

4 May 2017

Mr. Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants (IESBA)  
International Federation of Accountants (IFAC)  
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By email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Mr. Siong,

**RE: IESBA's Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments***

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the IESBA's Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments* (Safeguards 2 ED).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants). In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants* which includes the Australian auditor independence requirements, as well as a range of professional & ethical standards that deal with non-assurance services.

**Introductory comments**

Subject to our recommendations noted in this submission, APESB is supportive of the IESBA's project to improve the clarity, appropriateness, and effectiveness of safeguards in the Code.

We have observed that apart from expanding the prohibition on providing recruiting services to all audit clients, the work on the safeguards project have restructured the extant content of the Code with limited substantive changes. We acknowledge that 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 Non-Assurance Services (NAS) to audit and assurance clients.

APESB is of the view that further consideration is required by the IESBA to strengthen the NAS requirements and to provide additional examples of appropriate safeguards which are tailored to the specific NAS. APESB has also responded to the IESBA's general and specific questions in Appendix A.

In developing APESB's response to the Safeguards 2 ED, we have taken into consideration Australian stakeholders' feedback from two roundtable events conducted by APESB in Melbourne and Sydney in March 2017. APESB has also reviewed the Compiled Code available on the IESBA website.

## Recommendations

APESB's key recommendations for the IESBA's consideration are:

### *Safeguards 2*

- amend the titles for section 600 and 950 to incorporate specific reference to *Firms and Network Firms* who need to consider and comply with these obligations. Further in line with this amendment, revise certain paragraphs to incorporate references to Firms and/or Network firms;
- strengthen the general requirements to include the action that must be undertaken (either to comply with the conceptual framework or to address threats so they are at an acceptable level);
- if the global exposure draft process does not produce any additional examples of safeguards in respect of each specific NAS, the IESBA to consider further consultations to develop additional safeguards in respect of each specific NAS;
- perform a comprehensive review to ensure that requirements link back to activities that can be performed by the professional accountant in public practice rather than ensuring other parties perform the required actions;
- perform a comprehensive review of the factors that are relevant in evaluating the level of threats created in respect of when an audit team member is involved with the service and to remove unnecessary duplication of factors.
- in respect of IT services, we believe the listed factors are broad and should be linked back to financial reporting systems and related internal controls.

### *Conforming Amendments*

- review the provisions dealing with Fees to determine whether consulting with a third party is an appropriate safeguard and whether increasing the fee base to reduce dependence on a particular client is practically achievable in the short term.

Further information on APESB's key recommendations, other comments and specific editorial suggestions are included in Appendix A for the IESBA's consideration.

## Concluding comments

We trust you find these comments useful in your final deliberations. Should you require any additional information, please contact APESB's Chief Executive Officer, Channa Wijesinghe at [channa.wijesinghe@apesb.org.au](mailto:channa.wijesinghe@apesb.org.au).

Yours sincerely



The Hon. Nicola Roxon  
**Chairman**

## Appendix A

### APESB's Comments

APESB's responses to the specific matters raised by the IESBA in the Safeguards 2 ED are as follows:

#### Specific Matters

##### **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.**

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.

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.

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.

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 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).

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.

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.

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.

A review of the factors that are relevant in evaluating the level of threats should also be undertaken to:

- 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 systems; the accounting records and financial reports and the surrounding internal controls over the client's financial reporting systems and processes.

Additional comments on the proposals in Section 600 are noted below:

- Avoiding Management Responsibilities

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.

- Independence and PIEs

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).

## **Section 950 Provision of Non-Assurance Services to an Assurance Client**

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

There are paragraphs in section 950 that replicate content in Section 600. Please refer to the comments in question 1 in relation to:

- 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
- The heading for avoiding management responsibilities.

Subject to these specific comments, APESB is supportive of the proposals in Section 950.

### ***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?**

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 safeguards offer limited guidance and may be difficult to implement in practice, in particular for small and medium practices and sole practitioners.

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.

### ***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.**

APESB concurs with the proposed conforming amendments, subject to our comments below.

- 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.

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*”.

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.

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

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.

We recommend that the IESBA consider the following proposed editorial amendments:

- 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 and 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;
- 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.

## **General Comments**

APESB's responses to the general matters raised by the IESBA are as follows:

### *(a) Small and Medium Practices (SMPs) and PAIBs*

As per our comments above, further work needs to be done in respect of examples of safeguards for each specific NAS for SMPs as the current safeguards provided in the exposure draft are limited.

APESB believes that providing additional safeguards specific to each different NAS will greatly assist SMPs which in turn will contribute to the global adoption and effectiveness of the Code.

### *(b) Regulators and Audit Oversight Bodies*

Not applicable.

### *(c) Developing Nations*

Not applicable.

### *(d) Translations*

Not applicable.