

3 March 2016

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

Dear Mr Siong

Comment Letter *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*

Crowe Horwath International is delighted to present a comment letter on the Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*. Crowe Horwath International is a leading global network of audit and advisory firms, with members in some 128 countries.

We welcome the Exposure Draft presented by IESBA and the intention to update the description and interpretation of “safeguards”. The proposals in the Exposure Draft are generally clear and well presented.

We address below the specific matters detailed in the IESBA’s request for 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?

The proposed revisions to the requirements and the application material are clear and to the point. They are understandable and well structured. The presentation is acceptable to us. The structure is clear and readable, and the application material complements the requirements.

In general the balance between the Conceptual Framework and Section 300 is appropriate. However, it would be helpful to provide professional accountants who are not in public practice with more information about the application and relevance of the Code. Rather than expanding the formal application material, this could be addressed through other support resources.

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 welcome the proposed revisions. We consider that the revisions do clarify the concepts of “reasonable and informed third party” and “acceptable level”.

Whilst the term “reasonable and informed third party” is known and understood in Common Law jurisdictions, IESBA should be alert to the importance of clearly explaining the meaning of this term in other legal systems. The term is also well understood in the English language. We trust that IESBA has given consideration to the meaning and understanding of “reasonable and informed third party” when it is translated into other languages.

Proposed Revised Description of Safeguards

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

We support the proposed description of “safeguards”.

We observe that 120.7 A2 explains the meaning of “safeguards”. There would be merit in providing a more detailed explanation about the meaning, interpretation and application of “safeguards” in Section 120. Many professional accountants would find this more detailed explanation that expands upon the description helpful. By contrast, the commentary about “safeguards” intended for professional accountants in public practice in 300.2 A9 is about right in content and presentation. 300.2 A9 appropriately expands upon the description.

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 understand the approach taken by IESBA. We note the change in the meaning of “safeguards” and in light of this we agree with the conclusions about the terms used in the extant Code. 120.5. A4 could contain further examples such as “corporate policies and compliance procedures”, “legislative and regulatory requirements” and “internal monitoring and oversight procedures”.

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 IESBA’s approach to the revisions in proposed Section 300. The Section is well structured. The Application Guidance contains appropriate detail to support the understanding of the Code. The examples are welcome and will be useful for illustrating the application of the Code.

Regarding the examples given, we have specific comments as follows:

- In 300.2 A11 states: “where the engagement partner’s immediate family member is recently employed by the client”. It might be better to refer to a “where a member of the engagement team’s immediate family member”. This would make it clear that changes in circumstances are not confined to those relating to the engagement partner.
- In 300.2 A9, it would be useful to specifically refer to “Engagement Quality Control Review” (“EQCR”) as defined in Auditing Standards. An EQCR could be specified for an engagement as a safeguard.

We trust that our comments assist the IESBA in their project to update the approach taken by the Code to safeguards. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely



David Chitty
International Accounting and Audit Director