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Dear Mr Siong

Consultation on Proposed Revisions Pertaining to Safeguards in the Code – Phase 1

We refer to IESBA's request for specific comments in relation to the above discussion paper and are pleased to offer our response:-

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:

- (a) Identifying threats;
- (b) Evaluating threats;
- (c) Addressing threats;
- (d) Re-evaluating threats; and
- (e) The overall assessment.

If not, why not?

- (a) *Identifying threats:* Whereas we understand implicitly the intention that the fundamental principles should provide the ultimate test by which all analyses of threats and safeguards are evaluated by professional accountants when faced with given sets of circumstances, we are unclear what, if any, added degree of specification of our responsibilities that such an obligation would entail and what it would be intended to address.

It seems to us that, where the consultation paper says, in para 9(a)(i), that “[Professional accountants should] comply with the fundamental principles, rather than simply complying with specific requirements in the Code. The fundamental principles are not simply background information but establish the overarching objectives professional accountants are required to meet”, the inference is that it would be possible to comply with the specific requirements yet fail to pass the overarching principles test.

If that is the harm that the paper is aimed at, it does not say it clearly, and it would have been helpful had some prosaic examples been given. It seems to infer that a new test is being created, inviting the professional accountant to consider first the specific provisions, then tie back his or her analysis to the

fundamental principles (FPs), as if the second part of the test presents not only a conjunctive but a higher test.

It is almost impossible for the reader to discern how the threats and safeguards approach is improved, simply by coupling how specific provisions should be interpreted with an unspecific reference to the FPs. This is a matter of critical importance to those in public practice. If what is meant is that a capricious or highly constructive interpretation that hangs, for its acceptability, on a line of specific text that is then stretched beyond rational acceptance to the assertion that it satisfies the FPs, we accept that but if it does not mean that, and is instead inferring the kind of conjunctive test we have referred to, then we think an impossible onus is being placed on the professional accountant in practice.

The problem, in our eyes, is compounded by para 9(a)(ii), which appears to say exactly the same thing as sub-paragraph (i): “[Professional accountants should] apply the conceptual framework, which involves identifying, evaluating and addressing threats to compliance with the fundamental principles. The proposed revisions relating to the conceptual framework retain the principles-based approach in the extant Code, and continue to emphasize the need for professional accountants to exercise professional judgment in applying the conceptual framework.”.

Whereas we do not take issue with the revised wording used in para R120.5 A2 to explain what the various sorts of threats mean (in fact, these changes and additions are helpful and quite well-expressed), the revised section does no more than state that any of these threats might threaten compliance with the FPs and is a generalised proposition with which we agree. We reiterate our concern, though, that regulators may introduce the higher test that we have referred to, without that having been IESBA’s intention.

- (b) *Evaluating threats*: We support the revised wording in para R120.6. We believe the revised ‘reasonable and informed third party’ test¹ is a significant improvement on the ‘perception’ test that obtains at present.
- (c) *Addressing threats*: We support any proposition that obliges the professional accountant, having performed an analysis that leads to the identification of threats, to be satisfied that he or she has fully and meaningfully had regard to what safeguards are capable of addressing those threats, and has adequately deployed them. We further support the intention to remove references in the Code to ‘safeguards’ used other than in the specific context.

We support the text of new para R120.7 but think that it would be better to replicate International Independence Standards C1 and C2 in new para 120.7 A1.

- (d) *Re-evaluating threats*: We accept too that circumstances can metamorphose between initially taking on professional assignments and the execution phase of them, causing manageable situations to become less so with the passage of time and with changes occurring in the background circumstances. Indeed, the computer-based training that our firm provides to staff makes specific reference to the danger of this sort of instance, which can be quite difficult to identify unless staff and partners are vigilant.

We caution, for the same reason that we did in relation to paras 9(a)(i) and (ii) above, whether it is necessary to make more prominent the overarching requirement for professional accountants in public practice, however.

- (e) *The overall assessment*: We accept the text of new para R120.9.

¹ “The concept of a reasonable and informed third party is a test which involves an evaluation by a hypothetical person. Such a person possesses skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation is made to determine whether the accountant complies with the fundamental principles.”

contd.

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?

We support the 'reasonable and informed third party' ('R and ITP') test, and references to 'acceptable level' being 'tied back' to the R and ITP test.

Proposed Revised Description of Safeguards

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

Yes, we support the proposal as expressed in new para R120.7 A2.

4. Do respondents agree with the 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 this ED? **Yes, we agree.**

(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?" **Yes, we also agree.**

If not, why not?

Proposals for Professional Accountants in Public Practice

5. Do respondents agree with the 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?

It is very hard to anticipate exactly how this may impact, in the absence of knowing how the Phase 2 exercise may be determined.

Yours sincerely

A handwritten signature in blue ink that reads "Tom McMorrow".

Tom McMorrow