

12 April 2016

To:

Dr Thomadakis  
Chair of the International Ethics Standards Board for Accountants

**Re.: Comment letter from European audit regulators relating to the IESBA's Exposure Draft  
"Proposed Revisions Pertaining to Safeguards in the Code - Phase 1"**

Dear Dr Thomadakis,

1. A number of independent European audit regulators and/or oversight bodies ("audit regulators") appreciate the opportunity to comment on the IESBA's ("Board") Exposure Draft ***"Proposed Revisions Pertaining to Safeguards in the Code - Phase 1"*** issued in December 2015. The content of this letter has been discussed and agreed upon by the audit regulators of the following countries:
  - Austrian Auditors Supervisory Authority – Austria
  - Commission for Public Oversight of Statutory Auditors – Bulgaria
  - Audit Public Oversight Committee – Croatia
  - Cyprus Public Audit Oversight Board – Cyprus
  - Public Audit Oversight Board – Czech Republic
  - Danish Business Authority – Denmark
  - Auditors' Activities Oversight Council – Estonia
  - Haut Conseil du Commissariat aux Comptes – France
  - Abschlussprüferaufsichtskommission – Germany
  - Hellenic Accounting and Auditing Standards Oversight Board ELTE – Greece
  - Auditors' Public Oversight Authority – Hungary
  - Irish Auditing and Accounting Supervisory Authority – Ireland
  - Financial Market Authority – Liechtenstein
  - Authority of Audit, Accounting, Property Valuation and Insolvency Management – Lithuania
  - Commission de Surveillance du Secteur Financier – Luxembourg
  - Quality Assurance Unit – Malta
  - Netherlands Authority for the Financial Markets – The Netherlands
  - Finanstilsynet – Norway
  - Comissão do Mercado de Valores Mobiliários – Portugal
  - Romanian Public Interest Oversight Body of Accounting Profession – Romania
  - Auditing Oversight Authority UDVA – Slovakia
  - Agency for Public Oversight of Auditing – Slovenia
  - Instituto de Contabilidad y Auditoria de Cuentas – Spain
  - Supervisory Board of Public Accountants, Revisorsnämnden – Sweden
  - Federal Audit Oversight Authority FAOA – Switzerland
  - Financial Reporting Council – United Kingdom
2. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above-mentioned audit regulators. Nevertheless, they are not intended to include all comments that might be provided by these individual regulators and their respective jurisdictions.

3. As audit regulators, our mandate encompasses the oversight of the independence of statutory auditors, based on the requirements applicable in our respective jurisdictions.
4. The IESBA Code of Ethics is used in several jurisdictions, but not in all of them. Even for those that do not use it, we clearly see an interest in enhancing its content, as it is used as a basis for some benchmarks at international level. Moreover, a number of audit firms and networks have voluntarily committed to complying with the IESBA Code.

## **General comments**

### *Consistency and enforceability*

5. One of the key areas of focus for us, as audit regulators, is the fact that the Code should allow for consistent application by different auditors. In order to drive consistent application, we need clear provisions in order to establish appropriate lines between situations that are permitted and those that are not. Consistency in application of the ethics provisions creates a level playing field for auditors, and is likely to improve the confidence of users in the audited financial statements.
6. We are in favour of enhancements to the Code which leave less room for interpretation and facilitate its enforceability. We encourage the Board, as it progresses in the project as in other instances, to use terminology which reduces the room for interpretation.
7. The notion of "safeguards" that protect auditors from threats to compliance with fundamental ethics principles, as used in the current Code, is not always applied in a consistent manner. We see an interest in clarifying the conditions in which a "safeguard" could be accepted by an auditor as a means to mitigate a threat.

### *European context*

8. We note that the notion of "safeguards" is also used in the regulation which will be applicable in the European Union for auditors of public interest entities starting 17 June 2016.<sup>1</sup> We draw the Board's attention to the fact that, for us, there is an interest in ensuring that the notions used in the Code are consistent or at least compatible with those used in the European context.
9. Furthermore, we suggest that the Code take into account the level of requirements set by the European regulation. Indeed, a code that is less stringent than the legal framework in force would impair its potential interest for the countries applying this framework. Consistency with the applicable legal requirements for ethics would allow for a wider recognition of the Code.

## **Specific comments**

In addition to the comments expressed above, several observations were made regarding the detail of the proposals included in the exposure draft. Those observations are set out hereafter.

10. *Addressing threats – situations where no safeguards are possible:* The proposals point to certain situations where the threat created would be so significant that no safeguards could reduce the threat to an acceptable level.<sup>2</sup> We encourage the Board to state clearly that there are situations in which no safeguards are possible and, rather than referring to examples,<sup>3</sup> link those situations with the requirement to take action such as, depending on the circumstances, not accepting or resigning from an engagement.

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<sup>1</sup> For example, Regulation (EU) No 537/2014, articles 4, 5 and 6

<sup>2</sup> IESBA Safeguards ED §120.7 A1

<sup>3</sup> IESBA Code of Ethics Independence Sections C1 and C2

11. *Need to adapt the safeguards to the situation:* We believe that the Code should emphasize that safeguards are intended to eliminate or to reduce *specific* threats. We encourage the Board to define how specific safeguards address specific risks of non-compliance and to clarify the necessity for each threat to be linked to a specific action by the professional accountant.
12. *"Reasonable and informed third party":* We see practical issues regarding application of this test by professional accountants and enforcement by audit regulators. We believe the proposals would benefit from further clarity. The proposals as currently drafted would appear to drive the conclusion that only another accountant could be this "third party". We would not agree with that conclusion. We believe that a wider range of stakeholders should be captured by the "third party" test. We believe that one of the fundamental characteristics of the third party is the notion of an assessment by an independent individual who is unrelated to the audit and/or network firm and has the ability to weigh the specific facts and circumstances and conclude in a manner that is devoid of bias in both fact and appearance. We encourage the Board to provide further clarity in this area.
13. *Re-evaluation of threats:* We believe that a re-evaluation of threats should not be restricted to the emergence of new information or changes in facts and circumstances. We believe the professional accountant should maintain a constant state of awareness and engage in periodic re-evaluation of threats throughout the duration of the relationship with the audited entity.
14. *Overall assessment of threats:* The proposals introduce a requirement to perform an overall assessment of judgements made and conclusions reached regarding threats to compliance with the fundamental principles but do not specify when such an overall assessment should occur. We invite the Board to clarify that aspect of the requirement.
15. *Structure of the Code:* 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 relating to safeguards.

We thank you for the opportunity to comment on the Exposure Draft. If you have any questions or would like to further discuss the matters noted in this letter, please contact Laurence Duflo at the Haut Conseil du Commissariat aux Comptes (+33 1 44 51 09 36).

Yours sincerely,

Audit regulators of:

- Austria
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- France
- Germany
- Greece
- Hungary
- Ireland
- Liechtenstein
- Lithuania
- Luxembourg
- Malta
- The Netherlands
- Norway
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- United Kingdom