



KPMG IFRG Limited
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Tel +44 (0)20 7694 8871
Fax +44 (0)20 7694 8429
sylvia.smith@kpmgifrg.com

Ken Siong
Technical Director
International Ethics Standards Board for
Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, NY 10017
United States of America

Our ref SS/288
Contact Sylvia Smith

18 August 2014

Dear Mr Siong

Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG network.

We have included responses to the specific questions posed in the Exposure Draft in the attachment. However, our overriding comment on the Exposure Draft is that, consistent with our response to the Proposed Strategy and Work Plan 2014-2018, we question whether the proposals are significant enough to warrant an actual change in standards. Continual amendments to standards lead to additional costs and could undermine their effectiveness, especially if they result in ambiguity, rather than increased clarity, which could be an unintended consequence of the inclusion of lists of examples within the Code itself. The proposed changes do not, in our view, significantly alter the requirements or the key principles underlying the standards. If the Board believes it is necessary to clarify existing requirements, we recommend it consider issuing guidance in the form of illustrative examples and/or Frequently Asked Questions.

Please contact Sylvia Smith at +44 20 7694 8871 if you wish to discuss the contents of this letter.

Yours sincerely

KPMG IFRG Limited

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Appendix A: Response to Specific Questions

Emergency Provisions

- 1 *Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?*

We agree that the exceptions contemplated by the standard are rare and that existing mechanisms within the Code (100.11) permit consideration of the matter should an exception be deemed necessary.

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?*

In the context of decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources, we believe it is appropriate to remove the qualifier of significance and accordingly, believe this provides greater clarity as to what is considered a management responsibility.

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

We believe the examples listed in paragraph 290.163 are management responsibilities.

- 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?*

We believe the prerequisite is clear and do not anticipate challenges in understanding or application.

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

As noted in our general comments, we do not believe it is necessary to provide such enhanced guidance through a change to the Code. Such guidance could be provided through illustrative examples and/or Frequently Asked Questions.

We suggest that IESBA considers inclusion of the final sentence of extant paragraph 260.166, which makes reference to when “the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues”. We support the changes made to this paragraph in the context of avoiding any

implication that a firm assuming management responsibility would constitute a threat to which safeguards may be applied that would reduce the threat to an acceptable level. However, we believe it would be helpful to retain the concept of providing “an objective and transparent analysis and presentation of the issues” to management “in order to assist it in making significant decisions and judgments as part of discharging its responsibilities” as described in the final sentence of proposed paragraph 290.164.

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

Yes.

We consider that further clarity could be provided regarding typing or word processing of financial statements that does not involve the exercise of professional judgment on behalf of the preparer as to whether this activity would be categorised as an administrative service. If this is the intention of IESBA, we recommend that this be made explicit by inclusion of this service as one of the examples set out in paragraph 290.166.

Routine or Mechanical

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

We believe some of the examples provided do not serve to clarify what is meant by “routine or mechanical”, since together they suggest that all activities that are not management responsibilities are by default routine or mechanical, which we do not believe to hold true.

More specifically, some of the examples provided might or might not involve the exercise of more than a little professional judgment depending on the specific circumstances.

We also find the text of the additional examples to be ambiguous and not as clear as intended by IESBA:

- In particular, the third bullet point, which refers to the recording of a transaction “involving a significant degree of subjectivity”, seems to be inconsistent with the preface of “requiring little or no professional judgment”;

Furthermore, it does not refer to whether the client has determined or approved the appropriate account classification, which is included in other examples;

- The reference in the second bullet point to “routine” within an example that is intended to explain the term “routine” is not helpful;

- We consider that the example of the utility bill would be improved if replaced by a description of criteria to be met in order for a transaction to be classified as routine, such as “amounts are easily determinable from source documents or originating data”.

In summary, we believe the term is clearly described as “using little or no professional judgment” and suggest IESBA consider whether examples are in fact necessary.

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

Yes.

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?*

We believe that the prerequisite will help to ensure that the firm does not assume a management responsibility.

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

We believe the examples listed in paragraph 291.144 are management responsibilities.

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

Yes.

Other Comments

We believe the term “significant” currently included at paragraph 291.143 should be deleted, in conformity with changes made in 290.162.