Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York 10017

August 14, 2014

Re: IESBA Exposure Draft - Non assurance services

Dear Mr Siong

Introduction

We[1] appreciate and thank you for the opportunity to comment on the IESBA's Exposure Draft "Proposed changes to certain provisions of the code addressing non-assurance services for audit clients".

Principal comments

We remain strongly supportive of the principles -based approach adopted in the Code of Ethics ("the code"). We also support the Board's mission of setting ethical standards in an international context and, in particular, the objective of facilitating the convergence of international and national ethics standards, although we recognise that with the increasing proliferation of jurisdictional-based regulation this is becoming ever more challenging.

In our response to the Board's consultation on its proposed Strategy and Work-Plan 2014-18 we made a number of high level comments on the broader issues which we recommended that the Board consider. Without repeating all the detail, we summarise below the key points we made:

[1] This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652

1. We believe that it would be very helpful to the Board, and indeed stakeholders, if the Board could develop a clear articulation of its vision and objectives, including the development of a framework, or set of principles, against which to make decisions about future activity and in particular regarding areas of the code which might need to be re-considered.

2. The Board should be clear on the purpose of its standard setting and what it is trying to achieve, recognising that the code is an international standard whose primary aim should be to assist the proper functioning of the capital markets and to meet the expectations, as far as is possible, of stakeholders collectively. With major jurisdictions and certain regions setting their own independence standards consideration needs to be given to the intended audience for the code.

3. It is unclear where the Board wishes to set or position its "standard" of ethical behaviour.

4. Whilst we appreciate a desire to be "dynamic" and "flexible" and to be alert to new developments, we have the sense that the addition of new workstreams tends to be responsive primarily to comments and observations the Board receives from individual stakeholders, notably regulators, as opposed to being driven by persuasive evidence that there is something inherently wrong with the current standard or that something needs fixing.

5. We believe that the Board should be very careful in managing or reacting to perceptions. Reacting to specific concerns from stakeholders regarding their perceptions runs the risk that:

    a. the code moves away from the principles towards more of a rules--based approach,
    b. the framework develops over time as a patchwork rather than a coherent set of principles, and
    c. changes to the code result in cost and disruption to stakeholders, including companies and IFAC member bodies, and ultimately firms as users of the code, out of proportion to the likely benefits.

6. Recent activity gives the impression that the Board is frequently changing the code, sometimes without a clear articulation of the merits and benefits of doing so, at a time when key stakeholders, including member bodies, have argued for a period of stability at least as regards the independence provisions. This has the potential to undermine the credibility of the code.

We continue to believe that these points above remain valid and encourage the Board to consider these matters as it deliberates the responses to this Exposure Draft and in relation to its future activities and work plans. These issues are important background to the specific points we make below.

We have evaluated the proposals specifically in the light of the points above and have concluded that the Board appears not to have established a robust case for change in these areas; indeed the

explanatory memorandum itself concludes that the provisions concerning non-assurance services are "still robust in protecting the public interest".

We believe that the proposed changes would cause unnecessary disruption to stakeholders, especially member bodies and firms, who would be required to update their codes of ethics and policies and guidance, with little obvious benefit. The costs involved should not be underestimated – member bodies generally have to go through lengthy processes to make changes, sometimes also requiring changes in law. By way of illustration we set out in Appendix 2 our understanding of the processes that would be required in Brazil to effect such a change in the code. Other countries will have similar processes. Due to the potential disruption we believe that any changes to the code should be well grounded by demonstrating a need for the change and should be substantive as opposed to clarifying in nature.

We also recognise that many member bodies have not yet adopted the current code and we suspect that making further minor changes to the code may discourage them in the process of convergence and/or result in further delays in implementation.

We do not believe that the changes provide additional clarity on the intent of the provisions - indeed the changes seem to make the code even more prescriptive, moving further away from a principles-based code which should allow for the application of professional judgement in the different circumstances that arise.

In summary, we recommend that the Board not proceed with these proposals. If the Board wishes to provide more specific examples to illustrate application of the code, we suggest that this could be better achieved through FAQs or other supporting guidance materials (avoiding costly and unnecessary changes to the code).

Our more detailed comments on the specific questions the Board has asked are set out in Appendix 1.

Contact

If you would like to discuss any of the points raised in this letter, please contact David Adair (tel +44207 804 2274 or email david.adair@uk.pwc.com).

Yours sincerely

David Adair
Global Independence Leader

Appendix 1

Detailed comments

Emergency exceptions (Question 1)

The current provisions relating to the ability of an audit firm to provide certain services in emergency and other unusual situations was presumably intended to allow the auditor to assist the client in such situations where that would be in the public interest and where an override of provisions in the code, which often address perception issues, would be more important in the public interest than technical compliance with those requirements.

In the context of a global code, the deletion suggests that audit committees of public interest entities, in consultation with the audit firm, are not to be trusted to make such judgements where the provision of such services is deemed to be in the public interest, and we regard this as unfortunate.

If the Board believes that the provision is open to misuse, and we have not seen any evidence of this ourselves, we wonder if the objective could be achieved by a sharpening of the provision through a more specific reference to the service being in the public interest and examples of when a set of circumstances (such as in the event of a natural disaster) would be regarded as an "emergency or other unusual situation".

We also recommend that if the provision is used in such a situation that there should be appropriate transparency thereof, such as through discussion with the relevant regulator.

Management responsibilities

While we agree that an audit firm should not be making decisions that are the proper responsibility of client management, we are concerned about the change in the description of a "management responsibility" arising from the proposed deletion of the word "significant" before "decisions". We are not clear why the Board thinks that such a change is necessary and we are concerned that it could have unintended consequences. The explanatory memorandum does not provide a rationale for this change but the implication is that the view of the Board has changed. It is not evident why the Board now believes it got the standard wrong in the first place or what the implications are for auditor independence.

To illustrate potential unintended consequences:

- The code would be deemed to have been breached if the auditor were seen to have made, perhaps inadvertently, an insignificant decision regarding, say, the control of human resources. For example, a member of the client's staff may be asked to gather information to help the audit firm in performing a permissible non-assurance service – any degree of direction given to staff (such as what information to gather) could be deemed to be "supervisory" in nature and thus a management responsibility. To infer that this would compromise the firm's independence seems excessive in a principles-based code.

- It elevates all decisions by anyone in the client entity, including employees and contractors, to a "management responsibility" and we question whether this change risks widening what may be understood today to be a management responsibility. For example, an audit firm may lend a staff member to the client (subject to compliance with the conditions as set out in 290.142). However any decision involving the acquisition, deployment and control of human, financial, physical, technological and intangible resources, however minor, made by that staff member in the course of the temporary staff assignment would, it seems, be regarded as assuming a management responsibility under the proposal and a breach of the code would result. Again, this seems inappropriate.
- While the proposal acknowledges that "providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility" it is not clear whether the safeguard in 290.165 would be effective if the advice was provided to a more junior employee (which is often the case), as opposed to "client management", and what the consequences of this may be. [Question 2]

The key point which is articulated in the current code (290.166) is that "the firm shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service". This provision is already in the Code, it provides sufficient safeguards and further revision is not in our view necessary.

The additional examples added in 290.163 are admittedly activities that would appear to be management responsibilities but it is not clear why additional examples are necessary. Further the deletion of the word "generally" again seems innocuous enough but, coupled with the removal of the word "significant", seems to have removed the ability to apply appropriate professional judgement in specific circumstances in determining what is a "management responsibility. This would be regrettable in our view.

The proposed changes to 290.165 do not appear to add substantively to the guidance and requirements and would not likely change behaviour. The suggestion that this individual should assess the "adequacy" of the results of the service provided by the firm suggest that they are performing some sort of quality control and this does not seem to fit well in this context. [Question 4]

We note that no justification is given for the deletion of the safeguard in 290.165 whereby the risk of undertaking a management responsibility is reduced "when the firm gives the client the opportunity to make judgements and decisions based on an objective and transparent analysis and presentation of issues". We regard this as a sensible and effective safeguard and are surprised by its deletion. [Question 4]

We are doubtful that the "enhanced guidance" will assist engagement teams to better meet the requirements. [Question 5]

With regard to services that are "routine and administrative" we note the proposed deletion of extant paragraph 290.164. We find the replacement paragraph (290.166) not as clear as the extant code in

that there is no statement that such services are not deemed to be a management responsibility and there is no clear link to the preceding provisions. Moving the discussion does not appear to enhance understanding. [Question 6]

Preparing accounting records and financial statements

The additional examples in 290.171 are, in our view, confusing and do not add to clarity. In particular

- The example of a "utility bill" adds no useful clarity
- The new third example is presumably intended to mean that recording a transaction where the client has undertaken the valuation and determined the amounts to be recorded does not create a threat to independence, even though the valuation may be highly subjective, but the point does not come across well. If retained, this could be redrafted as "Recording a transaction where the client has determined the amount to be recorded (even if the amount involves a significant degree of subjectivity, such as the valuation of an asset)".
- If retained, it would be helpful if the provision recognised that performing "Services that are routine or mechanical in nature" would not be regarded as assuming a management responsibility.[Question 7]

The Exposure Draft poses a question about "source documents" but as far as we can see no related changes have been proposed nor guidance added. There are undoubtedly new issues that accountants, notably smaller firms, are facing with the emergence of more sophisticated technical solutions to record keeping (such as cloud -based systems) and these would indeed appear to merit additional guidance, perhaps by way of FAQs. [Question 8]

Section 291

Please see our comments above which are equally relevant.

Furthermore, the examples in 291.144 of "management responsibilities" and in 291.150 of "administrative services" have been copied over from Section 290 and do not seem to have much relevance in the context of non-audit assurance services, especially where the service may not even relate to the financial statements. Better examples may be helpful.

Appendix 2

The following sets out, as an example, our understanding of the process for implementing an amendment to the IESBA Code in Brazil.

1. The text of the IESBA amendment is translated to Portuguese by the Institute of Independent Auditors (IBRACON).
2. The Independence and Ethics workgroup of the IBRACON debates whether any changes or modifications to the translated text are necessary. Usually these are limited to correcting translation errors.
3. The Independence and Ethics workgroup submits the draft amendment to the National Commission on Technical Standards (CNNT) of the IBRACON.
4. The CNNT approves the draft and submits it to the Federal Accounting Council (CFC), which has the legal power to set or amend standards.
5. The CFC evaluates the draft and submits any questions back to the IBRACON. Once these are resolved, the CFC publishes the draft amendment as an exposure draft. The exposure period is no less than 30 days.
6. The comments received during the exposure draft are forwarded to the Independence and Ethics workgroup of the IBRACON for evaluation.
7. The Independence and Ethics workgroup prepares a response to the comments, adjusts the wording of the draft amendment, if necessary, and submits these items to the IBRACON technical director.
8. The IBRACON technical director forwards the comments and final draft to the CFC.
9. The CFC evaluates the comments and the updated draft amendment. Depending on the significance of the changes made since the exposure draft, a new exposure period may be deemed necessary. Otherwise, it votes to approve (or reject) the amendment.
10. If approved, the amendment is published in the government´s Federal Register (Diário Oficial) and becomes effective.
11. This process typically takes 3 months.