

External Reporting Board  
PO Box 11250  
Wellington 6142

Our ref KPMG Feedback-  
IEASBA\_Safeguards.docx

10 March 2016

Dear Sirs

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

KPMG welcomes the opportunity to provide comments on the above mentioned exposure draft.

KPMG is supportive of the IAASB's proposal, being the proposed changes to the International Ethics Standards Board for Accountants (IESBA or the Board) Code of Ethics for Professional Accountants (the Code) in Section 100 and Section 200 of the extant Code pertaining to safeguards (herein referred to as the exposure draft (ED)).

**Request 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?***

We broadly agree with the proposed amendments in the structure of the conceptual framework. We agree with the proposal for a new requirement for the professional accountant to do an overall assessment by reviewing judgements made and overall conclusions reached. However, we would like obtain additional guidance regarding the way the professional accountant shall conduct and document the overall evaluation process. We believe that in terms of a professional accountant being a firm, this process will be conducted by following internal engagement quality review procedures. However when the professional accountant is an individual, the overall evaluation will be performed by the same individual, which could impair the purpose of

the requirement – i.e. a second review to confirm the appropriate conclusions have been reached.

## **Request 2**

***Do respondents support the proposed revisions aimed at clarifying the concepts of***

### ***(a) “reasonable and informed third party”***

The proposed description of a “reasonable and informed third party” refers to a hypothetical person’s evaluation of the professional accountant’s compliance with the fundamental principles. The extant code refers to such a hypothetical person’s evaluation for the purpose of whether threats would be eliminated or reduced to an acceptable level by the application of the safeguards, such that compliance with the fundamental principles is not compromised.

In our view, the proposed ED defines a broader “role” for the “reasonable and informed third party” i.e. conclusion regarding the overall compliance with the fundamental principles, while the current code requirement extends only to whether the “compliance with the fundamental principles is not compromised”.

However, the proposed ED refers to the professional accountant applying the “reasonable and informed third party” test when applying the conceptual framework i.e. when identifying, evaluating and addressing threats to compliance with the fundamental principles. And at the same time the proposed ED states that the evaluation entails weighing all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the evaluation is made **to determine whether the accountant complies with the fundamental principles.**

In our view, by only applying the conceptual framework (i.e. identifying, evaluating and addressing threats), a “reasonable and informed third party” will be able to conclude on whether there were any threats and whether they would have been identified and addresses appropriately. This hypothetical person will not be able to conclude on compliance with the fundamental principles if there is non-compliance caused by other than the threats referred to in the code.

For example, there could be a situation when for an audit engagement there are no threats to compliance with the fundamental principles identified, however the professional accountant has not conducted the audit engagement in accordance with the standards issued by the relevant professional body (for New Zealand this is NZAuASB) and thus has not complied with the fundamental principle of ‘Professional competence and due care’.

We would like to clarify whether it is the intention of the IESBA to require a “reasonable and informed third party” test to assess full compliance with the fundamental principles and if so then we would suggest the IESBA to include additional guidance how such will be assessed.

### ***(b) “acceptable level”***

We agree with the proposed definition subject to our comment above regarding the “reasonable and informed third party”.

### **Request 3**

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

We agree with the proposal in the ED to remove the safeguards created by the professional accountant’s profession, legislation or regulation from the definition of a “safeguard” and to retain only “actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level”.

We believe, this will prompt every professional accountant to create and maintain internal systems for eliminating threats to compliance with the fundamental principles. Furthermore, this will provide an individual approach to an engagement, since safeguards created by the legislation could not address all possible threats and specific scenarios for a client.

### **Request 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 agree with the IESBA’s conclusion.

### **Request 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?***

The terms “professional accountant in public practice” refers to both an individual within a professional services firm and a professional services firm itself. In relation to that we would like to obtain a clarification regarding the examples for threats provided in the proposed ED, for example:

*Self-interest threats*

- *A professional accountant having a direct financial interest in a client.*
- *A firm having undue dependence on total fees from a client or the possibility of losing a significant client.*

- *A professional accountant having a significant close business relationship with a client.*

As indicated above, the ED refers to either the “professional accountant” or “the firm” without any clear distinction between them and the situations they are used in.

In the first example of Self-interest threats above, the ED refers to “a professional accountant”, which under the definition for a professional accountant (as stated above) could mean either an individual or a firm. The extant version of the code refers to “a member of the assurance team” when providing the same example for a self-interest threat.

We would advise the IESBA to provide additional explanation for the different use of an individual within a firm and a firm itself when providing examples for threats.

Yours sincerely

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Partner