



## PROPOSED CHANGES TO CERTAIN PROVISIONS OF THE CODE ADDRESSING NON-ASSURANCE SERVICES FOR AUDIT CLIENTS

ICAEW welcomes the opportunity to comment on the exposure draft *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients* published by IESBA on 20 May 2014, a copy of which is available from this [link](#)

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## MAJOR POINTS

### Need for change

1. We do not object to the changes proposed. However, while we understand the Board's desire to continually improve the robustness of the standards and listen to stakeholders views, we question whether they are really necessary as they seem to be tinkering at the margins on issues where there is no evidence of any wholesale confusion or abuse.
2. We note the October 2011 report of the IESBA SME/SMP Working Group, referred to in the explanatory memorandum. We think the 'enhanced guidance' that report request would be better served by illustrative examples or FAQs outside of the Code. Including numerous detailed examples within the Code runs the risk of being treated as a check-list definition, which is not how the Code should be interpreted.

## RESPONSES TO SPECIFIC QUESTIONS

### Q1: Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?

3. From a perspective of impact upon the entities we regulate and, importantly, the entities they audit, we do not object strongly to the removal of the emergency exception: the APB Ethical Standards on auditor independence that apply in the UK include a similar emergency exception and we doubt that it is much used. That said, we have no evidence that the provision has been mis-used and we do not see any such evidence referred to in the explanatory memorandum.
4. The rationale for the inclusion of an emergency exception will have been a recognition that auditor independence is not an end in itself, but a means to an end of high quality, audited financial statements. In extreme circumstances, the interaction of a sudden lack of resource and deadline pressures could mean that the audit firm pulling together the financial statements is the least worst option, even allowing for a slight compromise in independence. The explanatory memorandum suggests that the local audit regulator would be in a position to override the prohibition if circumstances warranted it. This is an inconsistent approach to that taken by IESBA in respect of, for example, breaches of the Code. We had advocated deleting the provisions as having no place in the code. However, the basis of conclusions for that amendment in 2013 noted that "Not every jurisdiction, however, has a regulator that is able to deal with breaches and not all regulators have a regulatory process for dealing with them. In those situations, those charged with governance and audit firms are left to address breaches on an ad hoc basis as there is no guidance on the steps that must be taken if the firm has identified a breach." If IESBA is seeking to produce an all-encompassing code, then it seems to us that a similar logic should apply: different regulators around the world operate in different ways, not all being geared up (or even permitted) to offer one-off dispensations.

### Q2: Does the change from "significant decisions" to "decisions" when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?

5. Again, we do not object to the removal of the word, but we have no evidence that the inclusion of 'significant' in the existing code has led to uncertainty or abuse. We doubt therefore, that there will be any change in clarity as a result of this change one way or the other.
6. The proposed revised 290.162 deletes part of the existing wording. This could suggest that management is responsible only for making decisions about the acquisition, etc, of resources, while 290.163 refers to activities. As a minor amendment to the proposed wording, the two paragraphs could be better linked by changing 290.162 to 'Management responsibilities involve controlling, leading and directing an entity and include being responsible for the

acquisition, deployment and control of human, financial, physical, technological and intangible resources.’

**Q3: Are the examples of management responsibilities in paragraph 290.163 appropriate?**

7. By and large the examples are reasonable. We do have a concern about interpretation of ‘control or management of bank accounts or investments. While it would clearly be inappropriate for the auditor to be able to take decisions as to what to do with these, that would seem to be covered by ‘management’. So does the addition of ‘control’ imply that in all circumstances, even physical custody of, say share certificates for an audited entity, without any power to take action without a specific instruction, would be a management action? In our view that would be more akin to the administrative services referred to in 290.166.
8. We also wonder whether ‘terminating employees’ will translate properly across the globe.

**Q4: Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?**

9. The prerequisite seems clear.
10. As a small but important aside, we do believe that the continued reference in the code to audited entities as audit clients, gives the wrong message about whom auditors should be accountable to.

**Q5: Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?**

11. We have reviewed the reports of audit quality inspections carried out by the Financial Reporting Council in the past few years. These do not indicate that auditors assuming the role of management is a key issue. While we do not object to the new guidance (except where noted above in respect of particular words) we doubt that the existing guidance has caused much confusion.

**Q6: Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?**

12. Yes, subject to the comment about ‘control’ referred to above in paragraph 7.

**Q7: Does the proposed guidance on “routine or mechanical” clarify the term, or is additional guidance needed?**

13. We do not think that additional guidance within the code would help. This would run the risk of being treated as a definition and circumvented in a legalistic manner. The concept is clearly explained by “Such services require little to no professional judgment and are clerical in nature.” Were queries on specific services to be received, these would be dealt with better as illustrative examples in off-code guidance.

**Q8: Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?**

14. Yes. As with question 7, additional guidance within the code would run the risk of being treated as a definition and circumvented in a legalistic manner.

**Q9: Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?**

15. Within the overall context of our comments on s290, the changes seem reasonable for s291.

**Q10: Are the examples of management responsibilities in paragraph 291.144 appropriate?**

**16.** See response to question 3 above in paragraphs 7 and 8.

**Q11: Does the relocation of the guidance pertaining to administrative services provide greater clarity?**

**17.** Yes, subject to the comment about 'control' referred to above in paragraph 7.

**General questions: effective date**

**18.** We do not see any particular issues with an effective date of 'not less than 12 months after issuance of the final changes. However, we do believe the effort involved in making, disseminating and absorbing changes to the Code should not be underestimated. Unless there is a significant urgency, IESBA should co-ordinate the issue and effective date of changes.