

Project Proposal—Safeguards and Their Applicability Pertaining to Non-Assurance Services

I. Subject

1. At its September 2013 meeting, the IESBA approved the Non-Assurance Services (NAS) project proposal. The proposal included, among other aims, the development of a position paper which would explain the Code's approach in addressing the provision of NAS by professional accountants in public practice to audit clients. At its July 2014 meeting, the Board agreed to place on hold the development of the position paper pending a review of the safeguards within the Code and their applicability to NAS. This project therefore addresses a review of safeguards within the Code.

II. Background

2. The Board has received feedback from some regulators with regard to the clarity, appropriateness and effectiveness of safeguards within the Code. In particular, in its March 2014 comment letter on the IESBA's future strategy and work plan,¹ the International Organization of Securities Commissions (IOSCO) suggested that the Board should re-examine safeguards for clarity and appropriateness and that there should be a direct correlation between a safeguard and the threat it is intended to address.
3. As a result of its deliberations on the NAS project and its other discussions, the IESBA agreed that there would be benefit in undertaking a project concerning the clarity, appropriateness and effectiveness of safeguards in the Code. Accordingly, the IESBA Strategy and Work Plan, 2014-2018 (SWP) includes the following Board commitment on this topic:

The Ethics Board plans to consider a project proposal in early 2015 regarding a review of the safeguards in the Code. The Ethics Board has heard of regulatory concerns that many of the safeguards in the Code may not be appropriate or effective. For example, it was suggested that some safeguards merely duplicate existing requirements imposed by the quality control and auditing standards or the existing best practice for situations that do not involve a threat to independence. Concerns have also been expressed that some safeguards may not be commensurate with the potential threats to independence that the Code seeks to mitigate. In addition, as part of discussions on its current Part C project, the Ethics Board has identified a potential need for greater clarity regarding the meaning of a safeguard in the Code.

4. The description of the project as noted in the SWP is as follows:

Review the safeguards throughout the Code from the perspectives of appropriateness and effectiveness, and consider whether changes should be made, including whether additional safeguards should be specified or whether existing safeguards should be removed.

¹ See <http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%207-C%20-%20SWP%20-%20IOSCO%20C1%20Comment%20Letter.pdf>

III. Project Objectives, Focus and Scope

Project Objectives and Outline

5. The project is intended to evaluate and make recommendations on the clarity, appropriateness and effectiveness of the current overview of safeguards in Sections 100² and 200³ of the Code and those safeguards that pertain to NAS in Section 290⁴ of the Code.
6. To achieve these objectives, the Task Force will consider the following:
 - The description, definition and role of a safeguard within the conceptual framework approach of the Code
 - Examples of safeguards
 - Environmental and threat/situation specific
 - Mandatory or dependent on circumstances
 - Process in assessing the relevance and effectiveness of a safeguard
 - Identification and evaluation of a threat including impact of materiality and significance
 - Direct correlation between a safeguard and the threat it is intended to address
 - Effectiveness of safeguard
 - Meaning of an “acceptable level” to which safeguards must reduce threats
 - Other considerations
 - Other responses to reduce or eliminate threats
 - Role of those charged with governance
 - Consultations with stakeholders at various stages of the process such as:
 - Regulators
 - National standard setters
 - Forum of Firms
 - IFAC Small and Medium Practices (SMP) Committee
 - Identification of proposed changes to the NAS section of the Code regarding responses to threats, facilitating compliance and enforceability
 - Make recommendations, if any, to the Board concerning broader scope of safeguards and other responses to threats, as appropriate, beyond NAS

² Section 100, *Introduction and Fundamental Principles*

³ Section 200, *Introduction (Professional Accountants in Public Practice)*

⁴ Section 290, *Independence – Audit and Review Engagements*

Focus of the Project

7. The categories of safeguards addressed in Section 100 need to be examined for clarity to ensure they are truly safeguards. Specifically, it must be determined if safeguards created by the profession, legislation or regulation can be categorized as safeguards in that they are actions or mechanisms that effectively eliminate or reduce threats to compliance with the fundamental principles to an acceptable level.
8. Safeguards in the work environment, for example those specific safeguards noted in Section 290 addressing NAS, also need to be examined for clarity, appropriateness and effectiveness. In terms of clarity, what actually constitutes a safeguard as determined in Section 100 will carry forward to Section 290. Also, the Code may be clarified and strengthened by ensuring specific safeguards are noted for specific threats. For example, each specific NAS addressed in the Code may have a need for service-specific safeguards.
9. In terms of the effectiveness of safeguards in the work environment, the ability to evaluate the significance of a threat should be examined. Simply applying safeguards does not necessarily mean that threats are automatically at an acceptable level.
10. In addition, it may be beneficial to explore whether responses to threats other than safeguards may eliminate or reduce the threats to compliance with the fundamental principles to an acceptable level.

Project Scope

11. The project scope will encompass the following:
 - The subsection entitled *Threats and Safeguards* (paragraphs 100.12 – 100.16) in Section 100.
 - The subsection entitled *Threats and Safeguards* (paragraphs 200.3 – 200.15) in Section 200.
 - The section entitled *Application of the Conceptual Framework Approach to Independence* (paragraphs 290.100 to 290.101).
 - The section entitled *Provision of Non-Assurance Services to an Audit Client* (paragraphs 290.154 to 290.216).
 - Necessary conforming changes to Section 291⁵ resulting from any of the potential changes to Section 290.

IV. How the Project Serves the Public Interest and Impact Analysis

How the Project Serves the Public Interest

12. Varying views exist on what constitutes a safeguard as well as on the effectiveness and appropriateness of safeguards within the Code. This project will address the clarity of the guidance provided on safeguards and examine the robustness of each specific safeguard pertaining to NAS. Through enhanced clarity, the project will promote compliance by professional accountants with the fundamental principles. Through enhancing the robustness of safeguards in the Code in addressing threats to compliance with the fundamental principles and threats to independence, the project will

⁵ Section 291, *Independence – Other Assurance Engagements*

serve to support professional accountants in fulfilling their responsibility to act in the public interest and in supporting audit quality.

Impact Analysis Considerations

13. As the project progresses, costs and benefits will be an important consideration as the IESBA considers options and evaluates potential changes to the Code. The nature and extent of those costs and benefits will depend on the nature and extent of the potential changes envisaged.

V. Implications for any Specific Persons or Groups

14. The project has implications for national standard setters and IFAC member bodies that have adopted the Code, or use it as a basis or a benchmark for their own ethical standards, and firms that are subject to these national standards.
15. Depending on the nature of the proposals, there may be particular implications for smaller practices that audit small- and medium-sized entities. The IFAC SMP Committee will be kept apprised of developments to ensure that the IESBA receives appropriate input from the Committee at key stages of the project.
16. The project may also have implications for some stakeholders in the financial reporting supply chain, in particular those charged with governance in relation to their interactions with auditors on independence matters pertaining to the provision of NAS, and the regulatory and audit oversight community in relation to enforcement of independence requirements.

VI. Development Process, Project Output and Project Timetable

Development Process

17. It is anticipated that the project will follow the normal development process of the IESBA for changes to the Code.

Project Output

18. It is anticipated that the output of the project would include:
 - Revised guidance on safeguards and other responses to threats associated with NAS
 - Revised guidance on safeguards and other responses to threats in related provisions in Sections 100, 200 and 291.
19. Depending on issues identified, the Task Force may also:
 - Provide recommendations, if any, to the IESBA concerning the scope of safeguards and other responses to threats, as appropriate, beyond NAS; and
 - Identify other related matters for the IESBA's consideration.

Project Timetable

20. Subject to the IESBA's approval of the project proposal, this project will commence immediately. The specific project milestones and outputs will be dependent on the matters that the Task Force and the IESBA ultimately determine are appropriate to address as part of the project, and the priorities assigned to those matters.

21. The table below provides indicative timing for the project:

Timing	Milestone
January 2015	Approval of project proposal
October 2015	First read exposure draft
January 2016	Approval of exposure draft
October 2016	First read post exposure
January 2017	Approve final

22. The Task Force will coordinate the timing of the project with that for the Structure of the Code project to the extent possible, recognizing the importance of timely completion of both projects.

VII. Resources Required

23. A project Task Force consisting of four to five individuals, including an IESBA member as Chair.
24. IESBA Staff will provide support to the project Task Force.

VIII. Relevant Sources of Information that Address the Matter Being Proposed

25. Relevant sources of information include:
- Provisions pertaining to safeguards in codes of ethics applicable in major jurisdictions around the world.
 - Benchmarking information in the area of NAS with respect to major jurisdictions around the world.

Appendix

Comments by Standard-Setting Board (SSB)/IFAC Technical Managers

Comments from SSB/IFAC Technical Managers for the technical areas within, or supported by, IFAC are noted below regarding matters that may be of relevance to the project.

Technical Manager to the Compliance Advisory Panel and Professional Accountancy Organization Development Committee

Thank you very much for the opportunity to comment on this important project. In general, I support the project scope, objectives and focus, as well as, its proposed output, process and timetable. I also applaud the IESBA team for undertaking this initiative. As a key observation, I would like to note, that it is not clear whether the project addresses the IOSCO recommendation that “The Board’s output should convey the notion that not every risk could be addressed by a safeguard”. I appreciate this may be implicitly expressed in the proposal. However, the other two IOSCO recommendations are explicitly addressed through the document but most importantly in the “Focus of the Project” section. Therefore, I would suggest that the said recommendation is also explicitly referred to in the proposal and, in effect, is addressed in the Board’s work on this project. I remain at the IESBA disposal to further discuss any question you may have.

Technical Manager to the International Accounting Education Standards Board (IAESB)

No comment.

Technical Director to International Auditing and Assurance Standards Board (IAASB)

I encourage IESBA staff to apprise the IAASB Technical Director on substantive changes to definitions or text that may have consequential implications for IAASB standards, including required communications with those charged with governance on independence matters, and on issues as they develop that may have implications or relevance to the IAASB’s work on its quality control standard. Where such matters are identified, IAASB staff welcome the opportunity to ascertain with IESBA staff at an appropriate stage (e.g., before the planned issuance of the Exposure Draft) the nature of further specific interactions between IAASB and IESBA that may be necessary.

Technical Manager to the Professional Accountants in Business (PAIB) Committee

At this stage, I think the only thing to communicate from our side is that we would play a proactive role in considering what safeguards are in the context of PAIBs.

If it is helpful, we might run a session at a future session of the PAIB Committee to generate discussion around safeguards when working for an employer, particularly in a salaried position.

Technical Director to the International Public Sector Accounting Standards Board (IPSASB)

No comment

Technical Director to the IFAC Small and Medium Practices (SMP) Committee

No comment.

Technical Manager to the Transnational Auditors Committee (TAC)

In support of the concerns from the regulatory community noted in the proposal, is there any empirical evidence supporting that the current suite of safeguards (or specific safeguards) would benefit from the project? Citing such evidence (which might come from the regulatory community itself?) could only be helpful as the project advances.

Please let me know if I can assist from a Forum of Firms perspective. The Forum of Firms will understandably be very interested to hear how this develops.