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March 21, 2016

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' December 2015 Exposure Draft, *Proposed Revisions Pertaining to Safeguards in the Code—Phase 1***

Dear Mr. Siong:

This letter provides GAO's response to the exposure draft, *Proposed Revisions Pertaining to Safeguards in the Code—Phase 1*. 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**

*Proposed Revisions to the Conceptual Framework*

**1. Do respondents support the Board's proposed revisions to the extant Code pertaining to the conceptual framework?**

We support the IESBA's proposed revisions to the extant Code pertaining to the conceptual framework. We believe the revisions would strengthen the 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. The following are three suggestions for revisions that we believe would further clarify the code.

- The following change to paragraph R120.9 would emphasize the need for an objective assessment of whether a threat to compliance with the fundamental principles has been eliminated or reduced to an acceptable level and whether further action is needed:

The professional accountant shall review judgments made and overall conclusions reached to determine ~~that~~ whether threats to compliance with the fundamental principles are eliminated or reduced to an acceptable level, and ~~that~~ no whether further action is needed. The reasonable and informed third party test described in paragraph 120.4 A1 is relevant to this assessment.

- Also with respect to paragraph R120.9, IESBA may wish to consider whether the proposed overall assessment should occur at various times over the course of an engagement. For example, there may be value in conducting an overall assessment during the planning of an engagement or service.
- We believe “intimidation threats” as defined in paragraph 300.2 A1 (e) should be replaced with “undue influence threats.” GAGAS uses this term to describe similar threats in its conceptual framework to encompass a broader range of threats related to external influences or pressures that may affect an auditor’s ability to make independent and objective judgments. “Undue influence” better reflects the sometimes subtle nature of these threats. For example, a client that pays significant audit fees to a firm may exert undue influence without actually intimidating a firm or its members. We have additional comments on this threat category in our response to question 5 below.

*Proposed Revised Descriptions of “Reasonable and Informed Third Party” and “Acceptable Level”*

**2. Do respondents support the proposed revisions aimed at clarifying the concepts of “reasonable and informed third party” and “acceptable level” in the Code?**

We support the IESBA’s proposed revisions aimed at clarifying the concepts of “reasonable and informed third party” and “acceptable level” in the Code. We believe the IESBA’s description of a “reasonable and informed third party” would prompt the professional accountant to objectively evaluate his or her judgments and conclusions and would guide the professional accountant in applying the conceptual framework. Further, we believe the revision’s description of an “acceptable level” would assist professional accountants in determining whether they are in compliance with the fundamental principles of the Code by affirmatively explaining the term.

*Proposed Revised Description of Safeguards*

**3. Do respondents support the proposed description of “safeguards?”**

We support the IESBA’s proposed description of “safeguards” and believe the description establishes a strong correlation between “threats” and “safeguards” and the fundamental principles in the Code. We believe the proposed description would strengthen the professional accountants’ ability to apply the conceptual framework as it emphasizes the proactive nature of safeguards and the professional accountant’s responsibilities for taking action and eliminates ambiguity by effectively removing the possibility of ineffective safeguards.

**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?”**

We 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 do not meet the proposed description of safeguards in the

exposure draft and are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats,” as discussed in the referenced paragraphs. As noted in our response to question 3, we believe the proposed description of safeguards better explains the process by which professional accountants should evaluate threats and the proactive nature of safeguards and the professional accountant’s responsibilities for taking action, as it establishes a strong correlation between “threats” and “safeguards.” In our view, conditions, policies and procedures established by the profession or firm, legislation, regulation, or an employing organization may affect the level of a threat to compliance with fundamental principles but should not be viewed as safeguards on their own.

#### *Proposals for Professional Accountants in Public Practice*

**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?**

We believe the IESBA’s approach to the revisions in the proposed Section 300 for professional accountants in public practice are appropriate and will support professional accountants in fulfilling their responsibility to act in the public interest and, with respect to audits of financial statements, will contribute to supporting audit quality. However, we suggest proposing a different approach to considering ethics issues that result from conflicting perspectives within an organization on a matter of professional concern. Ethics issues that place an employee in opposition to his or her employer differ fundamentally from those that involve the relationship between a firm and its client. Generally, threats within the workplace will not be identified, evaluated, and addressed in the manner described in the proposed revisions. For this reason, GAGAS focuses on the auditor-client relationship in its conceptual framework. IESBA might consider proposing a separate section in the code that addresses the threats that can result from the subordination of an employee’s judgment due to pressures within that employee’s workplace. The section could provide guidance on how to assess the significance of those threats and steps to take in the event that a significant threat is not resolved, up to and including the employee’s disassociation from the employer.

On a related matter, we suggest replacing the last of the three examples of “intimidation threats” in paragraph 300.2 A1 (e) with an example that focuses on the relationship between the firm and its clients rather than the relationship between the firm’s partners or employees. This approach would be consistent with the approach taken for all the other examples in this paragraph. It is also consistent with our view, noted earlier in the paragraph above, that the risks associated with the professional accountant’s subordination of judgment within the firm should be addressed separately and not within the conceptual framework. An appropriate replacement for the removed example might be a firm whose future work for a client implicitly or explicitly depends on the outcome of a service provided to the client by the firm.

#### **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](mailto:dalkinj@gao.gov) or Eric Holbrook at (202) 512-5232 or [holbrooke@gao.gov](mailto:holbrooke@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