

The Institute of Public Accountants



IPA INSTITUTE OF PUBLIC
ACCOUNTANTS[®]

30 March 2016

Mr Ken Siong
Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 5th Avenue, New York
USA

Dear Mr Siong

Exposure Draft “*Proposed Revisions Pertaining to Safeguards in the Code—Phase 1*”

Introduction

The Institute of Public Accountants (IPA) welcomes the opportunity to comment on the “Exposure Draft, Proposed Revisions Pertaining to Safeguards in the Code – Phase 1”. We believe that the overall changes to the Code of Ethics for Professional Accountants (the Code) will emphasise the requirement to reduce a threat as opposed to having a more generalised approach to identifying broad safeguards. The IPA supports the proposals.

In summary:

1. We strongly advocate that sufficient time is provided to practitioners so they may fully understand and implement the changes required by the Code (from Phase 1 and Phase 2 of the project). The changes will impact policies and procedures of public practice firms and will also impact on professional accountants in business requiring time to educate and train professional accountants on the changes and how they will be impacted. We propose a minimum implementation timeframe of two years with an early adoption encouragement.
2. We agree with the changes to the Code that will require Professional Accountants to apply the conceptual framework and comply with the fundamental principles as opposed to a rules-based checklist approach. This involves all professional accountants reflecting on their circumstances and particular situation placing less reliance on the Code to identify every possible scenario which is both unrealistic and unachievable.
3. We support the change to make the requirements distinct from the application material. The requirements set out in Section 120 improve the clarity of the Code by clearly identifying each step involved in evaluating a threat.
4. We do perceive there to be some limitations to the ‘Reasonable and Informed Third Party’ test from a public interest perspective, however, the revised definition does allow more clarity to achieve and evaluate whether a threat is reduced to an acceptable level.

We have provided comments to specific questions raised in the proposed revision to the Code, included in Appendix A.

If you would like to discuss our comments, please contact me or our technical advisers Sonya Sinclair (sonya@ecorac.com.au) or Colin Parker (colin@gaap.com.au), GAAP Consulting.

Yours sincerely

A handwritten signature in black ink, appearing to read 'U. Styrke'.

Cc The Hon. Nicola Roxon – Chair APESB

About the IPA

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members across 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. In 2015 the IPA merged with the Institute of Financial Accountants of the UK to form the largest small business/SME focused accounting body in the world.

Appendix A

“Proposed Revisions Pertaining to Safeguards in the Code—Phase 1”

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 IPA welcomes the proposed changes to the explicit requirement to apply the conceptual framework and related requirements and application material by all professional accountants. It is not possible to determine every conceivable threat that the professional accountant may encounter and as a result, the professional accountant needs to use their professional judgement as to how the fundamental principles of the conceptual framework apply to their situation.

The overall changes will remove the tendency by the profession to use a checklist approach to identify and evaluate threats and rely on specific threats identified by the current Code. The professional accountant will need to consider the circumstances, the specific engagement, work assignment and interests and relationships to determine whether a threat to the fundamental principles has been created. However, consideration should be given to the level of documentation expected by professional accountants in public practice to demonstrate compliance with the fundamental principles.

We agree with the new requirement and corresponding application material for the professional accountant to re-evaluate the threats to compliance with fundamental principles when the professional accountant becomes aware of new information, circumstances or facts. This new requirement re-iterates the need for the professional accountant to consider each step in light of new information.

We suggest however, further clarification should be made between when the professional first evaluates the threat and when a second evaluation is triggered. In many circumstances, it would be assumed that once a threat has been identified, all relevant facts at the time of evaluating the threat were analysed and appropriate action was taken. The timing and significance of the new information would need to be taken into consideration as to whether a threat is re-evaluated, particularly for professional accountants in public practice.

We agree with the new requirement for the professional accountant to conduct an overall assessment by reviewing the judgements made and overall conclusions reached to determine whether the threat identified has been eliminated or reduced to an acceptable level and no further action is required. However, in practice and to achieve the required outcome, this may require someone other than the professional accountant who raised and evaluated the threat to do the 'step-back' and consider approach. It may not always be possible, depending on the scenario, to have another professional accountant to perform.

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 agree with the revised description of a Reasonable and Informed Third Party, in particular a hypothetical person who possesses the skills, knowledge and experience to objectively evaluate the appropriateness of the professional accountant’s judgments and conclusions. However, we do acknowledge that different stakeholders may view the judgements and conclusions made differently depending on their perspective and this will continue to exist.

We agree with the revised definition of an acceptable level which is “a level at which a reasonable and informed third party would likely conclude that the professional accountant complies with the fundamental principles”. It retains the need to apply the Reasonable and Informed Third Party test.

Proposed Revised Description of Safeguards

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

We agree with the proposed changes to the description of safeguards which requires that each and every threat be addressed individually (or in combination) and effectively eliminated or reduced to an acceptable level. We believe the change in the description of the safeguard has the benefit of eliminating a generalised approach to evaluating the threat.

However, the change in the description and the removal of the safeguards created by the profession or legislation; safeguards in the work environment; and safeguards implemented by the entity may have unintended consequences. A public practice may have safeguards at the firm level that address particular threats, for example where assurance and non-assurance services are provided to a client.

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 strongly disagree with the proposed removal of “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” from the Code. Whilst the revised description of ‘safeguards’ requires the firm or organisation to address the specific threat and related safeguard (as to avoid a checklist approach to safeguards), the broader safeguards (provided they are implemented by the organisation) assist in the application of the need to re-evaluate the threat and the overall assessment.

We suggest that if these safeguards are removed consideration be given to their overall relevance. That is, relevant conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats is considered to be significant to applying the conceptual framework and complying with the fundamental principles.

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 overall changes and the referencing between Section 120 and Section 300 which gives consistency to the overall Code and removes potential duplication of specific areas.

The list of examples provided in Section 300 of the Code relating to identifying and addressing the threat and applying safeguards are concise and clear, it should be emphasised that not all scenarios can be pre-determined and a firm’s policies and procedures play a fundamental role in reducing the risk of not identifying a particular threat.

Paragraph 300.1 of the revised Code suggests that “accountants are encouraged to be alert for such facts and circumstances”. The range of professional services offered by public practices can vary considerably and the impact of interests and relationships entered into by a firm or professional accountant vary in its level of threat. Whilst the changes to the Code provide the ability to apply the Code to various scenarios, it should be emphasised that the firm, individual professional accountant and assurance practitioners have varying degrees of responsibility to apply the Code effectively.
