning sufficient engagement personnel with the necessary competencies. • Agreeing on a realistic time frame for the performance of the engagement. • Describing limitations surrounding any opinion in communications with the client. • Adjusting the level of fees or scope of the engagement [to a realistic level]. • Obtaining advance agreement from a client for commission arrangements. <p>In many Sections an example of a safeguard is “having a professional accountant review [the work]”. Such a professional accountant should be <u>independent</u> of the team that did the work.</p> <p>Some example safeguards are actually remedial actions where an accountant has not complied with a requirement. For example, in relation to applying the conceptual framework to independence for audits and reviews (Section 400) “engaging another firm to evaluate the results of the non-audit service” and “having another firm re-perform the non-assurance service to the extent necessary to enable the other for to take responsibility for the service”. These actions are likely to be very costly for a client and it would better if safeguards had been in place to prevent the need for these actions arising.</p> <p>Some example safeguards would be better described as positions a firm / professional accountant should adopt before taking on a client, rather than actions to take in relation to an existing client. For example, in relation to fees (Section 410) “increasing the client base in the firm to reduce dependence on the audit client,” and “increasing the client base of the partner or the office to reduce dependence on the audit client.” Other example safeguards are unhelpful, for instance, where threats arise from overdue fees, it does not seem credible to suggest that a safeguard might be “obtaining payment of overdue fees”.</p> <p>Similarly, in relation to loans and guarantees to a firm from an audit client (Section 511) the ED suggests that a safeguard might be having the work reviewed by a professional accountant from a <u>network firm</u> which would be unlikely to satisfy the third party test.</p> <p>Further examples which may need further consideration include those given in relation to:</p> <ul style="list-style-type: none"> • Family and personal relationships (Section 521). When an immediate family member of an audit team member is an employee in a position to exert significant influence over the client’s financial position, financial performance or cash flows, a safeguard might be structuring the responsibilities of the audit team so that the audit team member <u>does not</u>

#	Respondent	Detailed Comments Relating to Conforming Amendments
		<p><u>deal with</u> matters that are within the responsibility of the immediate family member. We believe that the audit team member should also not be in position where they could influence other team members who are dealing with the matters. Accordingly, they should not be involved in the audit.</p> <ul style="list-style-type: none"> Recent service with an audit client (Section 522). If an audit team member: (a) Had served as a director or officer of the audit client; or (b) Was an employee in a position to exert significant influence over the preparation of the client's accounting records or financial statements on which the firm will express an opinion, a safeguard might be "conducting a review of the work performed by the individual as an audit team member". In our view this is not sufficient, such a person should be excluded from the audit team for at least two years after leaving the audited entity, or longer if necessary so that information in the financial statements is not materially affected by the work of that person when they were employed by the audit client. Employment with an audit client (Section 524). Where a former partner or employee is now employed by an audit client, safeguards to address threats created by such employment relationships might include: "modifying the audit plan", or assigning individuals who have "sufficient experience relative to the individual who has joined the client". This guidance needs further explanation to be clear how effective safeguards would be established. Under EU legislation, and in our Ethical Standard, there are restrictions on partners and statutory auditors leaving a firm to join an audit client and on a firm accepting audit engagements where they do. Temporary personnel assignments (Section 525). A safeguard might include "not giving the loaned personnel audit responsibility for any function or activity that the personnel performed during the loaned personnel assignment". We believe this should be a requirement.
46.	WPK	<p>We believe that the meaning of the term "questionable issues" as introduced in 320.4A2 needs to be clarified.</p> <p>We think that the "re-characterization" of (competently performed) quality control policies and procedures from safeguards to factors (320.5A2) is inappropriate since the quality control system is the outcome of active doing of the audit practice.</p> <p>In some jurisdictions (Germany e.g.) the professional accountant must obtain client permission before contacting and exchanging information with the existing or predecessor professional accountant – unless required in certain situations by law. We therefore suggest a corresponding indication in 320.6A3.</p>

Question 5

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

#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
1.	ACCA	We have no further comments.
2.	AE	<p><i>Small and Medium Practices (SMPs) and PAIBs</i> – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</p> <p>In the Explanatory Memorandum of the Phase 1 ED, IESBA acknowledged that SMPs face unique challenges in employing safeguards due to their resources, including the number of partners, and committed to address them in Phase 2. In our view, taking into consideration the two phases of this project, these challenges are not adequately considered.</p> <p>We reiterate our strong concerns in relation to the reclassification of certain conditions, policies, and procedures. This adds confusion to the process and makes it more difficult for SMPs to consider how to apply the safeguards approach. As it stands now in the Basis for Agreement in Principle, these conditions, policies and procedures might only impact on the level of threat to compliance with the fundamental principles therefore greatly reducing the number of available safeguards for SMPs.</p> <p>We think that a cost-benefit analysis is required in this regard as IESBA should consider that reducing the availability of safeguards, sometimes limited to external review in the case of SMPs, could lead to increased costs in business without any benefit to SMP stakeholders.</p>
3.	AGNZ	See response to Q1
4.	AICPA	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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</p>

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#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
		<p>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.</p> <p>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.</p>
5.	AOB	n/a
6.	APESB	We note that IESBA has addressed company secretarial practice in section 523 of the new Code. We believe that it would be useful if there was an appropriate cross reference from the non-assurance sections to section 523.
7.	BDO	<p>5.1 Terminology for Safeguards:</p> <p>We have noted that there are two different types of wording to refer to safeguards:</p> <ol style="list-style-type: none"> 1. 'An example action that might be a safeguard to address the threat created by ...is ...' 2. 'An action that might eliminate those threats is...' <p>We found this wording less direct than many of the other changes in the ED and therefore the wording was confusing. We have assumed that the intent is to separate the two items into:</p> <ul style="list-style-type: none"> • Safeguards that could mitigate the threats and • Actions that eliminate the threats (not might eliminate the threat). It would be helpful if the wording was more specific. <p>5.2 Loans and Guarantees – Section 511 – 511.6 A2:</p> <p>In our review of the Compilation Code, we noted that 511.6 A2 is very confusing. In the extant code 290.118, it is very clear that the reference is for a loan to a firm that is material. In the Compilation Code, this section is a subset of the</p>

#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
		<p>requirement for a firm, network firm or an audit team member not to accept a loan or guarantee. The example safeguard refers to having the work reviewed by a professional who is not on the audit team nor a beneficiary of the loan. This did not make sense to us for a loan to the firm. We also did not see the equivalent of 290.119 which says that loans made under normal lending procedures to an audit team member or their immediate family does not create a threat to independence. We believe that this section should be clarified.</p> <p>In addition to the specific comments raised above, we have also noted the following items that could be considered in future IESBA projects:</p> <ol style="list-style-type: none"> 1. Subsection 605 - Internal Audit Services: One of the prohibitions for audit clients that are public interest entities is: <ul style="list-style-type: none"> • R605.7 (a) A significant part of the internal controls over financial reporting. Application guidance on what would be considered a 'significant part' would be helpful. 2. Situations where management responsibilities are not prohibited: <ol style="list-style-type: none"> a. Section 600 - Provision of Non-Assurance Services to an Audit Client <ul style="list-style-type: none"> o R600.10 is an exception which allows the firm to assume management responsibilities when certain criteria are met b. Section 950 - Provision of Non-Assurance Services to an Assurance Client <ul style="list-style-type: none"> o R950.5 includes an exception where the firm assumes a management responsibility as part of any other services provided to the assurance client. <p>It is not clear how these management responsibilities would be able to be safeguarded. Application guidance in both these situations would be helpful.</p>
8.	CAANZ	We have no additional comments to provide.
9.	CHI	We have no other comments.
10.	CNCC	No response to Q5

#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
		<p>a) Small and Medium Practices (SMPs) and PAIBs – The IESBA Invites comments regarding any aspect of the proposals from SMPs and PAIBs.</p> <p>See our comment on the lack of additional safeguards for SMPs and moreover, the number and choice of safeguards being reduced in certain cases. We are of the opinion that this fact would not foster the implementation and application of this international Code of Ethics as IESBA is aiming with the current restructuring project.</p> <p><i>Translations</i> – We would like to point out that the expression "third party test" is not easy to translate in French.</p>
11.	CPAA	No comments
12.	CPAC	<p>Audits and Reviews</p> <p>We believe that potential confusion remains within the Code through the use of the term “audit” defined in Part A to include reviews. Given the inherent differences between the two and the prevalence of review engagements in Canada, we believe that the use of “audit” and “review” separately identified within the Code, where applicable, would be strongly preferred.</p> <p>International Standards</p> <p>We took note of three references to International Standards in 600.5 A1, 605.6 A1 and 950.4 A4 which varied in specificity from citing particular sections to noting more generally described requirements. We believe that the ease of use of the Code regarding these references may be reduced because the sections do not stand complete on their own. For those providing non assurance services, they may not have the level of familiarity with the International Standards on Auditing, for example, necessary to interpret and utilize these sections of the Code thereby necessitating further research beyond the Code.</p> <p>Housekeeping Matters</p> <ul style="list-style-type: none"> • Page 24 regarding R601.8 – We believe the exception cited should be to R601.7 versus R601.6 as indicated. • Page 35 regarding 608.4 A1 – We suggest the insertion of “and advocacy” immediately following “self-review” to be consistent with 608.5 A2. • Page 37 regarding 609.4 A2 – We noted that “include” should be deleted immediately following “recruiting services”.

#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
		<ul style="list-style-type: none"> Page 45 regarding 321.5 A1 – We noted that “are” should be changed to “is” immediately following “an entity that” and “is” should be changed to “are” immediately following “an existing client”. Page 53 regarding 521.5 A3 – We noted that the words “actions” and “safeguards” appearing in the first line should both be singular. <p>Regulators and Audit Oversight Bodies</p> <p>We noted the combined references to accounting and bookkeeping with the observation that this grouping may not be appropriate/applicable in all jurisdictions depending on the regulatory framework in effect.</p> <p>In terms of general considerations regarding the enforceability of the Code through the application of the Conceptual Framework and use of safeguards, we noted the importance of documentation to support compliance with the principles and requirements. In particular, we noted that requirements for documentation of the critical path followed by the Professional Accountant in his/her assessment of threats, use of professional judgment and implementation of effective safeguards may enable greater compliance with and enforceability of the Code. We respectfully suggest that IESBA should further consider whether documentation, sufficient to arrive at the judgment made by the Professional Accountant, should be a requirement of the Code.</p> <p>-----</p>
13.	DTT*	No comments.
14.	EFAA	<p>Consideration of SMP Concerns</p> <p>While we recognize the efforts taken to consider SMP and SME concerns during the development of this project, the specific request for SMP input to the ED and the remarks in the Explanatory Memorandum at paragraphs 3 and 15, we question whether the IESBA has sufficiently addressed such concerns. The need for and what constitutes an appropriate degree of independence, especially in mind, in the context of an SME audit / review differs significantly from that of a PIE audit / review. SME stakeholders simply do not expect nor need the same degree of independence in appearance. We note that the last bullet in 600.4 A3 does acknowledge that perceptions as to the level of threat may differ depending on whether an audit client is a PIE or not. We believe, however, that it would be useful if the Code were to discuss the issue more holistically and accordingly encourage the IESBA to include an explicit acknowledgment that in exercising professional judgement to determine the significance of any threat to independence the circumstances of the specific engagement will materially impact the relative weighting and interaction of such factors.</p> <p>For example, larger entities may employ individuals with expertise in specific areas, whereas a smaller SME's employees and management will often be generalists with broad responsibilities. Consequently, many smaller SMEs will often lack the in-</p>

#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
		<p>depth level of expertise that one expects to find in larger entities. Proposed 600.4 A3 refers to the level of expertise of the client's employees with respect to the type of service provided as a factor relevant to the evaluation of the level of threat that may be created by providing a non-assurance service to an audit client. This would seem to imply, even though not expressly stated, that the higher the level of expertise the lower the threat to auditor independence, and conversely the lower the expertise the higher the threat. If this interpretation is what the IESBA intended, then SME auditors will likely be at a general disadvantage unless the IESBA specifically address this.</p> <p>Proposed R 600.8 follows extant paragraph 290.162 in specifically requiring the firm, or network firm, to ensure that the client's management delegates an individual who possesses suitable skill, knowledge and experience to be responsible, at all times, for the client's decisions and to oversee the (non-audit) service as a safeguard to address the risk of assuming management responsibility when providing any non-assurance service to an audit client. This section also clarifies that that individual is not required to possess the expertise to perform or re-perform the services. We have two issues. First, we believe the IESBA should clarify what the requirement in R600.8 for the auditor to "ensure" is intended to mean in practical terms. The auditor cannot force a client to designate a person with a certain combination of skills, knowledge and experience. In the absence of clarification there is a risk this could be interpreted in such a way as to result in prohibition of certain services to many SME audit clients. Second, often in practice the SME client does not have or desire to have such a designated person, because the client intends to place a degree of trust in the auditor, whilst retaining decision making about the service and its outcome. Furthermore, in an SME environment supervisory elements are rare. We agree that an express acknowledgement of client responsibility for decision making and overseeing the services should remain the central focus of the requirement. We also accept that it is reasonable to require an individual understand the objectives, nature and results of the services as well as the respective client and firm responsibilities. However, in an SME context we believe it will generally be excessive and impractical to specifically require "suitable skill, knowledge and experience" in an individual to be designated to these tasks.</p>
15.	EYG	<p>In multiple sections of the Phase 2 Safeguards exposure draft an example of an action that might be a safeguard to address the particular threat is to perform a review. The language used to describe this safeguard however varies from section to section and it is not always clear who should perform such a review. The language variations include "having a professional review", "have a professional accountant review", "having a professional accountant who is not a member of the assurance team review", "having a professional accountant who did not take part in the assurance engagement review", "an example of an action....is conducting a review" and "having an appropriate person review". We recommend that the language used for this particular example of a safeguard be streamlined for consistency.</p> <p>Sections 540.5 A1 and 540.5 A2 address the factors relevant to evaluating the level of threat for long association. The examples of actions that might be safeguards are however set out in section 540.4 A3. The order of these sections should be</p>

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		<p>reversed so text related to threats precedes the text on safeguards. The same comment applies to sections 940.5 A1 and 940.4 A3.</p> <p>Any other comment or observation on Phase 2 of the Safeguards project are included in the attachment to this response letter.</p> <p>In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:</p> <p>(d) Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p> <p>We continue to believe that certain jurisdictions will be challenged to translate all documents relevant to the overall restructuring project in order to provide timely and wholesome comments. If, as anticipated, the Board completes the restructuring of the Code in December 2017, with the earliest effective date (for most sections) being 15th June 2019 this would present many professional bodies with a relatively short 18 month window in which to translate, obtain feedback and approve an entirely revised Code.</p> <p>The restructuring of the Code and the resulting changes to the conceptual framework introduce a whole new approach which will require time for regulators, firms and other interested parties to adopt and incorporate into their rules, regulations and policies. In addition to translation challenges, it is essential that IESBA allow sufficient time for all such parties to properly adopt and implement the required changes. We believe that an extension to the effective date should be considered to allow for a more consistent and robust adoption of the revised Code.</p>
16.	FAR	<p>FAR has no comments, but FAR would like to take this opportunity to commend the project and the revised description of safeguards. FAR finds that the proposed revisions serve to clarify the difference between factors that are relevant in evaluating the level of threats and measures that can serve as safeguards.</p>
17.	FSR	<p>The Ethics Committee of FSR - danske revisorer is pleased to comment on the IESBA Proposed Revisions Pertaining to Safeguards in the Code — Phase 2 and related conforming amendments.</p> <p>We refer to the comments dated 21. April from Accountancy Europe.</p>

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18.	GAO	<p>We agree that accounting and bookkeeping services create a self-review threat. We believe that accounting and bookkeeping services currently characterized as routine and mechanical in nature always create significant threats and require safeguards. As such, we suggest the following revision to paragraph R601.6 of the code:</p> <p>“A firm or a network firm shall not provide to an audit client that is not a public interest entity, services related to accounting and bookkeeping services, on financial information which forms the basis of the financial statements on which the firm will express an opinion unless:</p> <p>(a) The services are of a routine or mechanical nature; and</p> <p>(b) The firm applies safeguards that eliminate the threat created by such services or reduce the threat to an acceptable level.”</p> <p>We also noted that paragraph R601.8 references paragraph R601.6, and we believe that the intention was to reference paragraph R601.7.</p>
19.	GTI*	We do not have any other comments on Phase 2 of the Safeguards project.
20.	HICPA	n/a
21.	IBRACON	<p>We have the following comments related to sections 600 and 607:</p> <p>a) to provide further guidance on the meaning and/or examples with regard to “combined effects” included in Section 600.6A1 - Multiple Non-assurance Services to an Audit Client: “...requires the firm to consider any combined effect of threats created by other non-assurance services provided to the audit client”.</p> <p>Additionally, the evaluation of independence regarding non-audit services should occur prior to the acceptance of such engagements. We suggest the following changes to clarify such requirement:</p> <p>A firm or network firm might provide multiple non-assurance services to an audit client. When evaluating whether or not to provide providing a non-assurance service to an audit client, applying the conceptual framework requires the firm to consider any combined effect of threats created by other non-assurance services to be provided to the audit client.</p> <p>c) Section 607 is only one where specific the term “requirements” related to Section 600 apparently do not apply. It is unclear why such requirements do not apply to Section 607.</p>

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22.	ICAEW	<p>We note from the EM that the Board is replacing discussion on the ‘significance’ of a threat’ with discussion around the ‘level’ of a threat. While this ties in with the definition of ‘acceptable level’ we believe that the concept of significance is (or could be) well understood by professional accountants. ‘Level’ has a variety of meanings and we wonder if it will translate well into other languages.</p> <p>We endorse the Board’s re-assertion that the RITP is a concept rather than a specific person. It is important not to over-engineer the description of the attributes of the RITP to give a misleading impression that a specific person should be chosen. The description of the RITP in paragraph 120.5A1 of the compilation document includes the comment that the RITP ‘does not need to be an accountant’. Given that the RITP is a hypothetical person, including a description of what that person need or not be (rather than the knowledge and perspective they would apply) seems to be confusing and potentially misleading. This could be taken to imply that the Board would prefer the RITP to be an accountant, while not insisting on it. We do not believe this is intended and would invite the Board to reconsider whether these words are helpful.</p> <p>We note from the ‘Basis of Agreement in principle’ document that the Board re-confirmed its intention to describe ‘acceptable level’ in an affirmative manner, notwithstanding concerns from some, including ourselves. We are not sure this has been thought through: given that ethics is by its nature a behavioural concept built around a mind-set, rather than merely measurable actions, we fail to see how any RITP could make a conclusion of positive compliance with the fundamental principles.</p>
23.	ICAP	No comments
24.	ICAS	We have no further comments.
25.	IDW	<p>No comments</p> <p><i>Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</i></p> <p>600.7A4 is a significant paragraph and especially useful for SMEs whose audit clients may often turn to their auditor as a trusted and competent professional for advice. It would be helpful if this were more prominent placed, i.e., immediately following proposed R600.7.</p> <p>The Safeguards project could have provided an opportunity for the Board to revisit certain issues with a view to enhancing clarity and considering the impact of practical application in certain areas. Indeed, during phase 1 of this project this was the</p>

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		<p>IESBA's stated intent. However, the Code is becoming longer and the provisions increasingly rules-based. It is not apparent that the IESBA has been sensitive to the circumstances facing auditors and professional accountants serving the SME community in recent proposals including this project. In this context, we refer to specific comments elsewhere in this letter.</p> <p>604.7A2 proposes as a safeguard that tax calculations should be undertaken by a tax professional that is not a team member (also in 604.10A2). In SMP the tax calculations will almost always be done by a team member because there are no special tax professionals (no tax department like in big audit firms) and the team member knows the client and how specific facts have to be treated specifically in the tax returns. If this safeguard is unavailable to smaller firms these will be at a disadvantage in the market. We believe that the Code could usefully recognize that the level of threat may be far lower in some such circumstances (e.g., where an SME is concerned tax may be far less complicated or subjective than in the case of a larger entity).</p> <p>Sections 410.4.A2b and A3 and also certain further sections of the ED include proposed changes. Specifically these refer to increasing the client base of a partner or firm as a possible safeguard. This is likely to be impractical for some firms – a sole practitioner may be unable to easily change the client base, and where there are two or more partners, this might be possible if work is reassigned centrally by firm level. For firms this does not seem feasible.</p> <p><i>Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals</i></p> <p>Paragraph 38 of the explanatory memorandum refers to translation of the staff-prepared compilation of the restructured Code. We find per se an encouragement that translation should begin ahead of the finalization of any paper highly irregular in terms of due process. We are concerned that it may even imply a lack of openness on the part of IESBA to possible respondents' comments on projects still open for comment.</p>
26.	IFIAR	<p><i>Exceptions have a weakening impact on the Code</i></p> <p>7. We believe that providing exceptions to the provisions of the Code regarding non-audit services impairs the clarity and robustness of the Code. We encourage the Board to avoid the exceptions when the rationale behind those exceptions is not clear and fully justified.</p> <p><i>Previous comments on safeguards project - phase 1</i></p> <p>8. In addition, we note that some of our prior comments⁶ regarding (i) addressing threats and (ii) clarification of timing of re-evaluation of threats and overall assessment have still to</p>

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		<p>be addressed. We continue to ask the Board to address these comments before finalising the safeguards project.</p> <p><i>Need for post-implementation review</i></p> <p>9. We encourage IESBA, following completion of this project, to gather stakeholder input via a post- implementation review in order to assess whether the changes have achieved the desired effects (e.g. whether the goals have been met and whether some challenges remain).</p>
27.	IMCP	No comments
28.	IOSCO	See response to Q1
29.	IRBA	<p><i>(a) Small and Medium Practices (SMPs) – the IESBA invites comments regarding the impact of the proposed changes for SMPs.</i></p> <p>The lack of clarity on some important concepts in the proposed amendments would make it especially difficult for SMPs to implement. For example, additional time and resources would be required for SMPs to comply with the conceptual framework.</p> <p><i>Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular, on any foreseeable difficulties in applying them in their environment.</i></p> <p>In environments where the IAASB pronouncements and the Code have been adopted relatively recently, the need for clarity within the Code is of utmost importance. In developing nations, the limited experience of practitioners, standard-setters and regulators in the application of the Code makes a clear structure and enforceability of the Code paramount. As such, we believe that further efforts can be made by the IESBA to achieve clarity and enforceability of the Code.</p>
30.	ISCA	NA
31.	JICPA	<p>Since the requirements and application material discussed in Phase 2 are expected to be referred to and applied in practice more frequently compared to those in Phase 1, the numbering should be more understandable, straightforward and consistent with the rule for grouping which should be easy to search. This exposure draft adopts the numbering system with respect to numbering paragraphs of “application material” where the grouping based on theme is numbered before the letter “A” and an index number is placed after the letter “A” for each detailed provision like XX.1 A1, XX.2 A1, XX.2 A2 and XX.3 A1. However, it</p>

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		<p>seems that the grouping rules and numbering system are not always unified and consistent. Rather, we believe that a simple sequential numbering system applied in the extant Code is more straightforward and easier to search.</p> <p><i>Small and Medium Practices (SMPs) and PAIBs</i> – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</p> <p>1) General Comments</p> <p>Because examples of possible safeguards are valuable and usable for applying in practice, we request as many examples as possible to be provided.</p> <p>2) Comments on Individual Matters</p> <p>The following matter as expressed in the section I.1 above is also a comment received from small and medium practices.</p> <p>With respect to the proposal to extend the scope of the prohibition on recruiting services stipulated in paragraph 26(h) of the exposure draft to all audit client entities, we expect the rationale behind will be described in the basis for conclusion, and as such, we believe the following point should be clearly described as well in addition to the background information.</p> <p>Although it is concluded in the exposure draft that safeguards are not capable of reducing the threat of self-interest or familiarity in this regard, we believe the illustrated example of the safeguard as provided in paragraph 609.4 A2 (use of professionals who are not audit team members to perform the service) can be still an applicable option. Therefore, we are of the view that it is essential to clearly articulate the rationale behind concluding that such option is not acceptable and thus any safeguards are not capable of reducing those threats.</p> <p><i>Translations</i> – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.</p> <p>English is not the official language in Japan, thus, it is inevitable to translate the Code from English to Japanese in an understandable manner. For this reason, we pay close attention to the wording used in the Code in respect of whether it is translatable and comprehensible when translated. We therefore request the IESBA to avoid lengthy sentences and to use concise and easily understandable wording.</p>
32.	KICPA	We have no comment.
33.	KPMG	n/a

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34.	MIA	We have no other comments in relation to Phase 2 of the Safeguards project.
35.	MICPA	<p>(a) The Institute refers to Para 609.3 A1 and disagrees that the following services do not usually create threats:</p> <ul style="list-style-type: none"> • Reviewing the professional qualifications of a number of candidates and providing advice on their suitability for the post • Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions <p>(b) Given the extensive scope and variety of safeguards in the Code, MICPA proposes that the IESBA considers providing a matrix/flowchart to facilitate compliance by accountants.</p>
36.	MNP	n/a
37.	NBA	See response to Q1
38.	NASBA	n/a
39.	NZAuASB	<p><u>Use of “might”</u></p> <p>Throughout the conforming amendments, removing an individual from the audit team is frequently cited as an action that <i>might</i> eliminate the threat [emphasis added]. Introducing the word “might” implies that the action might not work. Further, “might” is generally used to express what is hypothetical, counterfactual, or remotely possible.⁵ Removing the individual from the audit team will eliminate the threat. Accordingly, the following wording may be more accurate:</p> <p style="padding-left: 40px;">An example of an action that might <u>will eliminate the threat is...</u></p> <p><u>Addressing threats vs reducing to an acceptable level</u></p> <p>The construct used throughout the proposed conforming amendments, is “an example of an action that might be a safeguard to address threats created by ... is...” However, the professional accountant is required by paragraph</p>

⁵ <http://writingexplained.org/may-vs-might-difference>

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		<p>R120.10 to reduce threats to an acceptable level by applying safeguards. Accordingly, the following construct may more accurately reflect the requirement,</p> <p style="padding-left: 40px;">An example of an action that might be a safeguard to <u>reduce</u> address threats created by...<u>to an acceptable level</u> is...</p> <p>Drafting Suggestions</p> <p><i>Conforming Amendments to Agreed-in-Principle Text - Structure and Safeguards Phase 1</i></p> <p><i>Paragraph 321.5 A1</i> To correct an editorial error, the following amendment is suggested.</p> <p style="padding-left: 40px;">Factors that are relevant in evaluating the level of a threat created by providing a second opinion to an entity that are <u>is</u> not an existing client is <u>depend on</u> the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.</p> <p><i>Paragraph 321.5 A2</i> – In the first bullet point, consider changing “obtaining” to “requesting.” The professional accountant can request to communicate with the existing/predecessor accountant, however the professional accountant may not be able to obtain information from the existing/predecessor accountant. How the existing/predecessor accountant responds to the professional accountant will affect whether the safeguard has addressed the threat.</p> <p style="padding-left: 40px;">Examples of actions that might be safeguards to address the threats created by providing a second opinion include:</p> <ul style="list-style-type: none"> • With the client’s permission, obtaining <u>requesting</u> information from the existing or predecessor accountant. <p><u><i>Chapter 2 - Conforming Amendments Arising from the Safeguards Project Not Included in Structure ED-2</i></u></p> <p><i>Paragraph 410.9 A2</i> – in the second bullet point, delete “or” before “review the work performed” to correct this sentence.</p> <p style="padding-left: 40px;">... Having an additional professional accountant, who did not take part in the audit engagement or review the work performed.</p> <p><i>Paragraph 521.5 A3</i> – delete “s” on actions and safeguards as singular not plural.</p>

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		<p>An example of an actions that might be a safeguards to address the threats set out in paragraph 521.5 A1 is:...</p> <p><u>Proposed Conforming Amendments included in the Structure ED-2</u></p> <p><i>Paragraph 905.7</i> – in sub-paragraph (b), the words “because of the significance of the overdue fee” appear to be unnecessarily repetitive of the beginning of the paragraph which states, “when a significant part of fees due from an assurance client remains unpaid for a long period of time...”</p> <p>When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:</p> <p>(a) Whether the overdue fees might be equivalent to a loan to the client; and</p> <p>(b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement because of the significance of the overdue fee.</p> <p><i>Paragraph 911.6 A2</i> – In the circumstances described, the firm is receiving the loan. Accordingly, the last sentence of this paragraph can be deleted. In addition, the words “received the loan” are much clearer and easier to understand that “is a beneficiary of the loan” and are consistent with wording used earlier in the paragraph.</p> <p>If a loan from an assurance client that is a bank or similar is made under normal lending procedures, terms and conditions and it is material to the assurance client or firm receiving the loan, it might create a self-interest threat. An example of an action that might be a safeguard to address such <u>a</u> threats is having the work reviewed by a professional accountant <u>from a network firm</u> who is not a member of the assurance team that is neither involved with the assurance engagement nor received is a beneficiary of the loan. If the loan is to a firm, the reviewing professional might be someone from a network firm.</p> <p><i>Paragraph 921.4 A1</i> – the “closeness of the relationship” could be a separate bullet point.</p> <ul style="list-style-type: none"> • The role of the family member of other individual within the client, and the closeness of the relationship. • <u>The closeness of the relationship.</u> <p><i>Paragraph R924.5</i> –The construct used in paragraph 291.127 of the extant Code is clearer and more succinct than the revised wording.</p>

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		<p>If a former <u>assurance team member or partner</u> joins an assurance client of the firm or a former assurance team member joins the assurance client as:</p> <p>(a) A director or officer; or</p> <p>(b) An employee in a position to exert significant influence over the subject matter information of the assurance engagement,</p> <p>The <u>such</u> individual shall not continue to participate in the firm's business or professional activities.</p> <p><i>Paragraph 924.5 A1</i> – Adding a reference to paragraph R924.5 would make clear who “if one of those individuals” is referring to.</p> <p>If one of those individuals <u>referred to in 924.5</u> has joined the assurance client ...</p> <p><i>Paragraph 924.6 A2</i> – The following wording more clearly identifies the threats that are being discussed in this paragraph. In addition, using the word “individual” to refer to both an appropriate person who reviews significant judgements and the former assurance team member is confusing.</p> <p>An example of an action that might be a safeguard to address <u>a familiarity or intimidation</u> threats set out in paragraph 924.4 A1 is having an appropriate individual review any significant judgments made by that individual <u>the assurance team member</u> while on the team.</p> <p>An <u>example of an</u> action that might will eliminate those threats is removing the individual <u>assurance team member</u> from the assurance engagement.</p>
40.	PWC*	n/a
41.	RSM*	<p>We note that in some cases, the codes of national regulatory bodies provide a different definition of PIEs than the definition used in the IESBA code.</p> <p>Examples include:</p> <ul style="list-style-type: none"> • The definition of a PIE differs between the IESBA Code and the European Commission's Statutory Audit Directive and Audit Regulation.

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		<ul style="list-style-type: none"> The UK (and European) Ethical Standard's definition of a listed entity excludes entities whose listed securities are not in substance freely transferable or cannot be traded freely by the public or the entity. <p>Given the jurisdictional differences, we suggest the Board when possible provide requirements and guidance directed to specific types of entities meeting the IESBA definition of a PIE rather than more broadly to PIEs in general. We believe this would assist professional accountants in applying the Code more consistently.</p>
42.	SAICA	<p><i>Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.</i></p> <p>SAICA is of the view that there may be challenges in implementing for smaller practices although the effective date does allow for ample time to implement.</p> <p><i>Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.</i></p> <p>SAICA is of the view that improved requirements and application will assist regulators to enforce the code.</p>
43.	SMPC	<p>The Explanatory Memorandum mentions the notion of (unnecessary) repetition between the IESBA Code and ISQC 1 and ISAs. The SMPC believes that these materials could still be streamlined or removed to reduce the duplication.</p> <p>Para 320.6 A3 may be problematical in some jurisdictions where client confidentiality requirements may require client permission for auditors to exchange information unless prescribed for in law. This should be acknowledged in the Code.</p>
44.	UKFRC	<p>We have no further comments to make in this response. However, other matters relevant to Phase 2 of the Safeguards project may emerge as we develop our response to the Structure ED 2 and, if they do, we will address them in that response.</p> <p>The Phase 2 ED has been drafted in a way that reflects conclusions drawn by IESBA after considering the responses to the Phase 1 ED. We respond below to the Phase 2 specific proposals. However, having considered the explanations in the Phase 2 Explanatory Memorandum and the 'Basis for Agreement in Principle for Proposed Revisions Pertaining to Safeguards in the Code - Phase 1', we are concerned that a number of the issues and related recommendations we set out in our response to the Phase 1 ED have not been satisfactorily addressed.</p> <p>These issues continue, therefore, to be a concern in the Phase 2 ED and the wider Safeguards and Restructuring projects. In particular, the concepts of the "reasonable and informed third party" and "acceptable level", and the description of "safeguards" fall significantly short of what we proposed in our response to the Phase 1 ED. We also have continuing concerns relating to the absence of clear linkage between the fundamental principles and the detailed requirements, which we will explain in our response to the Structure Phase 2 ED.</p>

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		<p>Reasonable and informed third party (RITP)</p> <p>We are pleased that the RITP is no longer described as a “hypothetical person” and that it is explicitly made clear that such a person does not need to be an accountant. However, it is now stated that the RITP “would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant’s conclusions in an impartial manner” (emphasis added) - this maintains a risk that the third party test will still be applied from the perspective of an accountant rather than the objective lens of the public in whose interests the professional accountant has a responsibility to act. This description risks insufficient regard being given to perception issues. For example, information available to the public may give rise to a perception that an auditor’s independence is compromised, and thereby a loss of confidence in the audit.</p> <p>Accordingly, we reiterate that the third party test should reflect the anticipated views of the public in whose interests the professional accountant has a responsibility to act, assuming that they are informed about the circumstances (e.g. about the nature of the threats and the nature of any safeguards) and on the assumption that they would be reasonable (i.e. rational, fair and moderate rather than extreme) in forming those views. Being “informed” should be considered in the general sense rather than suggesting a need for specific knowledge and experience.</p> <p>We also suggest again that the reference to the third party be extended to read ‘objective, reasonable and informed third party’, which would reflect the importance of the objectivity of the third party (i.e. one not influenced by interests that would conflict with the public interest) and would also align it with the term used in the 2014 EU Audit Regulation (EU 537/2014) and Directive (2014/43/EC). While the Basis for Agreement in Principle identified that such recommendations were made by respondents (although in our case mistakenly suggesting it was intended as an alternative to “hypothetical”) it does not explain why the IESBA did not consider it appropriate. Aside from adding to the explanation of the appropriate characteristics of the third person, it would also prevent an unhelpful inconsistency with the legal requirements in the EU.</p> <p>Acceptable level</p> <p>In our response to the Phase 1 ED we supported the aim of expressing the requirement to eliminate or reduce threats “to an acceptable level” in an affirmative manner. However, as then, the continued use of the term “acceptable level” causes us concern for a number of reasons. Firstly, the term ‘acceptable’ is in plain usage a low bar – for example it is defined in Merriam-Webster’s dictionary as encompassing: “capable or worthy of being accepted”, “a compromise that is acceptable to both sides”, “welcome, pleasing” and “barely satisfactory or adequate”. It does not convey a sense of high standards and public interest. Secondly, the meaning of the term as it is used in the Code is distanced from the requirements that apply (that meaning being set out in the Conceptual Framework and Glossary). As a result, reading the requirements in isolation, the professional accountant could believe it implies a bar that is at too low a level.</p>

#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
		<p>We believe that the most direct and affirmative manner in which to express this bar is to include in the requirements that threats are to be eliminated or reduced “to a level at which the fundamental principles would not be compromised”. This would help ensure that the professional accountant focuses on ensuring that threats are eliminated or reduced to a level where the third party test would be passed. We believe this (implicit) link to the third party test would better accord with the expectations of stakeholders, better support their confidence in the professional accountant, and be more likely to anchor the professional accountant to those expectations when evaluating threats and safeguards.</p> <p>We disagree strongly with the revised definition in the Phase 2 ED of “acceptable level” as “a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles”. This has the effect of applying the third party test from the perspective of a professional accountant rather than from the perspective of the public in whose interests the professional accountant has a responsibility to act. We also reiterate our suggestion that it should be made clear that the third party test would only be passed when it is at least probable (i.e. more likely than not) rather than ‘likely’, that the [objective,] reasonable and informed third party would conclude that none of the fundamental principles had been compromised.</p> <p>We note that the Basis for Agreement in Principle identified that such recommendations had been given in relation to the “acceptable level” but the IESBA’s rationale for rejecting them is not clearly set out.</p> <p>Description of safeguards</p> <p>In our response to the Phase 1 ED we supported the IESBA’s proposed description of safeguards but suggested how it should be expanded to make it more effective. In relation to those suggestions we are pleased that it is now made clearer in the Phase 2 ED that a safeguard to eliminate a threat to meeting the outcomes required by the fundamental principles might include removing a professional accountant from any involvement in an engagement, or withdrawing from the engagement. However, this could be read as only addressing the possible need to remove someone from a position where they have direct involvement in an engagement. Threats can also arise in relation to someone not directly involved but nonetheless in a position where they could influence an engagement, for example someone responsible for performance appraisal and/or remuneration of a person directly involved. This is not addressed in the Basis for Agreement in Principle.</p> <p>We note that the definition of “audit team” in the Glossary includes persons who can directly influence the outcome of the audit engagement. We recommend that the descriptions of safeguards should include the possible need for restrictions to apply to someone in a position where they could influence an engagement. For example, restrictions on holding financial interests in an audit client should apply also to persons who are in a position to influence senior members of the audit team - the requirement in R510.7(c) of the Proposed Restructured Code that a direct financial interest or a material indirect financial interest in the audit client shall not be held by “Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner’s immediate family” will not necessarily cover this.</p>

#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
		<p>Consistent with our comments above, we believe that the test to be passed when assessing whether a safeguard would be effective is whether an objective, reasonable and informed third party would conclude that the fundamental principles are not compromised. We believe that this should be made clear in each of the sections that establish more detailed requirements.</p>
45.	WPK	<p>Overall we think that IESBA did a great job regarding the adaption of the safeguards requirements to the new structure of the Code. The requirements are clearly separated from the application material and the introductory passages in each subsection clearly relate to the fundamental principles of the Code. In particular we welcome the increased prominence of the requirements on avoiding management responsibilities as well as the explanations on materiality and multiple Non-Assurance Services. From our point of view, these amendments contribute to an increased understandability, clarity and enforceability of the Code. Therefore we agree with the changes stipulated for in the ED.</p> <p>Nevertheless we have concerns in relation to the “re-characterization” of some former safeguards as factors. This re-characterization increases the complexity of the Code and makes it more difficult especially for SMEs to understand the application of the safeguards approach. A clear distinction between factors relevant in evaluating the level of threat and safeguards applied in order to reduce the level of threat may not always be unambiguously possible. At least the documentation effort is expected to increase.</p> <p>Furthermore we are quite uncomfortable with regard to the process of the safeguards and the related restructuring project. The division of the safeguards project into two phases, combined with the also two-phased restructuring project makes it difficult to assess the overall effect of the different changes on the Code. It is extremely challenging for respondents to assess the potential impact that these projects might have on the clarity of the Code. As we already explained in our comment letter to Safeguards Phase 1, we would have preferred a step by step approach looking at the structure of the Code first before changing the safeguards approach. The multiple cross-references from one ED to the other one and vice versa make it extremely difficult to undertake an overall assessment.</p> <p>In addition, we hear from our members that it has become increasingly difficult to keep up with the pace of changes which the Code has undergone over the previous years. The profession does urgently need time to digest the changes in order to carry out corresponding in house-implementation measures within their firms. The same is true for IFAC’s member organizations as most of them need to translate the changes in a first step before being able to display efforts as to how to implement the changes in their respective national laws. Particularly the latter process is usually time-consuming since it requires an involvement of the relevant stakeholders and is usually subject to an approval process by an oversight authority. When the IESBA, e. g., needs many years for the finalization of a new standard, the stakeholders cannot be expected to implement the new standard in a fraction of the time that it needed IESBA to issue the standard.</p>

Safeguards Phase 2 – Compilation of Responses to Questions
IESBA Meeting (June, 2017)

#	Respondent	Detailed Comment – Any Other Matters Relevant to Phase 2
		Even though we were glad to note during the last IESBA meeting that any changes made after the completion of the restructuring process shall not become effective before June 15, 2020, we think that this period of time should be significantly longer given the tremendous effects the safeguards and restructuring changes will bring about for the profession. The profession is currently facing such a standards overload that is in our view detrimental to the global acceptance of international standards and the audit quality as such. We agree that there is always room for improving standards. However, we doubt that the extant Code could not be regarded as a high-quality standard and would be urgently in need for further improvements. In case we were wrong in this assessment, we would ask IESBA to provide the public with corresponding evidence.