



May 10, 2016

Submitted electronically to [StavrosThomadakis@ethicsboard.org](mailto:StavrosThomadakis@ethicsboard.org)

Dr Stavros Thomadakis  
Chairman  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York  
10017 USA

**COMMENTS ON THE IESBA EXPOSURE DRAFT: *PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE – PHASE 1***

Dear Dr Thomadakis

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA) Exposure Draft, *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*. As an international organisation of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, the IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. The IFIAR's objectives are as follows:
  - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
  - Promoting collaboration and consistency in regulatory activity.
  - Initiating and leading dialogue with other policy-makers and organisations that have an interest in audit quality.
  - Forming common and consistent views or positions on matters of importance to its members, while taking into account the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, of the members of the IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisations.
4. Where we did not comment on certain specific matters, this should not be interpreted as either approval or disapproval of the proposals by the IFIAR.

### *General Comments*

5. The IESBA Code of Ethics (the Code) is used by some IFIAR members, but not by all of them. Moreover, a number of audit firms have voluntarily committed to complying with the Code. As a result, the IFIAR has an interest in enhancing the quality, clarity and enforceability of the Code.
6. As audit regulators, we believe that the Code should be clear and enforceable and allow for audits to be performed on a consistent basis.
7. We wish to highlight certain areas in the proposed amendments that are concerned with quality, clarity and enforceability and could be further enhanced to meet our expectations.

### *Reasonable and Informed Third Party*

8. The proposals expand the description of the reasonable and informed third party but we have concerns with how the concept can be applied in practice. Specifically, we recommend that the Board considers the appropriateness of the proposed definition of “reasonable and informed third party” which, as currently drafted, appears to imply that such a third party could only be, de facto, another professional accountant.

### *Identification of Threats and Link with Safeguards*

9. As the threats and safeguards approach is dependent on a firm’s self-analysis and self-review, there should be a stronger requirement for the firm to actively consider all the different types of threats that could arise.<sup>1</sup> We believe that giving greater prominence to the types of threats that the audit firm is required to consider, by including them directly in the requirements, would encourage greater consistency in application.
10. Additionally, the proposal does not sufficiently highlight the need for a strong correlation between threats and safeguards. We urge the Board to emphasize the importance of that correlation by expanding the requirements to that effect.

### *Addressing Threats*

11. The proposals indicate, in the application material<sup>2</sup> and examples<sup>3</sup> that situations exist where the threat created would be so significant that no safeguards could reduce it to an acceptable level, and that the professional accountant would have no option but to decline or discontinue the engagement. We believe that more emphasis should be placed on those situations, and that those cases should be dealt with in the requirements of the Code: an obligation for action should be attached to those cases.

### *Clarification of Timing of Re-Evaluation of Threats and Overall Assessment*

12. We do not believe that a re-evaluation of threats should be restricted to the emergence of new information, but rather as a constant state of awareness. We believe the professional accountant should at least engage in periodic re-evaluation of threats on a timely basis to evaluate new information or potential changes in facts and circumstances.
13. Similarly, we note that it is unclear in the proposals when the overall assessment<sup>4</sup> should be performed. Provisions on timing should be added in this regard.

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<sup>1</sup> Safeguards ED proposed paragraph 120.5 A2

<sup>2</sup> Safeguards ED proposed paragraph 120.7 A1

<sup>3</sup> IESBA restructured Code sections C1 and C2

<sup>4</sup> Safeguards ED proposed paragraph R120.9

*Structure of the Code*

14. We believe it is imperative that the requirements of the Code are sufficiently robust and lend themselves to being enforced. Furthermore, we stress the need to provide a more explicit linkage between the fundamental principles in the conceptual framework, and the requirements and application material in the proposed revised Code to mitigate the risk that some material could be seen as a list of examples to be addressed rather than material to support the assessments made by the professional accountant.<sup>5</sup>
15. The proposed amendments suggest that definitions are categorised as application material. We urge the Board to revisit how definitions are dealt with in the Code. Consideration should be given to a glossary of terms or identifying definitions as such within the Code, given their importance in the understanding of the Code.

Should you wish to discuss any of our comments, please do not hesitate to contact me or Marjolein Doblado, Chair of the IFIAR Standards Coordination Working Group.

Yours Faithfully,

A handwritten signature in black ink, appearing to read 'Janine van Diggelen', with a long horizontal flourish extending to the right.

Janine van Diggelen  
IFIAR Chair

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<sup>5</sup> Safeguards ED proposed section 300.2

