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April 25, 2017

Mr. Ken Siong
Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

GAO's Response to the International Ethics Standards Board for Accountants' January 2017 Exposure Draft, Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments

Dear Mr. Siong:

This letter provides GAO's response to the exposure draft, *Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States. GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence. GAGAS's use is required of auditors of both domestic and international U.S. government awards. Therefore, we anticipate that the International Federation of Accountants' member professional accountants will under some circumstances be required to practice in accordance with GAGAS and the new International Ethics Standards Board for Accountants (IESBA) standard simultaneously. Our comments reflect the importance we place on reinforcing the values promoted in both the IESBA code and GAGAS.

Specific Comments

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

- 1. Do respondents support the proposals in 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.**

We support the IESBA's proposals in Section 600. We believe that the following proposals would strengthen professional accountants' ability to apply the conceptual framework to eliminate threats to compliance with the fundamental principles or reduce these threats to an acceptable level when considering whether to provide non-assurance services (NAS) to an audit client.

- Clarifying that when providing NAS to clients, firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate, and address threats to independence.

- Including the new heading “Avoiding Management Responsibilities” and separate paragraphs with examples of actions that might be safeguards to address threats created by providing specific NAS in order to emphasize these concepts in the code.
- Stating that in certain situations, providing certain NAS to an audit client is expressly prohibited because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.
- Including guidance regarding factors that might be relevant in evaluating the level of any threats created by providing NAS to an audit client.
- Including new application material to remind firms that when providing NAS to an audit client, applying the conceptual framework requires a firm to consider any combined effect of threats created by other NAS provided to the audit client.
- Explaining that the examples of safeguards are “actions that might be safeguards” to address the threat created by providing the specific type of NAS.
- Removing “seeking advice from another party” as an example of a safeguard because it does not meet the revised definition of a safeguard.
- Adding new application material to explain the concept of materiality in relation to the audit client’s financial statements.
- Including new application material regarding factors that are relevant in evaluating the level of threats created by providing information technology systems services or litigation support services to an audit client.

We agree with the proposal to extend the scope of the prohibition on recruiting services for public interest entities to all audit client entities. Under GAGAS, committing the audited entity to employee compensation or benefit arrangements and hiring or terminating the audited entity’s employees impair an external auditor’s independence with respect to an audited entity.

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

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

We support the IESBA’s Section 950 proposals, which are generally consistent with the enhancements in Section 600. We believe that the proposals would strengthen professional accountants’ ability to apply the conceptual framework to eliminate threats to compliance with the fundamental principles or reduce these threats to an acceptable level when considering whether to provide NAS to an assurance client.

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?

GAGAS includes the following examples of actions that in certain circumstances could be safeguards in addressing threats to independence:

- involving another audit organization to perform or reperform part of the audit; and
- to address individual accountant's impairments, removing an individual from an audit team when that individual's financial or other interests or relationships pose a threat to independence.

We suggest that the IESBA consider these as other actions that might be safeguards in the NAS and other sections of the code that would meet the revised description of a safeguard.

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 set out in chapter 2 of this document and the gray text in chapters 2 through 5 of Structure ED-2. As noted in our letter, *GAO's Response to the International Ethics Standards Board for Accountants' December 2015 Exposure Draft, Proposed Revisions Pertaining to Safeguards in the Code—Phase 1*, we generally agree with the IESBA's proposed revisions to the code pertaining to the conceptual framework and proposed descriptions of "safeguards" and "acceptable level." However, we suggest retaining "significance of the threat" rather than using "level of threat". We believe that professional accountants and auditors recognize "significance" and "significant," and therefore, these terms will increase the usability and understandability of the conceptual framework. We also suggest adding application guidance explaining the meaning of "significance" in the context of identifying, evaluating, and addressing threats to compliance with the fundamental principles.

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

We agree that accounting and bookkeeping services create a self-review threat. We believe that accounting and bookkeeping services currently characterized as routine and mechanical in nature always create significant threats and require safeguards. As such, we suggest the following revision to paragraph R601.6 of the code:

"A firm or a network firm shall not provide to an audit client that is not a public interest entity, services related to accounting and bookkeeping services, on financial information which forms the basis of the financial statements on which the firm will express an opinion unless:

- (a) The services are of a routine or mechanical nature; and

(b) The firm applies safeguards that eliminate the threat created by such services or reduce the threat to an acceptable level.”

We also noted that paragraph R601.8 references paragraph R601.6, and we believe that the intention was to reference paragraph R601.7.

General Comments

GAO has no comments on the items in the general comments request.

Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is stylized with a large initial "J" and a long horizontal stroke at the end.

James R. Dalkin
Director
Financial Management and Assurance