



American Institute of CPAs
220 Leigh Farm Road
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SENT VIA E-MAIL

August 18, 2014

International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

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

Dear Members of the International Ethics Standards Board for Accountants:

The American Institute of Certified Public Accountants' (AICPA) Professional Ethics Executive Committee (PEEC) is pleased to submit this comment letter to the International Ethics Standards Board for Accountants (IESBA) on its Exposure Draft: *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients* (the "Exposure Draft"). The AICPA is the world's largest member association representing the accounting profession, with more than 394,000 members in 128 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting; membership is also available to accounting students and CPA candidates. Throughout its history, the AICPA has been deeply committed to promoting and strengthening independence and ethics standards. Through the PEEC, the AICPA devotes significant resources to independence and ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards.

General Comments

We support the IESBA's objective of setting high-quality ethics standards for professional accountants around the world and facilitating the convergence of international and national ethics standards. We agree with the Board that the provisions concerning non-assurance services in the IESBA Code are robust in protecting the public interest but support enhancing the clarity of the guidance in those areas where users of the Code have requested additional clarification. However, we believe some of the proposed changes may have unintended consequences.

Responses to Request for Specific Comment

Emergency Provisions

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

We do not believe that there are any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services as they relate to audit clients that are public interest entities.

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?

We do not believe the change from “significant decisions” to “decisions” when referring to management responsibilities enhances the clarity of a management responsibility and have concerns that this revision could have unintended consequences. The removal of the term “significant” means that all decisions regarding the acquisition, deployment and control of human, financial physical, technological and intangible resources constitute a management responsibility even if clearly insignificant. However, in proposed paragraph 290.165 the guidance states that “When providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management.” This sentence implies that there are decisions that may not be the responsibility of management. While we would agree that the auditor should not make any *significant* decisions on behalf of the client, we believe that in the performance of non-assurance services, the auditor may use professional judgment and make certain decisions, assuming the client accepts the responsibility of the decisions. The deletion of the term “significant” in paragraphs 290.162 could have unintended consequences and be misinterpreted to mean that the auditor cannot make any decisions or judgments while performing non-assurance services which we do not believe is the IESBA’s intent. Accordingly, we recommend that the term “significant” not be deleted from paragraph 290.162. This would make the description of a management responsibility as stated in paragraph 290.162 consistent with the respective language in paragraph 291.146. Similarly, we recommend that the notion of significance be added back to paragraph 290.165 as follows: “...client management makes all *significant* judgments and decisions that are the responsibility of management.”

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

We believe the examples of management responsibilities in paragraph 290.163 are appropriate with the exception of the example that states: “*Control or management of bank accounts or investments.*” We believe that the possession of any client asset is a management responsibility and do not believe the example should be limited to one class of asset.

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

We support the prerequisite set forth in par. 290.165 concerning the responsibilities of client management and believe they will help reduce the possibility that a firm will assume a management responsibility. We also believe such a prerequisite will mitigate the self-review and self-interest threats associated with the provision of non-assurance services.

Paragraph 290.165 is relatively clear, however, we recommend the following edits:

- The third bullet of paragraph 290.165 may present challenges, as the sentence “Accepting responsibility for the actions to be taken arising from the results of the services,” is broad and may be confusing. A more direct phrase that should be considered would be “Accepts responsibility for the results of the services”; and
- The lead in sentence to the bullets should be edited as such “This includes ~~ensuring~~ *being satisfied* that client’s management...” to avoid the use of absolute terms.

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

As noted, we believe the prerequisite in par. 290.165 will help reduce the possibility that the firm will assume a management responsibility. Overall, we believe the enhanced guidance will assist engagement teams to better meet the requirement of not assuming a management responsibility.

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

We believe the relocation and redrafting of the guidance pertaining to administrative services provides greater clarity, however, when the edits to the respective guidance are taken in conjunction with the removal of “significant” in paragraph 290.162, it may be confusing. The removal of the term “significant” could be interpreted to mean that a professional accountant performing administrative services may not be able to make insignificant decisions that may be necessary.

Routine or Mechanical

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

We believe that the proposed guidance on “routine or mechanical services” is clearer. However, the guidance in paragraph 290.169 states that these activities are considered to be a “normal part of the audit process.” That being such, the paragraph should further state that the services noted are not subject to the requirements of paragraph 290.165 for clarification.

Also, two of the examples of services that are routine or mechanical in paragraph 290.171 may lead to confusion, specifically, the third and fourth bullets. The third bullet states that a routine or mechanical service would be “*recording a transaction such as a valuation when the client has determined the amount to be recorded.*” The fourth bullet states a routine or mechanical service would include “*calculating depreciation on fixed assets when the client*

provides the accounting policy and estimates of useful life and residual.” We agree that these services would be of a routine or mechanical nature, however, the guidance may also appear to be contradictory to other guidance in the Code in that the professional accountant in public practice is permitted to perform a valuation service or assist the client in determining the useful lives and residual values of fixed assets. For example, paragraphs 290.178 and 290.179 address situations where a professional accountant in public practice may perform a valuation for an audit client. Accordingly, we recommend the IESBA consider the following edits which are consistent with the language in the second bullet of the examples of routine or mechanical services:

- Recording a transaction involving a significant degree of subjectivity, for example the valuation of an asset when the client has determined *or approved* the amount to be recorded.
- Calculating depreciation on fixed assets when the client ~~provides~~ *has determined or approved* the accounting policy and estimates of useful life and residual values.

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

We believe the meaning and identification of source documents is sufficiently clear.

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?

Consistent with our response to question 4 with respect to Section 290, we support the prerequisite set forth in paragraph 291.146 concerning the responsibilities of client management and believe they will help reduce the possibility that a firm will assume a management responsibility. We also believe such a prerequisite will mitigate the self-review and self-interest threats associated with the provision of non-assurance services.

Paragraph 291.146 is relatively clear, however, we propose the following edits:

- The third bullet of paragraph 291.146 may present challenges, as the sentence “Accepting responsibility for the actions to be taken arising from the results of the services,” is broad and may be confusing. A more direct phrase that should be considered would be “Accepts responsibility for the results of the services”; and
- The lead in sentence to the bullets should be edited as such “This includes ensuring being satisfied that that client’s management...” to avoid the use of absolute terms.
- The notion of significance should be added back to paragraph 291.146 as follows: “...client management makes all *significant* judgments and decisions that are the responsibility of management.” This would make the language more consistent with the language in paragraph 291.143 which states that a management responsibility includes making “significant decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources.”

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

Consistent with our response to question 3 with respect to Section 290, the examples of management responsibilities in paragraph 291.144 are appropriate with the exception of the example that states: “Control or management of bank account investments.” We believe that the possession of any client asset is a management responsibility and do not believe the example should be limited to one class of asset.

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

We believe the relocation and redrafting of the guidance pertaining to administrative services provides greater clarity.

Sincerely,

A handwritten signature in cursive script that reads "Wes Williams, CPA".

Wes Williams, CPA
Chair, Professional Ethics Executive Committee

cc: Brian Caswell, CPA, IESBA Member
Lisa Snyder, CPA, CGMA, Director – Professional Ethics