

## Safeguards Phase 2—Summary of Significant Comments and Task Force Proposals

### How the Project Serves the Public Interest

This project addresses the clarity, appropriateness and effectiveness of safeguards in the extant Code. Drafted in accordance with the new structure and drafting conventions established by Phase 1 of the Structure of the Code (Structure) project, the proposals resulting from the Safeguards project better support professional accountants (PAs) in fulfilling their responsibility to act in the public interest, and with respect to audits of financial statements, contribute to supporting audit quality.

Phase 1 of the project establishes an enhanced and more robust conceptual framework with more explicit requirements and application material to explain how to identify, evaluate and address threats to compliance with the fundamental principles and threats to independence.

Phase 2 of the project includes proposed revisions pertaining to the application of the enhanced conceptual framework to non-assurance services (NAS) currently dealt with in Sections 290 and 291 of the extant Code<sup>1</sup> (numbered proposed Sections 600 and 950 in the proposed restructured Code<sup>2</sup>). Phase 2 also deals with proposed conforming amendments to other sections of the Code.

### Introduction

1. The IESBA approved the Safeguards project with the aim of improving the clarity, appropriateness, and effectiveness of the safeguards in the Code in January 2015. The two-phased project is expected to be finalized in December 2017 together with the Structure of the Code project. The Exposure Draft (ED) titled:
  - [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards ED-1) relates to Phase 1 of the project and was approved/ released in December 2015 with a comment deadline of March 21, 2016.
  - [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#) (Safeguards ED-2) relates to Phase 2 of the project and was approved in December 2016. Safeguards ED-2 was released in January 2017 with a comment deadline of April 25, 2017.
2. Taking into account the advice from its Consultative Advisory Group (CAG), the IESBA considered comments on Safeguards ED-1 during its June–December 2016 meetings and agreed in principle the text of Phase 1 of the project in December 2016. A staff-prepared document, [Basis for Agreement](#)

<sup>1</sup> Phase 2 of the Safeguards project includes revisions to the following paragraphs in the extant Code:

- 290.100–290.101, *Application of the Conceptual Framework Approach to Independence*.
- 290.154–290.214, *Provision of Non-Assurance Services to an Audit Client*.
- 291.138–291.148, *Provision of Non-Assurance Services to an Assurance Client*.
- Conforming amendments arising from the Safeguards project to other sections of the Code.

<sup>2</sup> Part 4A, *Independence for Audits and Reviews*, Section 600, *Provision of Non-assurance Services to an Audit Client* and Part 4B, *Independence for Other Assurance Engagements*, Section 950, *Provision of Non-assurance Services to an Assurance Client*

[in Principle for Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards BFAP) was released in January 2017 in conjunction with Safeguards ED-2 to summarize and explain the rationale for the IESBA’s conclusions in Phase 1 of the project.

### **Matters Presented in this Paper**

3. This paper summarizes the significant issues raised by respondents to Safeguards ED-2 and the Task Force’s (TF) proposals, and is organized as follows:
  - A. Background
  - B. Overview of responses and highlights of significant comments
  - C. Feedback on Phase 2
    - I. Permissibility of NAS and other issues that are beyond project scope.
    - II. Prohibition of certain recruiting services.
    - III. Appropriateness of NAS safeguards.
    - IV. Other matters relevant to revising proposed Section 600
    - V. Comments relating to proposed Section 950 and the Conforming Amendments
  - D. Feedback on Phase 1 decisions
  - E. Other matters.

### **Coordination with Other TFs**

4. The Structure TF’s deliberations might have implications for the TF’s final conclusions because:
  - Some respondents signaled that they would subsequently comment on the conforming amendments arising from the Safeguards project as part of their response to Structure ED-2.
  - Some respondents’ comments on Safeguards ED-2 will have implications for the rest of the Code, or relate to structural matters, both of which will require input from the Structure TF.
5. Accordingly, the TF’s plans to liaise with the Structure TF to identify any late input received on Safeguards ED-2, and to develop coordinated responses to overlapping issues in finalizing its proposed revisions to Safeguards ED-2. Nevertheless, **Agenda Item 4-B, Proposed Section 600 (Mark-up from Safeguards ED-2)** illustrates the TF’s revisions developed to-date, and is provided for reference. The TF plans to use the input from IESBA’s June 2017 discussions to further refine revisions to proposed Section 600 and the rest of the proposals in Safeguards ED-2.
6. The TF also anticipates that it will need to liaise with the Long Association, NOCLAR, Part C and Structure TFs in finalizing any revisions to the safeguards conforming amendments.

### **A. Background**

7. Safeguards ED-2 includes restructuring changes to the already stronger set of requirements and application material for NAS that were established with the April 2015 Release, [Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients](#) (2015 NAS

Changes).<sup>3</sup> In addition to those restructuring changes, Safeguards ED-2, explains how firms and network firms should apply the enhanced conceptual framework when providing NAS to their clients.<sup>4</sup>

### **Recap of Phase 1**

8. The agreed in principle text for Phase 1 of the Safeguards project establishes an enhanced and more robust conceptual framework with more explicit requirements and application material to explain how to identify, evaluate and address threats to compliance with the fundamental principles and threats to independence. This enhanced conceptual framework also:
  - (a) Emphasizes that threats that are not at an acceptable level should be addressed by either:
    - (i) Eliminating the circumstances, including interests or relationships, that are creating the threats;
    - (ii) Applying safeguards, where available and capable of being applied; or
    - (iii) Declining or ending the specific professional activity.
  - (b) Clarifies the meaning of key terms used in the conceptual framework. For example, the conceptual framework:
    - (i) Includes a revised description that states that safeguards are “actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.”
    - (ii) Explains that certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization (conditions, policies and procedures), that can enhance the PA acting ethically and which might also impact the identification and evaluation of threats to compliance with the fundamental principles, are no longer characterized as safeguards. Examples of those conditions, policies and procedures are referred to as “factors that are relevant to evaluating the level of threats” throughout the proposed restructured Code.
    - (iii) Provides improved examples of actions that might be safeguards to address specific threats and provides a link between those examples and the threats they are intended to address; and

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<sup>3</sup> The 2015 NAS Changes became effective in April 2016 and included:

- The removal of provisions that permitted a firm to provide certain bookkeeping and taxation services to PIE audit clients in emergency situations.
- New and clarified guidance regarding what constitutes management responsibility.
- Clarified guidance regarding the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs.

<sup>4</sup> Consistent with the drafting conventions established by Phase 1 of the Structure project, proposed Sections 600 and 950 refer to but do not repeat the specific requirements and application material that are relevant to applying the enhanced conceptual framework (i.e., the key provisions in proposed Sections 120, 400 and 900 of the restructured Code are not repeated in proposed Sections 600 and 950).

- (iv) Includes new application material to explain that there are some situations in which threats can only be addressed by declining or ending the specific professional activity because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the level of those threats to an acceptable level.

## B. Overview of Responses and Highlights of Significant Comments

### Overview of Responses

9. Comment letters were received from 46 respondents representing a diverse group of stakeholders from many jurisdictions, as listed in the Appendix to this paper.<sup>5</sup> The respondents to Safeguards ED-2 comprise the following:

Category of Respondent	Number of Responses
Regulators and Oversight Authorities (Regulators)	6
National Standard Setters (NSS)	2
Firms	9
Public Sector Organizations (Public Sector)	2
IFAC Member Bodies <sup>6</sup> (MBs)	24
Other Professional Organizations (OPs)	3
<b>Total</b>	<b>46</b>

10. Some respondents indicated in their letters that their response either: represent a view of various organizations; or incorporate input from various stakeholders within their respective jurisdictions based on targeted outreach. For example:
- AE, formerly known as Federation of European Accountants (FEE) has a membership of 50 professional organizations from 37 European countries.
  - APESB took into consideration Australian stakeholders' feedback from two roundtable events in Melbourne and Sydney in developing its response to Safeguards ED-2.
  - [IFIAR](#) comprises independent audit regulators of 52 different jurisdictions.
  - [IOSCO](#) is recognized as the global standard setter for the securities sector, and its members regulate more than 95 percent of the world's securities markets in more than 115 jurisdictions, including the major emerging markets.
  - ISCA sought views from its over 32,000 membership base through a one-month public consultation in developing its response to Safeguards ED-2.

<sup>5</sup> Some comment letters, including those from the AOB, IFIAR and IBRACON were received after the TF's May 2017 physical meeting and will be further considered during the TF's July 2017 meeting.

<sup>6</sup> Certain IFAC Member Bodies (e.g., AICPA, JICPA, HKICPA, and WPK), also hold the dual role of ethics standard setter in their respective jurisdictions.

- SMPC members are small and medium-sized practices (SMPs) drawn from IFAC member bodies representing 22 countries.

### Highlights of Comments

11. Respondents from all stakeholder groups, including the two monitoring group (MG) members generally expressed support for the objective of the Safeguards project. A substantive number of respondents were of the view that Safeguards ED-2, and the Safeguards project more broadly enhanced the clarity of provisions relating to safeguards in the Code, and provided comments and editorial suggestions to improve the proposals.<sup>7</sup> Some comments about the proposals include, they:
  - Improve the readability of the concept and clearly articulates the correlation between threats and safeguards;<sup>8</sup> and
  - Further strengthened the clarity and structure of the Code.<sup>9</sup>
  - The proposals are clear and in most respects make sense.<sup>10</sup>
  - Increase the prominence of the requirements related to avoiding management responsibilities and the new application material for evaluating threats, including materiality in relation to an audit client's financial statements.<sup>11</sup>
  - Include clear and explicit and prominent statements that in certain situations the Code prohibits firms and network firms from providing certain NAS to an audit client because there can be no safeguards to address the threats to independence, which serve to highlight that safeguards may not in all cases be sufficient to address an independence threat.<sup>12</sup>
  - The improvements to the Code are both welcome and necessary to make sure that it is fit for purpose for PAs in any environment and that it can be applied to a consistently high standard.<sup>13</sup>
12. Some respondents, in particular regulators, commented on matters that the IESBA has already determined to be outside of the scope of the Safeguards project. For example, there was a view that:
  - As part of the “safeguards” project, which deals with non-audit services, the IESBA should consider wider revisions relating to non-audit services.<sup>14</sup> For example, it was suggested that the Code would be improved with more requirements to prohibit the provision of certain NAS

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<sup>7</sup> Respondents who explicitly expressed general support for the proposals in Safeguards ED-2 include: **Regulators:** IRBA, NASBA, AOB; **NSS:** APESB, NZAuASB; **Firms:** BDO, CHI, DTT, EYG, GTI, KPMG, MNP, PWC, RSM; **Public Sector:** GAO; **MBs:** AICPA, CAANZ, CPAC, HICPA, IBRACON, ICAS, ICAP, IDW, WPK

<sup>8</sup> **NSS:** APESB; **MBs:** AICPA, ICAS, WPK

<sup>9</sup> **Firms:** EYG

<sup>10</sup> **Firms:** CHI

<sup>11</sup> **MBs:** WPK

<sup>12</sup> **Firms:** EYG

<sup>13</sup> **Firms:** RSM

<sup>14</sup> **Regulators:** AOB, IFIAR, IOSCO, IRBA, UKFRC

services.<sup>15</sup>

13. Respondents' views were split about whether firms and network firms should be prohibited from providing certain types of recruiting services to all audit clients. On one hand, some respondents, including all regulators agreed with the IESBA and supported extending the prohibition for PIEs to all entities,<sup>16</sup> while on the other hand, some respondents in particular those expressing an SMP view expressed strong concerns.<sup>17</sup> Further, there was a view that in practice it is unusual for a recruitment process to be divided into different stages, and it was suggested that all, rather than certain recruiting services should be prohibited (i.e., including those described in paragraph 609.3 A1).<sup>18</sup>
14. In regards to proposed Section 950, a substantive number of respondents expressed support and suggested further refinements aimed at achieving further alignment to the proposals in Section 600. However, there were some respondents, in particular regulators were of the view that:
  - The independence requirements for all other assurance engagements<sup>19</sup> or for other assurance engagements of public interest entities<sup>20</sup> should be the same as it is for audits.
  - The requirements and application material in proposed Section 950 that apply to the firm should also apply to network firms.<sup>21</sup>
15. The IESBA did not seek feedback on the agreed in principle text for Phase 1 of the project. However, some respondents shared views about certain key decisions. For example, some respondents expressed concerns about:
  - Matters that were previously considered safeguards are no longer considered as such in the revised conceptual framework resulting in a reduced number of safeguards being available to the firm when applying the revised conceptual framework to NAS.<sup>22</sup>
  - The revised descriptions for reasonable and informed third party (RITP),<sup>23</sup> acceptable level,<sup>24</sup> and safeguards.<sup>25</sup>
16. The remainder of this paper is a more detailed discussion of the above comments and the TF's recommended responses.

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<sup>15</sup> **Regulators:** AOB, NASBA, IFIAR, IOSCO, IRBA, UKFRC; **NSS:** APESB, NZAuASB; **Firms:** CHI

<sup>16</sup> Respondents who support proposal for recruiting proposal include: **Regulators:** IOSCO, IRBA, NASBA, UKFRC; **NSS:** APESB, NZAuASB; **Firms:** DTT, EYG, KPMG; **Public Sector:** GAO; **MB:** CPAA, FAR, HICPA, IBRACON, IMCP, JICPA, MICPA, SAICA; **OPs:** ATT

<sup>17</sup> Respondents who do not support the recruiting proposal include: **Firms:** CHI, BDO, GTI, MNP, RSM; **MBs:** AE, ACCA, AICPA, CNCC, EFAA, ICAS, IDW, KICPA, WPK; **OPs:** SMPC

<sup>18</sup> **MBs:** ISCA

<sup>19</sup> **Regulators:** IRBA; **NSS:** NZAuASB.

<sup>20</sup> **Regulators:** UKFRC

<sup>21</sup> **Regulators:** IRBA

<sup>22</sup> **MBs:** ACCA, AE, CNCC, CPAA, IDW; **OPs:** SMPC

<sup>23</sup> **Regulators:** IRBA, UKFRC; **MBs:** ACCA, AE

<sup>24</sup> **Regulators:** UKFRC; **Public Sector:** AGNZ; **MBs:** ACCA, AE

<sup>25</sup> **Regulators:** IRBA, UKFRC; **MBs:** ACCA, AE

## **C. Feedback on Phase 2**

### **Permissibility of NAS and Other Issues that Are Beyond Project Scope**

#### *Recap of IESBA Decisions*

17. As part of the Safeguards project, the IESBA agreed to focus on clarifying the safeguards in the Code. Accordingly, the nature of the substantive changes to the NAS section of the Code are to explain how firms and network firms should apply the enhanced conceptual framework to identify, evaluate and address threats to independence<sup>26</sup> created by providing NAS to audit or assurance clients. The changes also clarify the examples of safeguards in the Code, ensuring that they:
  - Meet the enhanced description of safeguards established by Phase 1 of the project.
  - Are linked to, and responsive to specific threats.
18. The Safeguards project also sought to clarify that safeguards may not always be available or capable of addressing threats that are created by providing a NAS to an audit or assurance client, in which case, the firm or network firm would be required to address threats either by:
  - Eliminating the circumstances, including interests or relationships, that are creating the threats; or
  - Declining or ending the specific professional activity.
19. As part of the Safeguards project, the TF observed an instance when safeguards are not capable or available to address threats created by providing a specific NAS, and proposed a requirement to prohibit that NAS (see also section on Prohibition of Certain Recruiting Services below).
20. In developing the 2015 NAS Changes, the IESBA had concluded, based on a benchmarking exercise focused on G-20 countries and a select number of other jurisdictions in early 2013, that there was no evidence that the Code's NAS provisions were at significant variance from those of most or all of these jurisdictions. In approving the due process for the 2015 NAS Changes in March 2015, the Public Interest Oversight Board (PIOB) called on the IESBA to revisit issues on auditor independence from a broader perspective, including prohibited NAS and the role of those charged with governance in approving NAS.
21. In discussing its proposals in Safeguards ED-2, the IESBA considered concerns that were identified about the permissibility of NAS, in particular from the PIOB and regulators during its finalization of the 2015 NAS changes. The IESBA agreed to address those concerns as part of a separate NAS initiative that will likely continue beyond 2018 or start in the new strategy period (see the April 2017 [IESBA Strategy Survey Questionnaire](#) (the IESBA Survey)). The IESBA's preliminary work on this NAS initiative is ongoing and will include a review of updated benchmarking data, as well as the results of a separate fees fact-finding initiative.

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<sup>26</sup> Parts 4A and 4B of the proposed restructured Code include requirements for firms to be independent and for firms to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to audit and assurance engagements (see Section 400, paragraphs 11 and 12 and Section 900, paragraphs 15 and 16).

### *Feedback from Respondents*

22. As noted earlier in this paper, some respondents,<sup>27</sup> in particular regulators, expressed views about matters relating to the permissibility of certain NAS to audit clients. For example, some respondents suggested specific topic areas where they believed proposed Section 600 should be aligned with provisions that exist in laws, regulations or national Codes of some local jurisdictions. Those topic areas include:
- Bookkeeping and preparing accounting records and financial statements, including those of a routine or mechanic nature for divisions or related entities;<sup>28</sup>
  - Designing and implementing internal control or risk management procedures;<sup>29</sup>
  - Services related to the audited entity's internal audit function;<sup>30</sup> and
  - Services linked to the financing, capital structure and allocation, and investment strategy.<sup>31</sup>
  - Litigation support services for PIEs when it is used for the purpose of advancing the entity's interest in a legal proceeding or investigation with respect to amounts that are material to the financial statements subject to audit or review.<sup>32</sup>
23. There was also a view that the Code should include requirements in relation to fees charged for NAS services provided to audit and assurance clients, e.g., "...consider the total of the NAS fee in relation to the audit fee charged to audit client" or "When the total NAS 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 NAS and concerns about losing the NAS client may create self-interest, self-review and intimidation threats."<sup>33</sup>

### *TF Proposal*

24. The TF is of the view that the input provided on NAS related matters are beyond the scope of the Safeguards project and believes that this input might be relevant to the IESBA's Fees initiative, the future NAS project to be progressed in 2018 and beyond, as well as the development of the IESBA's consultation paper about its Future Strategy and Work Plan.

#### **Matters for IESBA Consideration**

1. Do IESBA members agree with the TF's conclusion about the issues raised related to the permissibility NAS?

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<sup>27</sup> **Regulators:** AOB, IFIAR, IOSCO, IRBA, UKFRC

<sup>28</sup> **Regulators:** AOB, IFIAR, IOSCO, IRBA, UKFRC

<sup>29</sup> **Regulators:** UKFRC

<sup>30</sup> **Regulators:** UKFRC

<sup>31</sup> **Regulators:** UKFRC

<sup>32</sup> **Firms:** MNP

<sup>33</sup> **Regulators:** IRBA

## Prohibition of Certain Recruiting Services

### *Feedback from Respondents*

25. As noted above, respondents' views were split about whether the Code should include paragraph R609.6 of Safeguards ED-2 relating to extending to all entities, a prohibition relating to the provision of certain 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. While there were many respondents who agreed with IESBA and supported the proposal<sup>34</sup> there was substantive number of respondents who expressed concerns, in particular with respect to SMPs.<sup>35</sup> Some of those concerns include:

- Audit clients that are not PIEs look to the expertise of their auditor to assist them in finding strong, qualified candidates for finance and accounting positions within their organization and that in their view the proposal would create significant challenges for SMPs who lack the resources to recruit competent directors or senior management.
- The existence of any self-interest or familiarity threats that may arise from performing these recruiting services could be reduced to an acceptable with the application of safeguards, and therefore there was a view that the proposal was beyond the scope of the Safeguards project.<sup>36</sup>

It was suggested that additional guidance should be added to proposed Section 600 to explain what is meant by "seeking out candidates."<sup>37</sup>

### *TF Further Considerations and Proposal*

26. The TF gave careful consideration to the following examples of safeguards that respondents believed might address threats created from providing the specific types of recruiting service referenced in Safeguards ED-2 to entities that are not PIEs:

- Involving professionals who have no connection with the audit engagement now or in the future.
- Having individuals that are not part of the engagement team perform the services.
- 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.
- 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.

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<sup>34</sup> See footnote 16 for a listing of respondents who expressed support for recruiting proposal in Safeguards ED-2.

<sup>35</sup> See footnote 17 for a listing of respondents who did not support the recruiting proposal in Safeguards ED-2.

<sup>36</sup> Respondents who believe that the recruiting proposal is outside the scope of the Safeguards project include: **MBs:** AE, ACCA, ICAS

<sup>37</sup> **Firms:** BDO

27. The TF does not believe that the above examples of safeguards are appropriate to address the self-interest, familiarity or intimidation threats to independence that might result from providing the specific types of recruiting services in the circumstances described in Safeguards ED-2.
28. The TF is of the view that it is possible that some respondents might have misunderstood the specificity of the prohibition being proposed and on that basis, the TF has developed:
- Refinements to the requirement to clarify the specific facts and circumstances that trigger the prohibition.
  - New application material to explain the meaning of the term “seeking for or seeking out candidates ...” and to explain the types of recruiting services that might still be provided. An illustration of the TF’s proposed revisions is included in the box below:

Proposed Revisions to the Text in Safeguards ED-2

**R609.6** A firm or a network firm shall not provide a recruiting service to an audit client with respect to:

(a) ~~a~~A director or officer of the entity; or

(b) A member of 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:

~~(a)~~ (i) Searching for or seeking out candidates for such positions; ~~and or~~

~~(b)~~ (ii) Undertaking reference checks of prospective candidates for such positions.

609.6 A1 Searching for or seeking out candidates involves identifying and providing candidates selectively to the audit client. This might include psychological evaluations of the candidate, for example, to determine whether the candidate is suitable for the culture of the audit client. However, a firm or network firm may interview candidates selected by the audit client, and advise on their technical competence.

**Matters for IESBA Consideration**

2. Do IESBA members agree with the TF’s conclusion and proposed revisions relating to the prohibition of certain recruiting services?

**Appropriateness of NAS Safeguards**

*Recap of Proposal*

29. Safeguards ED-2 included examples of actions that might be safeguards to address threats created when providing the specific type of NAS. Those examples were based on the new and more robust description of safeguards that was developed in Phase 1 of the project, which also explains that certain conditions, policies and procedures are not safeguards.

### Feedback from Respondents

30. Respondents generally believed that the revised examples of actions that might be safeguards provided in Safeguards ED-2 were appropriate. However, some respondents expressed the following concerns:
- The overall number of safeguards in the Code were reduced and would have negative implications for SMPs (see Factors that Relevant to Evaluating Threats Versus Safeguards section).<sup>38</sup>
  - The more frequently used examples of safeguards<sup>39</sup> in the restructured Code were not appropriate to address threats to independence at the firm and network firm level.<sup>40</sup>
  - In some cases, the application of certain safeguards may not be possible because of the limited number of appropriately qualified professionals within a firm or network firm or even within a jurisdiction. As a response, it was suggested that the Code should be explicit about "...the use of independent external consultants..."<sup>41</sup>
  - In some cases, an individual PA may be inclined to make judgments that protects the economics and other interest of the firm rather than the public interest and needs of investors, and in such cases having another professional review the service or audit work may not be an appropriate safeguard to address threats to independence at the firm level.<sup>42</sup>
  - Some examples of safeguards would be better characterized either as:<sup>43</sup>
    - Remedial actions for when the PA has not complied with a specific requirement, e.g., "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 to take responsibility for the service;" or
    - Positions that a PA, firm or network firm should adopt before taking on a client, rather than actions to take in relation to an existing client, e.g., "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."

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<sup>38</sup> **MBs:** ACCA, AE, IDW, WPK; **OPs:** SMPC

<sup>39</sup> The IOSCO letter further noted that:

"... 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:

- "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."

<sup>40</sup> **Regulators:** IOSCO, IFIAR

<sup>41</sup> **Firms:** CHI; **MBs:** AE, ICAEW, SAICA

<sup>42</sup> **Regulators:** IOSCO

<sup>43</sup> **Regulators:** UKFRC

- Some examples of safeguards are unhelpful, e.g., where threats arise from overdue fees, it does not seem credible to suggest that a safeguard might be “obtaining payment of overdue fees.”<sup>44</sup>

31. Some respondents made suggestions to:

- Refine the examples of actions that might be safeguards and to ensure that the language used to describe similar safeguards were consistent.<sup>45</sup>
- Introduce new examples of actions that might be safeguards to those in Safeguards ED-2.<sup>46</sup> For example, respondents suggested that the NAS section of the Code include the following examples of safeguards to address threats to independence:
  - Involving another audit organization to perform or re-perform part of the audit.<sup>47</sup>
  - Joint audits.<sup>48</sup>
  - Obtaining an advice from a third party in certain circumstances, e.g., a supervising or a controlling authority.<sup>49</sup> It is noted that advice no longer meets the new description of safeguards established in Phase 1 of the project.

#### *TF Preliminary Proposals*

32. Taking into account the feedback from respondents who submitted their comment letters as of its May 2017 meeting, the TF revised the examples of safeguards in proposed Section 600 to ensure that they are described in a consistent manner. The examples of actions in proposed Section 600 that might be safeguards to address specific threats created by providing NAS may be categorized as follows:

- Using professionals who are not audit team members to perform the NAS.
- If the NAS is performed by an audit team member, using professionals who are not audit team members, with appropriate expertise to review the NAS.
- Having a professional review the audit work or result of the NAS might address a self-review threat.
- In some cases, having a professional who was not involved in providing NAS review the accounting treatment or presentation in the financial statements might address a self-review or advocacy threat.

33. With respect to the appropriateness of certain safeguards to address independence threats at the firm level, the TF believes that the application of the conceptual framework requires firms and network firms to determine whether threats to independence that are created by providing NAS to audit clients

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<sup>44</sup> **Regulators:** UKFRC

<sup>45</sup> **Firms:** EYG

<sup>46</sup> **Regulators:** IRBA, UKFRC; **Public Sector:** GAO; **MB:** AICPA, CNCC; **OPs:** SMPC

<sup>47</sup> **Public Sector:** GAO

<sup>48</sup> **MBs:** CNCC

<sup>49</sup> **MBs:** CNCC

are at an acceptable level [emphasis added]. If those threats are not at an acceptable level, the firm or network firm is required to address those threats in accordance to the requirement for addressing threats set out in the conceptual framework (see Recap of Phase 1 section). Those requirement to apply safeguards, where they are available and capable of being applied, is only one of the ways that threats might be addressed.

34. The TF agrees with those respondents who note that in some cases, e.g., for SMPs, it might be appropriate for the professionals used for reviewing the NAS or the audit work to be individuals that are external to the firm or network firm and believes that the exercise of professional judgment is needed to help firms and network firms make that determination.
35. With respect to suggestions for including an explicit statement in the Code to indicate that professionals doing reviews could be either internal or external to the firm, the TF believes that the examples of safeguards in the Code should be neutral and should not distinguish between actions that might be performed by professionals who are employed by the firm versus those who are external to the firm, provided that those professionals are not involved in the audit.
36. The TF plans to further consider respondents' responses about the appropriateness of safeguards during its July 2017 meeting and is planning to report its final conclusions to the IESBA in September 2017.

#### **Matters for IESBA Consideration**

3. IESBA members are asked to consider respondents' feedback about the appropriateness of the examples of safeguards and indicate whether they agree with the TF's preliminary proposal.

#### **Other Matters Relevant to Revising Proposed Section 600**

37. As noted above, some respondents provided editorial and substantive suggestions about how the proposals in Safeguards ED-2 might be improved. In addition to those already discussed above, the topics on which substantive comments were raised relate to the new general provisions for evaluating threats and the identification and evaluation of advocacy threats. The TF also has took on some noteworthy revisions that are in their view are not substantive but are beyond editorial in nature. A summary of the revisions that are beyond editorial in nature is included in Appendix 2 to this paper.

#### *Feedback from Respondents*

38. There was general support for the new application material relating to evaluating the level of threats in paragraph 600.4 A3, in particular the new paragraph about materiality in relation to an audit client's financial statements. However, some respondents were of the view that:
  - Additional examples of factors might further enhance the Code. For example, IRBA suggested the inclusion of the following factors:
    - Whether the segregation of responsibilities between the audit or review engagement and the NAS engagement is possible.

- Whether the NAS is supported by laws or regulations or rules that are clearly articulated. The respondent was of the view that a NAS engagement that is based on a recognized framework is less likely to compromise independence on the audit engagement.
  - The degree of subjectivity of the NAS engagement.
  - The reliability and availability of underlying data on which the NAS is provided.
  - Whether the NAS engagement is based on past or future events.
  - The operating structure of the firm or network firm.
  - The purpose and use of the NAS.
- The example of the factor with the words “...Whether the audit client is a PIE...” should be deleted because they were of the view that the threat to independence is the same for all types of entities.<sup>50</sup>
  - The application material for materiality should provide an indication about how to assess the material effect of NAS that might be provided to audit clients.<sup>51</sup>
  - The Code should explain what is meant by the term “significant” as is used in the Code (e.g., in the subsections relating to internal audit and IT systems services).<sup>52</sup>
39. With respect to advocacy threats, there was a view that anytime an auditor promotes or advocates on behalf of their client, the auditor’s objectivity is subsequently compromised and that the auditor will have a bias in favor of advancing their client’s interests (i.e., the existence of an advocacy threat would exist irrespective of whether the amounts involved are immaterial).<sup>53</sup> On that basis, it was suggested that the IESBA revisit the list of factors to evaluating the level of advocacy threats throughout the Code, in particular for relevant provisions relating to assisting in the resolution of tax disputes; providing litigation support and legal services (see paragraphs R604. 16(b), 607.4 A1, third bullet point, and R608.8).

#### TF Preliminary Proposals

40. The TF considered the above examples of factors to evaluate the level of threats, taking into account the additional suggestions provided by respondents and has revised the proposed application material to clarify that the “nature and scope of a NAS” should be considered as a separate factor. No other changes were made to paragraph 600.4 A3.
41. With respect to suggestions relating to materiality and significance, the TF re-affirms the conclusions that the IESBA reached in finalizing Safeguards ED-2, and is of the view that an initiative to expand how materiality and significance applies in the context of the Code goes beyond the scope of the Safeguards project and would require coordination with others, including the IAASB and the International Accounting Standards Board. The IESBA Survey notes the need for a broader

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<sup>50</sup> **MBs:** CAANZ, CPAA

<sup>51</sup> **Regulators:** IFIAR, IOSCO, IRBA,

<sup>52</sup> **Regulators:** IFIAR, NASBA; **Public Sector:** GAO

<sup>53</sup> **Firms:** GTI

consideration of how the concept of materiality should apply in the context of the full Code, and not just NAS in isolation.

42. With respect to advocacy threats, the TF has revised proposed Section 600 to:
- Ensure inclusion of a statement in circumstances when an advocacy threat might be created.
  - Add a new factor that is relevant to evaluating advocacy threats as follows: “the purpose and use of the NAS.”
43. The TF plans to further consider the need for revisions to those general provisions for evaluating threats during its July 2017 meeting and is planning to report its final conclusions to the IESBA in September 2017.

### **Comments Relating to Proposed Section 950 and the Conforming Amendments**

44. The TF has reviewed respondents’ specific comments and drafting suggestions relating to proposed Section 950 and the conforming amendments. Except for the comments that have already been summarized in this paper, there were no other substantive comments.
45. The TF plans to further consider the respondents’ comments on proposed Section 950 and the conforming amendments in the rest of the Code during its July 2017 meeting. This approach will allow the TF the opportunity to consider the implications of the IESBA’s input on the suggested revisions to proposed Section 600 that are illustrated in Agenda Item 4-B. Those revisions to proposed Section 600 will form the basis for developing the revisions to Section 950 and to the conforming amendments in the rest of the Code.
46. The TF plans to present revisions to proposed Section 950 and the proposed conforming amendments to the IESBA in September 2017.

#### **Matters for IESBA Consideration**

4. IESBA members are asked for views about the TF’s approach to finalize its:
- (a) Revisions to proposed Section 600; and
  - (b) Planned approach for revising proposed Section 950, and the conforming amendments.

### **D. Feedback on Phase 1 Decisions**

47. In responding to Safeguards ED-2, some respondents used the opportunity to express concerns about Phase 1 matters. Those concerns generally related to either:
- Certain matters that were previously considered safeguards are no longer considered as such in the revised conceptual framework resulting in a reduced number of safeguards available to the firm when applying the revised conceptual framework; and that the proposals did not give sufficient regard to important practical implications for SMPs.<sup>54</sup>

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<sup>54</sup> **NSS:** APESB; **MBs:** ACCA, AE, AICPA, CNCC, WPK; **OPs:** EFAA, SMPC

- The newly established descriptions of RITP,<sup>55</sup> acceptable level,<sup>56</sup> and safeguards.<sup>57</sup>
- The use of the term “significance” in the Code, including the suggestion for the inclusion of guidance in the Code to explain its meaning, in particular in the context of identifying, evaluating, and addressing threats.<sup>58</sup>

#### “Factors to Evaluate the Level of Threats” Versus Safeguards

48. The TF affirms its view that conditions, policies and procedures that are established by the profession, legislation, regulation, the firm, or the employing organization are not safeguards because they are not specific actions taken by the PA, firm or network firm. Safeguards are actions, individually or in combination that the PA takes that effectively reduce threats to compliance with the fundamental principles to *an acceptable level* [emphasis added]. The TF continues to believe that conditions, policies and procedures though properly designed may not always be working effectively, or may not be precise enough to address an identified threat.
49. The TF agrees with respondents who suggest the need for clarification about the interaction between conditions, policies and procedures or “factors that are relevant in evaluating the level of threats” and “safeguards that are applied in order to reduce the level of threats” and believes that the final “Basis for Conclusions” document for the project should clarify in a prominent manner that:
- Conditions, policies and procedures, while no longer categorized as safeguards, are factors that are to be considered when evaluating whether or not the level of a threat is at an acceptable level. If threats are not considered to be at an acceptable level, the conditions, policies and procedures are not effective at addressing the threat and, therefore, other actions must be taken to either eliminate or reduce the threat to an acceptable level.
  - Conditions, policies and procedures are not considered to be safeguards because they are not specific actions that the PA, firm or network firm takes to reduce threats to an acceptable level. However, an evaluation of the effectiveness of those conditions, policies and procedures is an important component to the application of the conceptual framework. Accordingly, the Code refers to those conditions, policies and procedures as “factors that might be relevant to evaluating threats...”
50. The Code requires PAs, firms and network firms to address threats that are not at an acceptable level. Therefore, if the application of requirements to evaluate threats indicate that the level of those threats are at an acceptable level, then no further action would be required. The TF believes that some of the concerns raised by respondents about this issue arise from them not fully understanding this aspect of the conceptual framework. Therefore, the TF is of the view that no changes are needed to the text of Phase 1.

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<sup>55</sup> **Regulators:** IRBA, UKFRC; **MBs:** ACCA, AE

<sup>56</sup> **Regulators:** UKFRC; **Public Sector:** AGNZ; **MBs:** ACCA, AE

<sup>57</sup> **Regulators:** IRBA, UKFRC; **MBs:** ACCA, AE

<sup>58</sup> **Regulators:** IFIAR, NASBA; **Firms:** CHI, **Public Sector:** GAO; **MBs:** ICAEW, KICPA

### **RITP and the Use of the RITP Test**

51. Phase 1 of the project emphasizes the existing requirement for PAs to use the RITP test when applying the conceptual framework and clarifies that the RITP test<sup>59</sup> is a consideration by the PA about whether the same conclusions would likely be reached by another party. The agreed-in-principle text explains that the RITP test is made from the perspective of a RITP, who weighs all the relevant facts and circumstances that the PA knows, or could reasonably be expected to know, at the time the conclusions are made.
52. The Safeguards BFAP noted that the IESBA is of the view that the RITP is a concept and therefore is not a real person. The agreed-in-principle text for Phase 1 clarifies the attributes for a RITP and states that the RITP “does not need to be a PA, but needs to possess the relevant knowledge and experience, to understand and evaluate the appropriateness of the accountant’s conclusions in an impartial manner.”

#### *Feedback from Respondents*

53. Respondents generally expressed support for the IESBA’s descriptions of RITP and RITP test. However, some respondents,<sup>60</sup> in particular regulators were of the view that the RITP test should incorporate the anticipated views of the public in whose interests the PA has a responsibility to act. For example, it was suggested that the IESBA consider introducing a new concept of “investor perception test.”<sup>61</sup>

#### *TF Proposal*

54. The TF notes that some respondents continue to be of the view the words in the agreed-in-principle text, “...possess the relevant knowledge and experience, to understand and evaluate the appropriateness of the accountant’s conclusions...” focuses on a consideration of the perspective of a PA rather than the objective lens of the public.
55. The TF believes that the final Basis for Conclusions for the project should further emphasize the principles that are already in the agreed-in-principle text that explicitly state that the RITP test is intended to be objective and from the perspective of the public. The TF does not believe the words in the agreed-in-principle text should be changed.

### **Acceptable Level**

56. Phase 1 of the agreed-in-principle text established a revised description for “acceptable level” which is “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.”

#### *Feedback from Respondents*

57. Some respondents expressed concerns about this revised description,<sup>62</sup> most of which were

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<sup>59</sup> Section 120, paragraphs R120.5 and 120.5 A1

<sup>60</sup> **Regulators:** IRBA, UKFRC

<sup>61</sup> **Regulators:** IRBA

<sup>62</sup> **Regulators:** UKFRC; **Public Sector:** AGNZ; **MBs:** AE

reiterations of their suggestions provided in response to Safeguards ED-1. Those respondents suggested that the IESBA:

- Avoid using the term “acceptable level” because it is too low of a bar even if it is now described in an affirmative manner, and suggested that the Code instead include a statement along the lines of “threats are to be eliminated or reduced to a level at which the fundamental principles would not be compromised.”<sup>63</sup>
- Replace the words “would likely” in the description with words that convey more certainty. By way of examples, it was suggested that the Code instead use words along the lines of: “would conclusively,” “would conclude with virtual certainty,” “would beyond reasonable doubt” or “would”<sup>64</sup>
- Reinstate the extant description of “acceptable level.”<sup>65</sup>

#### TF Proposal

58. The TF does not believe that the description of acceptable level should be changed. Rather, the TF believes that the Basis for Conclusions for the project should further clarify the relevance of the term “acceptable level” in the applying the enhanced conceptual framework, in particular as it relates to the provision of NAS to audit clients. In this regard, the TF plans to consider the development of illustrations to explain how it believes firms and network firms should apply the conceptual framework to NAS. The TF plans to do this work during its July 2017 Task Force meeting.

#### Use of the Word “Significance”

##### *TF Proposal*

59. The TF considered the comment raised by respondents (see paragraph 47, third bullet) and has reaffirmed the IESBA’s agreed in principle decisions. The TF believes that the words “significant” or “significance” should not be used to describe the level of threats.
60. With respect to the suggestion to develop a description for the term “significant” or “significance”, as noted earlier in this paper, the TF believes the development of such a description goes beyond the scope of the Safeguards project. The TF notes reference to this issue in the IESBA’s Survey as part of a potential future project to address materiality in the context of the Code.

#### **Matters for IESBA Consideration**

5. IESBA members are asked for views about the TF’s proposals in response to the feedback received on Phase 1 of the Safeguards project.

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<sup>63</sup> **Regulators:** UKFRC

<sup>64</sup> **Public Sector:** AGNZ

<sup>65</sup> **MBs:** AE

## **E. Other Matters**

### *IESBA/IAASB Liaison*

61. Some respondents suggested that the terminology in the Code and the IAASB's standards should be more closely aligned.<sup>66</sup>

### TF Proposal

62. Where practical, the TF has taken on those suggestions (see Appendix 2). However, for certain matters, the TF is of the view that close coordination with the IAASB is required. The TF notes that discussions about coordination matters are a strategic priority for both the IESBA and IAASB.
63. The TF plans to liaise with the Structure TF to inventory changes that might need to be made in the IAASB's International Standards as a result of the Structure and Safeguards projects and is of the view that consideration of this work should be a separate work stream.

### *Pace of Changes to the Code, Translation Issues and Effective Date*

64. Some respondents,<sup>67</sup> expressed concern about the pace of changes to the Code in recent years, including the complexity of the multi-phase and multiple projects that will result in significant changes to the key provisions in the Code. Those respondents were of the view that given the extent of the changes to the Code:
- Regulators, firms, member bodies and other stakeholders will need more time to adopt and incorporate the changes into their respective Codes, rules and regulations.
  - Some jurisdictions (e.g., France and Japan) will be challenged to translate all documents relevant to the overall restructuring project by the proposed effective date.
65. It was suggested that the IESBA consider extending the timing of the effective date of the proposals relating to the Safeguards and Structure of the Code projects.
66. The Task Force wishes to draw the comments in paragraphs 64-65 to the IESBA's attention for their noting and further consideration.

#### **Matters for IESBA Consideration**

6. IESBA members are asked to express any other views about the feedback on Safeguards ED-2 and the TF's proposals.

<sup>66</sup> **Firms:** CHI; **Regulators:** IRBA, UKFRC; **NSS:** NZAuASB; **MBs:** IDW; **OPs:** SMPC

<sup>67</sup> **Firms:** EYG; **MBs:** CNCC, IDW, JICPA, SAICA, WPK; **OPs:** SMPC

## List of Respondents to Safeguards ED-2

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

#	Abbrev.	Respondent (46)	Region
<b>Regulators and Oversight Authorities, Including MG members (6)</b>			
1.	<b>IFIAR</b>	<b>International Forum of Independent Audit Regulators</b>	<b>GLOBAL</b>
2.	<b>IOSCO</b>	<b>International Organizations of Securities Commissions</b>	<b>GLOBAL</b>
3.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
4.	NASBA	National Association of State Boards of Accountancy	NA
5.	AOB	The Audit Oversight Board, Malaysia (Sirihanjaya Sekuriti Securities Commission Malaysia)	AP
6.	UKFRC	United Kingdom Financial Reporting Council	EU
<b>National Standard Setters (2)</b>			
7.	APESB	Accounting Professional & Ethical Standards Board Limited-Australia	AP
8.	NZAuASB/ XRB	New Zealand Auditing and Assurance Standards Board/ External Reporting Board	AP
<b>Firms (8)<sup>68</sup></b>			
9.	BDO*	BDO International Limited	GLOBAL
10.	CHI	Crowe Horwath International	GLOBAL
11.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
12.	EYG*	Ernst & Young Global	GLOBAL
13.	GTI*	Grant Thornton International Ltd	GLOBAL
14.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
15.	MNP	MNP LLP	NA
16.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
17.	RSM*	RSM International	GLOBAL
<b>Public Sector Organizations (2)</b>			
18.	GAO	United States Government Accountability Office	NA
19.	AGNZ	Office of the Auditor General of New Zealand	AP

<sup>68</sup> Forum of Firms members are indicated with a \*. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

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#	Abbrev.	Respondent (46)	Region
<b>IFAC Member Bodies (24)<sup>69</sup></b>			
20.	ACCA	Association of Chartered Certified Accountants	GLOBAL
21.	AE	Accountancy Europe	EU
22.	AICPA	American Institute of Certified Public Accountants Auditing Standards Board Professional Ethics Executive Committee	NA
23.	CAANZ	Chartered Accountants Australia and New Zealand	AP
24.	CNCC	Compagnie Nationale des Commissaires aux Comptes	EU
25.	CPAA	CPA Australia	AP
26.	CPAC	Chartered Professional Accountants of Canada (CPA Canada) Public Trust Committee	NA
27.	FAR	FAR (Institute for the Accountancy Profession in Sweden)	EU
28.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
29.	HICPA	Hong Kong Institute of Certified Public Accountants	AP
30.	IBRACON	Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil)	SA
31.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
32.	ICAS	Institute of Chartered Accountants of Scotland	EU
33.	ICAP	Institute of Certified Public Accountants of Pakistan	AP
34.	IDW	Institut der Wirtschaftspruefer	EU
35.	IMCP	Instituto Mexicano de Contadores Publicos	SA
36.	ISCA	Institute of Singapore Chartered Accountants, including the ISCA Ethics Committee	AP
37.	JICPA	Japan Institute of Certified Public Accountants	AP
38.	KICPA	Korean Institute of Certified Public Accountants	AP
39.	MIA	Malaysian Institute of Accountants	AP
40.	MICPA	Malaysian Institute of Certified Public Accountants	AP
41.	NBA	Royal Netherlands Institute of Chartered Accountants	EU
42.	SAICA	South African Institute of Chartered Accountants	MEA
43.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU

<sup>69</sup> Certain IFAC Member Bodies hold the dual role of ethics standard setter in their jurisdictions.

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#	Abbrev.	Respondent (46)	Region
<b>Other Professional Organizations, Including SMPC<sup>70</sup> (3)</b>			
44.	ATT	Association of Accounting Technicians	EU
45.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
46.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL

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<sup>70</sup> Constituents of the SMPC are SMPs who provide accounting, tax, assurance and business advisory services principally, but not exclusively to clients who are small and medium-sized entities (SMEs). Members of the SMPC are drawn from IFAC member bodies representing the following 22 countries: Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Italy, Kenya, Malawi, Malta, Nigeria, South Africa, Spain, Sweden, Turkey, Tunisia, Uganda, United Kingdom, and United States.

## Revisions to Proposed Section 600 That Are Beyond Editorial in Nature

1. As noted in paragraph 38 to this paper, the TF also made some noteworthy revisions based on suggestions provided by various respondents that in its view, though not substantive are beyond editorial in nature. A summary of those revisions are summarized below.
  - I. General Provisions
    - (a) A reference to the IAASB’s International Standard that deals with materiality in context of a review engagements is added in paragraph 600.5 A1.<sup>71</sup>
    - (b) The application material in paragraph 600.6 A1 now clarifies that the aggregated threats created from providing multiple NAS to an audit client are to be identified, evaluated and addressed.<sup>72</sup>
    - (c) With respect to provisions relating to avoiding management responsibilities:
      - (i) The title of the heading above paragraph R600.7, “Avoiding Management Responsibilities” is replaced with “Prohibition on Assumption of Management Responsibilities.”
      - (ii) The ordering of paragraphs 600.7 A1 and 600.7 A2 are reversed.
      - (iii) The word “setting” used in the first bullet in paragraph 600.7 A3 is changed to “developing and implementing.”
      - (iv) To clarify the actions that need to be taken in order to avoid assuming management responsibilities, revisions are made to the phrase “...avoid ~~the risk of~~ assuming management responsibility...” as marked (see paragraph R600.8).<sup>73</sup>
      - (v) To clarify the actions that must be undertaken by an audit client, in order for a firm or network firm to avoid assuming management responsibilities, the second sentence in paragraph R600.8 was revised. That sentence now reads, “The client’s management is responsible for...”<sup>74</sup>
    - (d) The phrase “the firm applies the conceptual framework to identify, evaluate and address any other threats that are created” in paragraph R600.10 (c)(iv) and elsewhere in the section is now revised to “...the firm applies the conceptual framework to eliminate any threats created or reduce them to an acceptable level.”
  - II. Subsection 601 – Accounting and Bookkeeping Services
    - (a) The reference to bookkeeping services in the second bullet in paragraph 601.3 A1 is removed because it is already included in the lead in. The bullet is revised to “Recording

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<sup>71</sup> **NSS:** NZAuASB

<sup>72</sup> **Regulators:** IRBA; **Firms:** DTT

<sup>73</sup> **Regulators:** IRBA, UKFRC

<sup>74</sup> **NSS:** APESB; **MBs:** CPAA, **OPs:** SMPC

transactions and payroll services.”

III. Subsection 602 – Administrative Services

- (a) The TF considered a suggestion<sup>75</sup> to move the provisions in Subsection 601 to either the general provisions in Section 600 or another subsection, but ultimately, agreed to retain its Safeguards ED-2 placement.

IV. Subsection 603 – Valuation Services

- (a) Except for the changes relating to advocacy threats discussed above, no substantive changes were made to subsection 603.

V. Subsection 604 – Taxation Services

- (a) Through subsection 604, the word “taxation” was changed to “tax”.
- (b) In order to avoid repeating the factors already listed in paragraph 604.4 A2, revisions were made to the factors that are relevant in evaluating the level of threat created by providing specific types of tax in 604.7 A1.
- (c) With respect to the prohibition to provide tax services that involve assisting in the resolution of tax disputes to an audit client, the TF has agreed to replace the word “and” after subparagraph (a) with the word “or.” This revisions was to correct an inadvertent change to a requirement in the extant Code.

VI. Subsection 605 – Internal Audit Services

- (a) The TF agreed to delete the second sentence in paragraph 605.4 A1 which states “If the firm’s 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” because they agree that the statement is already covered in paragraphs R605.4 and 600.7 A2.
- (b) Paragraph 605.6 A1 is moved up in the subsection because the TF agrees that it contains an important concept to establish why there would be threats to independence if a firm is providing internal audit services to an audit client.<sup>76</sup>
- (c) The ordering of paragraphs 605.5 A1–605.6 A2 have been revised to improve the flow of the provisions. Also, the word “similarly” has been added to the beginning of the second sentence in the new paragraph 605.5 A1 to clarify the link to preceding sentence.
- (d) The TF agrees that to the extent possible, the words in the Code to describe similar matters that are addressed in the IAASB’s International Standards should be the same. Therefore, within subsection 605 and throughout proposed Section 600, the TF has changed the phrase “...separately or in the aggregate ...” to “... individually or in the aggregate ...” The TF notes that the phrase is used only in Section 600 of the proposed restructured Code.

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<sup>75</sup> **Regulators:** UKFRC

<sup>76</sup> **Firms:** DTT

VII. Subsection 606 – Information Technology Services

- (a) Throughout subsection 606, the term “IT services” has been changed to be “IT systems services.”
- (b) The TF agrees that the provision in paragraph R606.5 consistent with the extant Code should apply to all entities.<sup>77</sup> Accordingly, the requirement in R606.5 is replaced with a new general provision in R606.4.
- (c) The second bullet in paragraph 606.4 A1 is expanded to include the following new factor that might be relevant to evaluating the level of threats created by providing IT systems services, “...the extent to which [the nature of an IT system] impact or interact with the client’s accounting records or financial statements.”

VIII. Subsection 607 – Litigation Support Services

- (a) There were no changes that were beyond editorial in nature to subsection 607.

IX. Subsection 608 – Legal Services

- (a) In addition to the addition of a new factor that is relevant to evaluating advocacy threats discussed above, the following factor was added: “The legal and regulatory environment in which the service is provided.”

X. Subsection 609 – Recruiting Services

- (a) Except for the changes relating to the prohibition of certain recruiting services discussed earlier in this paper, there were no changes that were beyond editorial in nature to subsection 609.

XI. Subsection 610 – Corporate Finance Services

- (a) Editorials revisions were made to the description of the examples of actions that might safeguards to address threats created by providing corporate finance services in paragraph 610.4 A2.

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<sup>77</sup> Firms: DTT