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Mr. Ken Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017 USA

*Re: Proposed Revisions Pertaining to Safeguards in the Code - Phase 2*

Dear Mr. Siong,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) January 2017 Exposure Draft on *Proposed Revisions Pertaining to Safeguards in the Code - Phase 2*. Overall, we are supportive of the proposed changes to the Code, and believe they will help to address stakeholder concerns.

The following are our responses to the request for specific comments posed in the Explanatory Memorandum.

### ***Section 600, Provision of Non-Assurance Services to an Audit Client***

#### **1. Do respondents support the Board's proposed revisions to Section 600? If not, why not?**

**In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.**

Overall, we support the proposed revisions to Section 600 except for the proposed changes to recruiting services.

Recruiting services - 25 (h):

We do not support extending the scope of the prohibition on recruiting services to all audit client entities. Non-PIE audit clients may not have the management bandwidth to conduct the full selection process themselves. In addition the industry specialism commonly found in audit firms could be a valuable insight and support to management. We acknowledge there is a heightened threat to independence in circumstances where the auditor has been instrumental in the recruitment of senior staff but feel this can be addressed through a detailed threats and safeguards assessment. Therefore a blanket prohibition is not necessary.

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We also believe that it would be helpful to provide application guidance on what would be included in 'searching for and seeking out' candidates in a future project.

We also have the following specific comments:

1.1 Section 600 – Provision of Non-assurance Services to an Audit Client - 600.4 A3

This section lists the factors that are relevant in evaluating the threat created by providing non-assurance services. We found the factor, '*The level of expertise of the client's employees with respect to the type of service provided.*' too broad. We believe that similar to R600.8, avoiding the risk of assuming management responsibility, the factor should be '*The level of skill, knowledge and experience of the client's employees with respect to the type of service provided.*'

1.2 Section 604 – Taxation Services - 604.4 A2

For factors that are relevant in evaluating the level of threat, we would recommend adding in the fee arrangement (contingent fees, time and materials, value billing etc).

***Section 950, Provision of Non-Assurance Services to an Assurance Client***

**2. Do respondents support the proposals in Section 950? If not, why not?**

Overall, we support the proposed revisions to Section 950. We do have the following specific comments:

Section 950 – Provision of Non-assurance Services to an Assurance Client - 950.4 A3

We have the same comment as in Section 1.1 above. We found the factor, '*The level of expertise of the client's employees with respect to the type of service provided.*' too broad. We believe that it should be '*The level of skill, knowledge and experience of the client's employees with respect to the type of service provided.*'

***Examples of Safeguards***

**3. Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?**

Our suggestions for other actions that might be considered safeguards for NAS and other sections are:

3.1 Financial Interests - retirement benefit plan - R510.13 (b)

There are no safeguards suggested in the extant code or the ED. We would suggest the following safeguard: investments made by the firm's retirement benefit plan should be made through a collective investment scheme. If auditing the firm's benefit plan provider, the audit team should not be members of the firm's retirement benefit plan. An alternative plan could be made available for those individuals.

### 3.2 Close Business Relationships - Buying Goods and Services - 520.8 A2

For purchases of goods and services by an audit team member or any of that individual's immediate family, we would suggest the following additional safeguard:

- Having a professional accountant review the work of the audit team member.

### 3.3 Litigation Support Services - Section 607

There are no safeguards suggested in the extant code or the ED. We would suggest the following safeguard:

- Using professionals who are not audit team members to perform the litigation support services.

In addition, litigation support services includes activities such as acting as a witness, including an expert witness. As a future project, it would be helpful to provide application guidance including safeguards for consideration when acting as an expert witness.

### *Conforming Amendments Arising from the Safeguards Project*

#### 4. Do respondents agree with proposed conforming amendments set out in:

- (a) Chapter 2 of this document
- (b) The gray text in Chapters 2-5 of Structure ED-2.

We agree with the proposed conforming amendments.

#### 5. Respondents are asked for any comments on any other matters that are relevant to Phase 2 of the Safeguards project.

##### 5.1 Terminology for Safeguards:

We have noted that there are two different types of wording to refer to safeguards:

1. 'An example action that might be a safeguard to address the threat created by ...is ...'
2. 'An action that might eliminate those threats is...'

We found this wording less direct than many of the other changes in the ED and therefore the wording was confusing. We have assumed that the intent is to separate the two items into:

- Safeguards that could mitigate the threats and
- Actions that eliminate the threats (not might eliminate the threat).

It would be helpful if the wording was more specific.

##### 5.2 Loans and Guarantees - Section 511 - 511.6 A2:

In our review of the Compilation Code, we noted that 511.6 A2 is very confusing. In the extant code 290.118, it is very clear that the reference is for a loan to a firm that is material. In the Compilation Code, this section is a subset of the requirement for a firm, network firm or an audit team member not to accept a loan or guarantee. The example safeguard refers to having the work reviewed by a professional who is not on the audit team nor a beneficiary of the loan. This

did not make sense to us for a loan to the firm. We also did not see the equivalent of 290.119 which says that loans made under normal lending procedures to an audit team member or their immediate family does not create a threat to independence. We believe that this section should be clarified.

In addition to the specific comments raised above, we have also noted the following items that could be considered in future IESBA projects:

1. Subsection 605 - Internal Audit Services:

One of the prohibitions for audit clients that are public interest entities is:

- R605.7 (a) A significant part of the internal controls over financial reporting.

Application guidance on what would be considered a 'significant part' would be helpful.

2. Situations where management responsibilities are not prohibited:

a. Section 600 - Provision of Non-Assurance Services to an Audit Client

- R600.10 is an exception which allows the firm to assume management responsibilities when certain criteria are met

b. Section 950 - Provision of Non-Assurance Services to an Assurance Client

- R950.5 includes an exception where the firm assumes a management responsibility as part of any other services provided to the assurance client.

It is not clear how these management responsibilities would be able to be safeguarded. Application guidance in both these situations would be helpful.

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We appreciate the opportunity to comment on the Exposure Draft and hope that our comments and suggestions will be helpful to you in your deliberations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,  
BDO International Limited

Chris Smith  
Global Head of Audit and Accounting