



The Association of
Accountants and
Financial Professionals
in Business

August 15, 2014

International Ethics Standards Board for Accountants (IESBA)
(via IFAC Website)

Dear Members of IESBA:

The Committee on Ethics (CoE) of the Institute of Management Accountants (IMA[®]) is pleased to submit its views to the International Ethics Standards Board for Accountants (IESBA) on its Exposure Draft (ED): *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Client*. We further wish to comment about additional provisions of the Code of Ethics for Professional Accountants (Code) that address the subject of non-assurance services for audit clients.

IMA is a global association representing more than 70,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations.

The CoE is IMA's technical committee on ethics-related matters. It is responsible for encouraging IMA members, their organizations and other individuals to adopt, promote, and execute superior business practices in management accounting and finance consistent with IMA's mission by advocating the highest ethical principles. It maintains and promotes the IMA's principal business and ethics guidance, the IMA *Statement of Ethical Professional Practice*, and oversees the administration of IMA initiatives designed to ensure compliance with the IMA *Statement*. It also reviews and responds to research studies, statements, pronouncements, proposals, and other documents issued by domestic and international agencies and organizations.

Summary

We wholeheartedly uphold IESBA's overarching objective to serve the public interest by setting high-quality ethics standards for professional accountants. We agree that the Code should provide ethical requirements and guidance to help them meet this responsibility. We support this ED's objective to maintain audit firm independence when providing non-assurance services to audit clients. Providing non-assurance consulting services is becoming more critical to maintaining auditor independence and quality as audit firms are aggressively expanding their size and consulting capabilities perhaps to counter stagnant profitability and growth trends in the audit industry.¹

We disagree with the ED provision that clients of every size must have employed and designated an individual with the expertise to be knowledgeable at all times to oversee the non-assurance services provided by the audit firm and also be responsible for all client decisions resulting from those services. We also believe clarification of certain ED language is desirable.

We further believe that additional provisions of the Code, dealing with provision of non-assurance services for audit clients but not addressed in the ED, conflict with existing legal mandates for professional accountants in the U.S. We suggest that the ED include these issues and strengthen the Code to this stricter and higher level to better assist professional accountants to act in the public interest by maintaining their independence while considering performance of non-assurance services.

¹ Curtis C. Verschoor, "Do Consulting Services Threaten Audit Performance?" *Strategic Finance*, May 2014, p. 14



Discussion of ED Provisions Affecting All Clients

Section 290.165 requires management to employ and designate an individual, preferably within senior management, who possesses suitable skill, knowledge, and experience to be responsible at all times for the client's decisions and to oversee the provision of non-assurance services. While this may be a reasonable expectation for a large organization that is a public interest entity, we believe it is not feasible to expect SMEs and other non-public interest entities to have the resources to do so. The ED should be revised accordingly.

Since implementation of strategic plans and initiatives is an important aspect of management's responsibilities, we believe these activities should be added to Section 290.163 of the ED. This will clarify the differentiation made by the ED in Section 290.164 that allows audit firms to give only advice and recommendations to the management of their audit clients. We also disagree with the language of Section 290.164 that states that providing advice, recommendations, or other actions "to assist management in discharging its responsibilities is not assuming a management responsibility." This broad language is subject to too much interpretation. Providing direct assistance to management's activities means that the audit firm's actions are not independent and must be closely aligned with and performed under the direction of the client. This language should be modified.

Discussion of ED Provisions Only Affecting Public Interest Entity (PIE) Clients

U.S. Sarbanes Oxley Act of 2002 (SOX), Sections 201 and 202 require audit committee preapproval of non-audit services provided by the auditor with a de minimus exception. We believe this procedure by those charged with governance provides a valuable control of auditor independence when providing non-assurance services and should be added to the ED.

We believe Section 290.173 that would allow a firm to provide accounting and bookkeeping services to an audit client if the personnel were not part of the audit team conflicts with provisions of SOX, Section 201 which prohibits such services entirely for public interest entity clients. Section 290.166 should be conformed to agree.

Other non-assurance services prohibited for auditors of U.S. PIE entities by this statute should also be added to the ED and related sections of the Code conformed to agree:

- (2) financial information systems design and implementation – Paragraph 290.202 *IT Systems Services*
- (4) internal audit outsourcing services – Paragraph 290.195 *Internal Audit Services*
- (6) management functions or human resources – Paragraph 290.214 *Recruiting Services*
- (8) legal services and expert services unrelated to the audit – Paragraph 290.209 *Legal Services*

We understand that legislation adopted by the European Union contains similar prohibitions on auditors providing non-assurance services for PIE entities.

Request for Specific Comments

Management Responsibilities

2. Does the change from "significant decisions" to "decisions" when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?



Changing “significant decisions” to “decisions” provides little clarification to management’s responsibility. Based upon the circumstances, routine management decisions can become very significant if underlying contextual factors change.

3. Are the examples of management responsibilities in paragraph 290.163 appropriate?

As stated in our letter, we believe that because of their importance, implementation of strategic plans and initiatives should be added to the examples in this paragraph.

4. Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?

As stated in our letter, we agree with paragraph 290.164 that a firm should never assume a management responsibility for an audit client. We do not agree that providing advice, recommendations, or other actions “to assist management in discharging its responsibilities is not assuming a management responsibility.” Directly assisting management means that the audit firm’s actions must be closely aligned with and performed under the direction of the client. These actions are too likely to result in the loss of independence.

The challenges to audit independence contained in paragraph 290.165 are many. By requiring management to “oversee the services,” the audit firm could become close to being a business partner. Furthermore, we believe it is not feasible for smaller or medium size organizations to have employed a client individual that would have the requisite knowledge, skills, and experience to be able to effectively oversee a firm’s performance of the non-assurance services.

5. Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?

We believe the ED requires substantial revision in line with the comments in our letter.

6. Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?

We find it difficult to understand why an organization would contract with an independent professional accountant to perform clerical tasks that are “routine and mechanical.” As noted in our letter, the SOX statute precludes audit firms from performing “bookkeeping or other services related to the accounting records or financial statements of the audit client” for public interest entities in the U.S.

Section 291

9. Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?

Our comments relative to ED Paragraph 290.165 also apply to this paragraph.

10. Are the examples of management responsibilities in paragraph 291.144 appropriate?

Our comments relative to ED Paragraph 290.163 also apply to this paragraph.

11. Does the relocation of the guidance pertaining to administrative services provide greater clarity?

Our comments relative to Question 6 above also apply to this question.



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In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

(b) Preparers (including SMEs), and users (including regulators)—The IESBA invites comments on the proposed changes from preparers (particularly with respect to the practical impacts of the proposed changes), and users.

Adoption of the ED would require SMEs to employ a highly qualified and likely costly individual to “oversee” their audit firm’s performance of non-assurance services. As stated in our letter, we believe this is not feasible for SME organizations that are not a public interest entity.

We would be pleased to discuss our comments at your convenience.

Yours very truly,

A handwritten signature in black ink that reads "Curtis C. Verschoor".

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