

Safeguards – Issues Paper**A. Project Background**

1. In early 2012, the IESBA added a work stream to its 2012 work plan addressing the provision of non-assurance services (NAS) by auditors to their audit clients. At its June 2013 meeting, the IESBA agreed to focus the NAS project proposal on:
 - Clarification of the provisions in Section 290¹ addressing management responsibilities;
 - Clarification of the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements; and
 - A review of the emergency exception provisions in the Code pertaining both to accounting and bookkeeping services, and to taxation services.
2. At its January 2015 meeting, the IESBA unanimously approved for issuance, subject to approval by the PIOB, the changes to the Code pertaining to those three specific areas.
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. Also, on the recently issued Consultation Paper [Improving the Structure of the IESBA Code](#) (Structure CP), some respondents, including a group of 20 independent European audit regulators and IOSCO, commented on the importance of addressing safeguards in the Code to improve the substance and enforceability of the Code.
5. The IESBA approved the project proposal to review the clarity, appropriateness and effectiveness of safeguards in the Code, as presented in Agenda Item D-4, at its January 2015 meeting.
6. During its work, the Task Force will consider the approach to safeguards in major jurisdictions around the world.
7. The Task Force held its first meeting in February 2015 and anticipates Board discussion of a preliminary issues paper at the April 2015 IESBA meeting. The Task Force was encouraged by

¹ Section 290, *Independence – Audit and Review Engagements*

respondents to the Structure CP who strongly supported the principles-based framework applied by the Code.

B. Alignment and Coordination with the IESBA’s Structure of the Code Project

8. At its January 2015 meeting, the Board recognized the close linkage of this project to the Structure of the Code project and the ambitious timeframes for both projects. The Board therefore asked the Safeguards Task Force to liaise with the Structure Task Force to ensure the projects are aligned and coordinated.
9. Concurrent with the Structure Task Force, the Safeguards Task Force is aiming to present a draft of any proposed changes to the Code for approval for exposure at the December 2015 IESBA meeting.
10. The Safeguards Task Force expects to issue a standalone exposure draft with questions related to the proposed changes to safeguards. Comments related to changes in structure are expected to be dealt with in the exposure draft for the Structure project. The Safeguards Task Force has considered alternative options for presenting the proposed changes in a manner that assists respondents in identifying and understanding the changes made, including:
 - Exposing only the proposed revisions in the format and language convention of the draft restructured Code. A table which shows each provision of the extant Code and detailed explanation of the changes made could be provided; and
 - Presenting the proposed revisions in the structure of the extant Code, in addition to exposing the proposed revisions in the format and language convention of the draft restructured Code. This could be in the form of a side-by-side table or text presented in two separate parts of an exposure draft.

Matter for CAG Consideration

1. Representatives are asked for their views on what would be helpful for respondents with regard to the material presented in an exposure draft.

C. Preliminary Issues Identified

11. At its meeting in February 2015, the Task Force identified preliminary issues for further consideration.
12. The Task Force expects to review each element of the threats and safeguards approach, including the types of threats and safeguards that may exist. There may be additional threats to compliance with the fundamental principles which should be explicitly referred to in the Code.
13. The Task Force considered whether the guidance on materiality in relation to threats pertaining to the specific circumstances on NAS in Section 290 could be improved and intends to explore this further following consultation with the IESBA.
14. The Task Force briefly explored different options for describing a safeguard in the Code. It intends to explore this further following consultation with the IESBA.

15. Section 200 of the Code currently lists examples of firm-wide and engagement-specific safeguards. The Task Force plans to analyze the safeguards listed and identify those firm-wide or institutional safeguards that may be required to be in place to ensure engagement-specific safeguards can be effective in eliminating or reducing threats to an acceptable level. The Task Force also plans to review whether the current examples of safeguards remain appropriate, and whether there is a need for further clarity or other enhancements.
16. In addition, the Task Force expects to perform research and review the guidance supporting the application of the Conceptual Framework, including:
 - The guidance related to “Reasonable and Informed Third Party” described in paragraph 100.2 of the Code and how that should be implemented in practice;
 - The application of the Conceptual Framework approach to both public interest entities (PIEs) and non-PIEs as it pertains to NAS;
 - Considering the role of those charged with governance as it pertains to NAS, including when assessing threats and the use of appropriate and effective safeguards;
 - Considering the current requirements and guidance on safeguards to address potential threats from the specific circumstances on NAS in Section 290, including whether enhancements are needed to ensure consistency and better correlation of safeguards to address the specific potential threats; and
 - Considering if there are further examples and guidance that may be useful in the context of SMEs.

Matters for CAG Consideration

2. CAG Representatives are asked whether they agree with the preliminary issues identified for further consideration by the Task Force and whether they have any specific comments on them?
3. Do CAG Representatives believe there are additional matters which should be considered?