

International Ethics Standards
Board for Accountants (IESBA)

Paris, le 05 avril 2016

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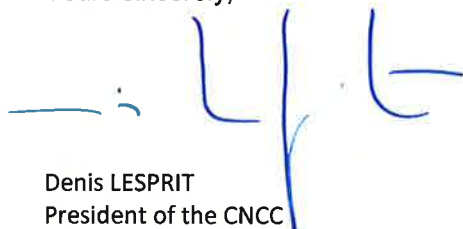
Dear,

The French institutes « the Compagnie Nationale des Commissaires aux Comptes » (CNCC) and « the Conseil Supérieur de l'Ordre des Experts-comptables » (CSOEC) are pleased to provide you with their comments on the IESBA exposure draft "Proposed Revisions Pertaining to Safeguards in the Code – Phase 1" in the IESBA Code of Ethics for Professional Accountants ("the Code").

Our response is threefold: it comprises general comments, answers to questions raised by the ED and additional comments.

If you have comments or queries regarding our response, please do not hesitate to contact us.

Yours sincerely,


Denis LESPRI
President of the CNCC


Philippe ARRAOU
President of the CSOEC

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

GENERAL COMMENTS

As an introductory remark, we would like to draw your attention to the fact that the professional Institutes in France, and indeed certainly all over Europe have been well busy, during the last few months, with the EU audit directive to be transposed in their national environment, leaving little time and resources to examine in depth the IESBA exposure drafts. Also, considering the number of IESBA EDs over the same time period, we inform you that we are not sure to have identified all the comments that we would have liked to submit for this current ED. Therefore we may have additional comments that we would provide in phase 2.

We would like to highlight that we do not comment hereby on the Structure of the Code; it will be done in an upcoming letter. Beyond that point, we believe that not having a complete view of that revised structure does not help to treat properly the current ED on safeguards. Also, we consider that the application material will be key especially for SMPs. Indeed, we deeply regret to be compelled to bring commentaries in two phases. The highest priority that we have identified, within the limit time, being listing safeguards which could be used by SMPs, is not discussed, or even mentioned, in the current ED, whereas they should have been assessed in conjunction with the proposed amendments. SMPs tending to face challenges from *“having limited resources, including number of partners”*, as emphasised by IESBA in the Explanatory Memorandum of the current ED, the need for safeguards applicable to SMPs becomes urgent.

Also, we are strongly opposed to additional requirements. The sole purpose of the current ED, as IESBA acknowledges in its Explanatory Memorandum, is to deal with clarity and appropriateness of safeguards. It has therefore deviated from the unique objective that was set to the ED. Furthermore, we have not been aware of any problems with the present Code which could justify such rewriting. Consequently, we firmly request the withdrawal of all new requirements.

Finally, we draw your attention to the fact that, although French speaking developing nations are waiting for the new version of the Code, the translation being a long, burdensome and costly process, it will start only once main modifications are duly recorded. Furthermore, the fast pace of changes makes difficult an updated version being implemented, leaving, unfortunately, multiple versions running at the same time.

ANSWERS TO QUESTIONS

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?

Since, as recalled in the introductory paragraph, we are not informed of any problem with the extant Code, we oppose the introduction of any new requirements, especially relative to re-evaluating threats (R.120.8) and the overall assessment (R.120.9). Therefore, we do not agree with this proposal and would prefer to see that subject matter being dealt with through application material only.

As an example, regarding the re-evaluation of threats, we do consider it is a simple thought process that has to be present at any times. Indeed, new facts and circumstances are already being taken into consideration. The professional accountant has then to assess if a new threat has arisen and, if so, repeat the whole process again.

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?

Concerning the concept of “acceptable level” (120.6 A1), we prefer to keep the current definition, which corresponds to a well-established practice, considering that the new one increases the level of compliance with the fundamental principles to an unnecessarily high level. Indeed, the present requirement is based on a negative form compared to the affirmative form used in the proposal.

We welcome the effort to define the concept of “reasonable and informed third party” and notably the concept of objectivity which is the most important to evaluate in a neutral manner the professional accountant’s judgments and conclusions. Nevertheless, we find certain features raise more questions than answers such as: a hypothetical person, level of competences of this person.

Proposed Revised Description of Safeguards

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

We do not have specific observations for this question.

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?

We agree with the fact that the conditions, policies and procedures referred to in paragraph 120.5 A4 do not meet the proposed definition of safeguards. Nevertheless, we do not have sufficient information to understand the use of the list provided and the mix of policies or procedures that belong to different parties (firm, client...) does not help either. As an example, we wonder if the procedures related to “corporate governance requirements” regard both client and firm and if so, is there a rank?

Furthermore, we believe that the different nature of items presented in the same list of examples, may be analyzed as having the same impact on the likelihood of the accountant’s identification of threats to compliance with the fundamental principles, which could be misleading. Therefore we consider that the creation of this new category creates unnecessary difficulties.

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?**

We agree with the new approach proposed by the IESBA in section 300, which is clearer and more readable.

We draw your attention to the fact that this approach and the one retained in Section 120 are not consistent. Therefore, we strongly suggest IESBA to harmonise the two sections by reviewing section 120.

ADDITIONAL COMMENTS

We highly encourage the Board to consider, during the second phase of the project, "joint audit" as an appropriate safeguard. Indeed, as you may know, joint audit is compulsory in France for the statutory audit of all entities preparing consolidated financial statements as well as for the statutory audit of certain entities preparing single financial statements.

Overall, there are more than 21 000 joint-statutory audit engagements in France, and we are therefore well placed to know the pros and cons of joint audit.

Joint audit is an important safeguard which contributes both to the independence of the auditor and to the quality of audit.

It contributes to the independence of the joint auditors from one another by creating a situation where they need to challenge each other's position in order to come to an agreement on a common position, towards the audited entity. It also contributes to the independence of the auditor towards the entity by reinforcing the position of the joint auditors who have discussed the issues together and within their respective firms and can therefore be stronger to resist the client's pressure.

Joint audit also contributes to the quality of audit by creating an environment where the auditors share the work to be performed and where each auditor cross reviews the work done by the other in order to be in a position to issue the auditors' report with reasonable assurance that sufficient appropriate audit evidence has been obtained overall by the two auditors. It therefore creates a permanent quality control of the engagement that contributes to audit quality.

In addition, even if the argument is probably less relevant to the IESBA, joint audit helps retaining an audit market which is less concentrated since it allows medium sized firms to remain on the PIE audit market.

Finally, the fact that the European Union in its audit regulation has allowed for a much longer rotation period of 24 years in case of joint audit (as compared to the 10 years rotation and 20 years in case of tender) is a clear sign that the public authorities (European Commission, European Parliament and Council of Ministers) in Europe consider joint audit as a safeguard to independence.

For all these reasons we urge the IESBA to consider joint-audit as an appropriate safeguard.