

1 April 2016



Mr Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
545 5th Avenue, 14th Floor  
New York, New York 10017  
USA

**CPA Australia Ltd**  
ABN 64 008 392 452  
Level 20, 28 Freshwater Place  
Southbank VIC 3006  
Australia  
GPO Box 2820  
Melbourne VIC 3001  
Australia  
**Phone** 1300 737 373  
**Outside Aust** +613 9606 9677  
**Website** cpaaustralia.com.au

By email: [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org)

Dear Ken

## **Exposure Draft: Proposed Revisions Pertaining to Safeguards in the Code – Phase 1**

Thank you for the opportunity to comment on this Exposure Draft (ED). CPA Australia is one of the world's largest professional accounting bodies, with a membership of more than 155,000 finance, accounting and business professionals and leaders in 118 countries. We make this submission on behalf of our global membership and in the broader public interest.

We provide our comments to the specific questions below. Please note that we'll be providing general comments to the overall approach to IESBA's Exposure Draft: *Improving the Structure of the Code of Ethics for Professional Accountants - Phase I*.

### **Specific Comments**

#### ***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?*

We agree with the proposed approach to identify, evaluate and address threats to compliance with the fundamental principles. In relation to the 're-evaluation' of threats, we are of the view that more clarity is required. If addressing the threat leads to its elimination, reduction to an acceptable level or cessation of the professional activity or service, then it is not clear what the re-evaluation of the threat is hoping to achieve as a next step. Further, the re-evaluation requirement in paragraph R120.8 focusses on new information or changes in facts and circumstances. In our view, these are not necessarily parts of the re-evaluation phase but rather the identification phase that professional accountants must be undertaking in relation to all new

information and changes in facts and circumstances, not only those that relate to pre-identified threats.

As a result we are of the view that the re-evaluation phase of the proposal needs to be developed further or removed.

***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?*

CPA Australia supports the proposed clear division between the ‘reasonable and informed third party’ and ‘acceptable level’.

While we support the description of the ‘reasonable and informed third party’ test, we note that in the extant code it is used not only for assessments of compliance with the fundamental principles. In paragraph 290.5 for example, it is used to assess the existence of a network and the term is also used in relation to independence, which is not a fundamental principle. We are of the view that the third party test is a test that enables professional accountants to distance all their assessments from potential biases and influences, and is thus relevant for all professional judgements. We do not think that it should be limited to the determination of compliance with the fundamental principles. However, if it is to be used exclusively for that purpose then its use for other assessments should be reviewed.

We also do not think the term ‘hypothetical’ is appropriate, as it is likely to elicit perceptions of artificiality. We suggest consideration of the term ‘uninvolved’ instead.

We propose that the description of the ‘reasonable and informed third party’ can be amended to:

The concept of a reasonable and informed third party is a test which requires an evaluation by an uninvolved 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.

We support the description of ‘acceptable level’ and note that it covers the interaction between the ‘reasonable and informed third party’ and compliance with the fundamental principles that we addressed in our comments above.

***Proposed Revised Description of Safeguards***

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

CPA Australia supports the proposed description of safeguards.

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?*

*(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?” If not, why not?*

CPA Australia agrees with IESBA’s conclusion to remove “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity”.

However, we urge IESBA to provide additional guidance and examples of possible safeguards and to review the content and the examples of possible conditions, policies and procedures that are included in paragraph 120.5 A4. The proposed content of this paragraph states that conditions, policies and procedures ‘can affect the likelihood of the accountant’s identification of threats’. We do not think that these conditions could provide a defence when a professional accountant fails to identify an existing threat and the responsibility to identify threats should not be shifted from the professional accountant. We are of the view that the emphasis should be on the existence, identification but also evaluation and addressing of threats.

The current list of examples in paragraph 120.5 A4 and its relationship to the conceptual framework is unclear. For example, how would educational, training and experience requirements for the profession interact with the conceptual framework and the obligations of professional accountants?

We are also of the view that paragraph 120.5 A3 should alert professional accountants to the potential cumulative effect of threats.

### ***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?*

Overall, we agree with IESBA’s approach to the proposed section 300 subject to conforming amendments regarding our comments above. We note, however, that in paragraph 300.2 A6 the following example is included:

Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that professional accountants will act in the public interest.

The extant and proposed restructured Code are based on the premise that acting in the public interest is a consequence of compliance with the fundamental principles of the Code. This is expressed explicitly in proposed paragraph R100.3 and extant 120.1. Therefore we think the example should be revised to refer to the requirement to comply with the fundamental principles rather than act in the public interest.

If you have any questions regarding this submission please do not hesitate to contact Dr Eva Tsahuridu, Manager – Accounting Policy, at [eva.tsahuridu@cpaaustralia.com.au](mailto:eva.tsahuridu@cpaaustralia.com.au).

Yours sincerely

Stuart Dignam  
General Manager, Policy & Corporate Affairs