



# Grant Thornton

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Ken Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

**Audit · Tax · Advisory**

Ken Sharp  
Registered office

Grant Thornton International Ltd  
22 Melton Street  
Euston Square  
London  
NW1 2EP

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[www.GrantThornton.global](http://www.GrantThornton.global)

## Proposed Revisions Pertaining to Safeguards in the Code – Phase 1

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (Grant Thornton) appreciates the opportunity to comment on the December 2015, Exposure Draft (ED) proposed Revisions Pertaining to Safeguards in the Code – Phase 1, approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

Grant Thornton is a non-practicing, non-trading international umbrella organization and does not deliver services in its own name. Representative Grant Thornton member firms have contributed to and collaborated on this comment letter with the public interest as their overriding concern.

We support the Board's proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high-quality standards that will enhance the profession.

### **Request for Specific Comment**

#### *Proposed Revisions to the Conceptual Framework*

1. *Do respondents support the Board's proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to:*

Grant Thornton supports the guidance in the proposals and believes the proposals will help achieve the Board's objectives to (i) bring clarity to safeguards that are not clear and eliminate those that are inappropriate, (ii) better correlate a safeguard with the threat it is intended to address, and (iii) make clear that not every threat can be addressed by a safeguard.

We also believe the guidance in the proposals will enhance compliance with the fundamental principles and the Code. A clearer delineation between threats and safeguards will allow Professional Accountants to better correlate the relationship between the two, enabling stronger, more effective safeguards to be put in place.

*(a) Identifying threats*

Grant Thornton is supportive of the guidance for identifying threats.

*(b) Evaluating threats*

Grant Thornton is supportive of the guidance for evaluating threats and believes the inclusion of the definition of “acceptable level” in the main body of the Code and the enhanced application material will aid Professional Accountants in performing a more in-depth evaluation of whether a threat is at an acceptable level or not and whether the application of safeguards is required.

*(c) Addressing threats*

Compliance with the fundamental principles and the Code enables the Professional Accountant to conduct the professional activity with objectivity. We believe the guidance for addressing threats in Sections 120 and 300 provides a concise framework to help Professional Accountants implement effective safeguards and make appropriate objectivity decisions, including auditor independence.

We believe the Board’s proposed definition of “safeguards” is more robust and precise and the new definition will help the Board achieve the objective of establishing a stronger correlation between threats and safeguards. The new definition will enable Professional Accountants to implement more effective safeguards, when the implementation of safeguards is appropriate.

*(d) Re-evaluating threats*

We support the Boards proposal requiring Professional Accountants to re-evaluate a threat and the appropriateness of the safeguard(s) that has been implemented when new information becomes available or when there are changes to the facts and circumstances. This requirement will highlight the Professional Accountant’s responsibility to continually assess their objectivity and is particularly important in maintaining independence in audit engagements.

*(e) The overall assessment*

Grant Thornton is supportive of the guidance for the overall assessment.

*Proposed Revised Descriptions of “Reasonable and Informed Third Party” and “Acceptable level”*

2. *Do respondents support the proposed revisions aimed at clarifying the concepts of (a) “reasonable and informed third party”; and (b) “acceptable level” in the Code? If not, why not?*

- (a) Grant Thornton supports the Board’s proposal to clarify the concept of “reasonable and informed third party” by more fully describing the term in the body of the Code. Considering the importance of auditor independence, we believe that the Board could strengthen the application of the concept by making it clear that for audit engagements such third parties are the users of the financial statements.
- (b) Grant Thornton is supportive of the Board’s proposal to clarify the concept of “acceptable level”. We believe moving the definition to the body of the Code and enumerating certain factors (qualitative and quantitative) that should be considered once a threat has been identified, will enable the Professional Accountant to perform a more comprehensive evaluation of whether the threat is mitigated appropriately.

*Proposed Revised Descriptions of Safeguards*

3. *Do respondents support the proposed description of safeguards? If not, why not?*

Grant Thornton is supportive of the Board’s proposed description of safeguards. As discussed above, we feel the Board’s proposal to make the definition of “safeguards” more robust and precise will help the Board achieve the objective of establishing a stronger correlation between threats and safeguards and the implementation of more effective safeguards, when appropriate.

We note that the safeguards listed in Section 300.2 A9 almost exclusively address objectivity related threats (self-interest and self-review). There does not appear to be a clear threats and safeguards guidance and examples that address threats to the fundamental principles of integrity, professional competence and due care, and professional behavior.

In order to strengthen the proposal, we would recommend the Board consider adding examples of threats and safeguards to the Code that address the fundamental principles of integrity, professional competence and due care, and professional behavior.

4. *Do respondents agree with IESBA’s conclusions that “safeguards created by the profession or legislation”, “safeguards in the work environment”, and “safeguards implemented by the entity”, in the extant Code:*

(a) *Do not meet the proposed description of safeguards in the ED?*

Grant Thornton agrees with IESBA’s conclusions that “safeguards created by the profession or legislation”, “safeguards in the work environment”, and “safeguards

implemented by the entity” in the extant Code do not meet the proposed description of safeguards in the ED. We are also supportive that the Board has gone through the various bullet points listed under each section in the extant Code and has identified those that are actions a Professional Accountant can take to eliminate threats to compliance with the fundamental principles, as defined by the proposed definition of safeguards, and included them in the proposal as effective safeguards.

*(b) Are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26-28 of this Explanatory Memorandum?”*

Grant Thornton agrees with IESBA’s conclusions that “safeguards created by the profession or legislation”, “safeguards in the work environment”, and “safeguards implemented by the entity” in the extant Code are better characterized as “conditions, policies and procedures” that affect the Professional Accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26-28 of this Explanatory Memorandum for the reason discussed in (a) above.

*5. Do respondents agree with IESBA’s approach to the revisions in proposed Section 300 for professional accountants in public practice? If not, why not and what suggestions for an alternative approach do respondents have that they believe would be more appropriate?*

Grant Thornton agrees with IESBA’s approach for the revisions in proposed Section 300. We believe the revisions in this section provide a balanced framework that will be helpful in guiding Professional Accountants in fulfilling their responsibility to comply with the fundamental principles and to act in the public interest.

Grant Thornton would like to thank the IESBA for this opportunity to comment. As always we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek at [gina.maldonado-rodek@gti.gt.com](mailto:gina.maldonado-rodek@gti.gt.com).

Sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive style with a large initial 'K' and a long, sweeping tail on the 'p'.

**Kenneth C. Sharp**

Global Leader – Assurance Services

Grant Thornton International Ltd.

T +1 704 632 6781

E [ken.sharp@gti.gt.com](mailto:ken.sharp@gti.gt.com)