CNCC
COMPAGNIE NATIONALE DES COMMISSAIRES AUX COMPTES

ORDRE DES EXPERTS-COMPTABLES
Conseil Supérieur

0450

Mr Ken Siong
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International Ethics Standard Board for Accountants

Sent by email to
KenSiong@ethicsboard.org

Paris, 26th April 2017

Subject: CNCC and CSOEC comments on the *Proposed Revisions Pertaining to Safeguards in the Code - Phase 2 and Related Conforming Amendments*

Dear Mr. Ken Siong,

The two French institutes, CNCC and CSOEC, are pleased to provide you with their comments on the IESBA Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments*.

General comments:

As a preliminary remark, we wish to complain about the lack of readability of this entire ED.

The absence of a consolidated version of the entire section taking into account phase 1 and phase 2 of the project and the difficulty to clearly differentiate what has already been "agreed in principles" from what is still open to discussion makes the exercise of commenting this exposure draft very difficult.

It entails a risk for the commentator of the ED to "miss a point" that he/she will discover too late once the consolidated version will have been issued or, on the contrary, to comment on a point that is already closed off.

We consider that the Board should, in the future, make its best efforts to ensure that the EDs are readable, so that all stakeholders are able to comment without having to undergo an overly complex exercise of tracing back the origin of the proposed changes. The mapping table to the proposed restructured code as of January 2017 is a good starting point to that effect.

To illustrate our comment, we would like to point out to the example of the client's consent. It is now unclear whether obtaining the client's consent is still, in certain circumstances, an acceptable safeguard in the context of accepting an engagement where a risk of conflict of interest has been identified.

Secondly, in the same vein, we consider that the requalification of what were previously safeguards into what are now "factors" or "conditions" creates an ambiguity about, whether, those factors and conditions may reduce the risk to an acceptable level without requiring the application of additional safeguards or, whether, factors and conditions will never do more than mitigating the risk without ever reducing it to an acceptable level, thereby always requiring additional safeguards.

In the first case, it would simply be a change of terminology, which we perfectly understand. In the second case, it is a reduction of the possible safeguards that unduly restrict the possibility of accepting certain engagements.

We consider that the Code should leave open the possibility for the professional to accept the engagement when he considers, based on certain factors and conditions, the threat tobe at an acceptable level, without always requiring additional safeguards.

We would like the ED to clarify that the new definition of safeguards has not changed the substance of the code, where it was possible to consider some factors as relevant in evaluating the level of a threat as being acceptable.

Given the principle that the redrafting of the definition of safeguards was not supposed to lead to changes in substance, we consider that the previous wording of section 290.172 which stated that: « *Performing valuation services for an audit client may create a self-review threat. The existence and significance of any threat will depend on factors such as: (...). The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level* » was clear and should be reinstated.

We consider it necessary to reintroduce the notion of the existence of a threat in all paragraphs where it previously existed in order to keep the following rationale: is there a threat? If yes, is it reduced to an acceptable level by factors and conditions of the engagement? If not can it be reduced to an acceptable level by appropriate safeguards?

Overall, we consider that the project which was supposed to provide additional safeguards, especially for SMPs, does not do so and we would like to propose three additional safeguards:

- The client's consent/ client's information
- The advice of a third party
- The joint audit

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

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Finally, with respect to the additional restriction put on the recruitment of directors or officers for non-pies clients, we consider it is not relevant in the extant ED which is supposed to deal with safeguards and not with non-assurance services (NAS). It therefore falls outside the remit of this exposure draft and should not be dealt with.

Specific comments

Regarding your requests on the *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments*, our specific comments are the following:

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.

As mentioned in our general comments, the existence of relevant factors should enable the professional accountant to reach the conclusion that there is no threat or that the threat is at an acceptable level.

This is not conveyed through the wording of the whole section 600 where we consider that the wording proposed may be interpreted as presuming the existence of a threat in any case.

This is particularly true in paragraph 600.4. A3 which states *"Factors that are relevant in evaluating the level of any threats created by providing a non-assurance service to an audit client include [...]"*. Such wording may imply that there is always a threat created by the provision of any non-assurance services.

For this reason, we propose to add to paragraph 600.4 A3, a new paragraph describing the case in which the professional accountant examines the factors and concludes his evaluation by an absence of a threat or an acceptable level of threat. In this case, the professional accountant should be able to accept the engagement without additional safeguard.

In addition, we believe that it is necessary to clarify the definition of factors to clearly state that some of them are safeguards when they are used on a voluntary basis. Such is the case of joint audit for instance, which, following the new definition of safeguards/factors, could be considered as a factor when required by law, but as a safeguard when applied on a voluntary basis.

Besides those comments of substance, we have two additional more formal comments:

Regarding the requirement R600.9, we consider that it is not a requirement in itself, but rather a statement of facts.

Regarding the Subsection 603 about Valuation Services, the Requirement paragraphs, marked by an R, are positioned after the Application Material, which is strange in terms of rationale and layout.

Finally, as mentioned in our general comments, we consider that the extension of the prohibition on recruiting services in section 609 to all audit client entities falls outside the scope of this exposure draft on safeguards and should not be included.

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

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

Examples of Safeguards

Our same comments of substance expressed on section 600 apply to section 950. In particular we believe that the same new paragraph that we recommended to be added to paragraph 600.4 A3 should also be to paragraph 950.4 A3.

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?***

As mentioned in our general comments, we regret that the project which was supposed to seek additional safeguards, especially for SMPs, ends up reducing, by way of the new definition, the number of possible safeguards without adding any. We therefore suggest the three following additional safeguards:

- Clients' consent/ client's information,
    - The fact of informing the client of a NAS performed and of obtaining its consent should in certain circumstances constitute an appropriate safeguard to accept an assurance engagement.
- Third party's advice
    - The fact of obtaining an advice from a third party should in certain circumstances constitute an appropriate safeguard. For example, a supervising or a controlling authority.
- Joint Audit.
    - Joint audit has always been considered as a positive element for the independence of the practitioners and should in certain circumstances constitute an appropriate safeguard.

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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.***

Firstly, as mentioned in our general comments above, we would like to emphasize that it is very difficult to analyze the chapter 2 without having the entire consolidated document.

We consider that the new wording leads to some confusion between the way to deal with Independence and Conflict of Interests: they are two different issues which should be addressed in two different ways.

In the section 310.8 A1, in our opinion, the principle has been reversed which results in having the Conflict of Interest presumed. The previous wording should be retained.

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

No comments.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

a) ***Small and Medium Practices (SMPs) and PAIBs – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.***

See our comment on the lack of additional safeguards for SMPs and moreover, the number and choice of safeguards being reduced in certain cases. We are of the opinion that this fact would not foster the implementation and application of this international Code of Ethics as IESBA is aiming with the current restructuring project.

b) ***Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.***

N/A

c) ***Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.***

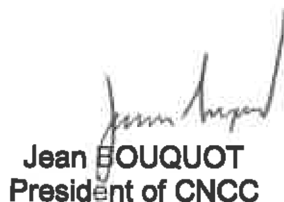
N/A

d) ***Translations – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.***

We would like to point out that the expression "third party test" is not easy to translate in French.

We hope you will find our comments helpful. If you have any question, please do not hesitate to contact us.

Best regards,



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