



Proposed revision to the Code of Ethics for Professional Accountants pertaining to safeguards of the Code.

Submitted by AAT
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1. AAT welcomes the opportunity to comment on the proposed revisions pertaining to safeguards in the Code of Ethics for Professional Accountants. AAT fully supports the direction of travel the IESBA proposes in this exposure draft, and agrees that the change of focus from “applying a safeguard” to “addressing a threat”; with requisite evaluation of effectiveness of the actions taken is the right approach to facilitate compliance with the fundamental principles. It is AAT’s view that this will enhance clarity, and be more appropriate and effective than the existing approach to the conceptual framework.

2. In response to question 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 below topics, If not, why not?*

(a) Identifying threats;

AAT supports the clarity in both the requirement, and also the application material to the identification of threats.

(b) Evaluating threats;

AAT supports the approach of taking what was formerly “safeguards in the work environment” as contextual information to inform the identification and evaluation of threats.

(c) Addressing threats;

AAT agrees on the approach taken in the proposal in situations where the threat level is not deemed acceptable. It is clear and concise and lacks any ambiguity. This allows the professional accountant to take adequate steps ensure that they eliminate or reduce the threat to an acceptable level. The proposal has also taken into account circumstances where this is not possible and the threat cannot be reduced or eliminated. AAT welcomes the fact that the drafting has changed the emphasis to that of personal responsibility to take action, as opposed to “applying a safeguard”.

(d) Re-evaluating threats; and

AAT believes it is vital to ensure that a professional accountant re-evaluates and addresses threats. It also allows a professional accountant also consider whether existing safeguards continue to be effective and appropriate. AAT supports the proposal to make this mandatory. AAT’s only observation to this regard is that the wording as drafted in R120.8 might be considered passive, and from an enforcement perspective allow for a professional accountant to defend a position on the basis that “they did not become aware”. An alternative drafting suggestion is as follows:

When the professional accountant identifies new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

AAT suggests that this then changes the emphasis from being qualified, i.e., the requirement is only initiated “if the accountant becomes aware” to a proactive requirement to re-evaluate upon receipt of new information.

It is AAT’s view that re-evaluation will be required in more circumstances than it would not if the professional accountant has not terminated the threat entirely. Therefore the clause

should be drafted in such a manner as to make this circumstance routine as opposed to occasional, which may be interpreted by use of “if” as opposed to “when”.

(e) The overall assessment.

AAT is in favour of the proposal for a professional accountant to review the judgement that they have made, and how they have reduced the threat to an acceptable threat level or how it has been eliminated entirely. However AAT believes there should be a requirement to document this process in order that the professional accountant can demonstrate that they have applied the conceptual framework to the ethical dilemma they face.

3. In response to question 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?*

AAT supports the clarification of the term “acceptable level” to ensure that accountants are enabled to gain a better understanding of their obligations to act in accordance with the conceptual framework and the code.

The reasonable informed third party test or standard is a test well known and accepted within common law jurisdictions. AAT is keen to ensure that the reasonable and informed third party is not limited to being a professional accountant, mindful of the public interest drivers of the profession. AAT believes that the wording used is appropriate to strike the balance between professional knowledge, but also the wider objective public interest drivers.

4. In response to question 3: *Do respondents support the proposed description of “safeguards?” If not, why not*

The proposed description is clear and sufficiently worded in order to be helpful to professional accountants in enabling them to comply with the fundamental principles. AAT does not believe this description needs further exploration.

5. In response to 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?

AAT agrees with IESBA’s conclusions that safeguards as defined in the extant code do not meet the proposed description of safeguards. This emphasises that a professional accountant is responsible for ensuring their ethical compliance and cannot solely rely on safeguards created by third parties. AAT believes that the safeguards mentioned above are still very important and that their proposed description, and proposed application will give a more broadened and holistic approach. They are in essence contextual information in determining the significance of the threat. AAT considers this appropriate and that this should minimise the risks in non compliance with the fundamental principles of the code.

6. In response to question 5: *Do respondents agree with IESBA’s approach to the revisions proposed in section 300 for professional accountants in public practice? If not, why not and*

what suggestions for an alternative approach do respondents have that they would be more appropriate?

AAT supports the approach to the revisions proposed in section 300 for professional accountants in public practice. Whilst the application material to support the considerations is comprehensive AAT supports the fact that IESBA has recognised that the code does not describe all the circumstances that could be encountered by an accountant. This allows more flexibility and puts the onus on the accountant to be alert to other circumstances not listed in the proposal. AAT regards this approach as highly valuable and is in keeping with a holistic approach.