Non-assurance Services and Professional Skepticism

Richard Fleck, IESBA Deputy Chairman and Chair of NAS and PS Working Group

Patricia Mulvaney, IESBA Member and PS Working Group Member

Melbourne, Australia Roundtable

July 16, 2018

Agenda

- Welcome and overview
- Highlights of Previous Roundtables
- Non-assurance Services
  - Breakouts
- Professional Skepticism
  - Breakouts
- Closing remarks

Revised and Restructured IESBA Code

- Substantively revised and restructured Code at end of current planning horizon (2018)
  - Major changes to foundations (Enhanced Conceptual Framework, Safeguards) and architecture
  - Enhanced requirements and guidance for PAIBs
  - Robust upgrades (NOCLAR, Inducements, Long Association)
  - Enhanced guidance (Professional Skepticism and Professional Judgment)
- A globally operable platform for the future

COMPREHENSIVE, INTEGRATED SUITE

SIGNIFICANT UP-GRADES

Future IESBA Strategy and Work Plan

- SWP [consultation paper](#) released April 2018

- Aiming to fulfill distinct but broad goals:

  - Relevance and applicability in a world of changing technologies, business methods and public expectations

  - Strengthening both public interest objectives and trust in the accountancy profession as an integral whole

- Open for public comment until mid-July

  - Finalization Q4 2018

Objective of Roundtable

- To discuss key public interest issues in two high-priority pre-commitments in SWP 2019-23:

  – How best to delineate boundaries of NAS that firms may provide to audit clients

  – How best to meet public expectations regarding exercise of "professional skepticism" by all PAs

- Input to inform direction of IESBA's standard-setting responses

- Your views and active participation important!

Overview of Roundtable Participants

	Washington DC	Paris	Tokyo
Investors, user advocates and regulators	5	3	5
Public sector organization	1	1	0
TCWG and preparers	4	3	1
Firms, including SMPC representative	11	13	8
NSS and IFAC member body	2	10	10
Academics	3	-	2
Other, including IAASB and IAESB representatives	5	3	4
Observers (PIOB, CAG, Basel, PCAOB, IFIAR, H3C)	4	4	2
Total participants	**34**	**37**	**32**

NAS – What Have We Heard?

- Ideal is to achieve global harmonization to extent possible, but is that aim practical?

- Important to maintain principles-based approach (based on FPs and CF)

- Need for clearer and more explicit prohibitions

  - Divergent views about how to achieve right balance

  - Strong call for continuing to have high quality NAS provisions at the global level

- Concept of "black list" has challenges

  - Important to continue to link NAS prohibitions to general provisions in CF to explain rationale for why prohibitions exist

NAS – What Have We Heard? (2)

- Consider whether to retain materiality as a qualifier for certain NAS prohibitions

- Doubt about whether PIE and non-PIE continues to be appropriate approach for Code

  – Important to consider needs of SMEs and SMPs

  – Increasing trends for alternate funding sources

  – Different descriptions/definitions of PIE contribute to complexity

  – Typically PIEs = listed; decrease in number of listed entities in many jurisdictions

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NAS – What Have We Heard? (3)

- Communication with TCWG, Disclosure and Other
  - No support for fee caps, strong support for increased transparency
  - Support for preapproval from TCWG
- New and emerging services
  - Advancing technologies are blurring the lines b/w professional services and business relationships
  - FPs and CF continue to be relevant, but interpretive guidance needed to among other matters help PAs understand new services and the types of threats that they might create

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PS – What Have We Heard? (4)

- Support for a new term + definition for non-auditors
- Broad support for the concepts in CP
  - Behavioral characteristics expected of a PA (para 7)
  - Articulation of behaviors expected of PAs (para 10)
- Expand application material
- Address "bias" and "scalability"
- Inclusion of new material upfront in Code to emphasize PAs' overarching public interest responsibility

Richard Fleck, IESBA Deputy Chair and NAS Working Group Chair

Non-Assurance Services

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General Policy Objective

Harmonized global NAS provisions?

Provisions that accommodate jurisdictional circumstances?

Relevant and robust NAS provisions intended for global applicability

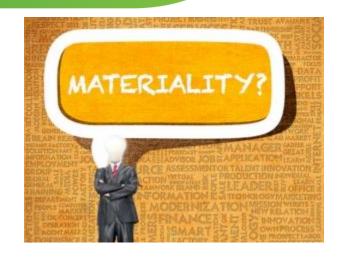**Specific NAS provisions reflective of national laws, reg'ns, norms and customs**

Summary of Specific Issues Identified

- Materiality

- PIE and non-PIE provisions

- Unconditional NAS prohibitions (i.e., "black list")

- New and emerging services

- Auditor communication with TCWG

- Disclosure and other matters

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Materiality

- Should materiality or significance be considered when determining whether a firm or network firm is permitted to provide a NAS to an audit client?

  – Retain reference to materiality and significance in Code?

  – Provide additional guidance to enhance consistent application?

  – Other factors?

PIE and Non-PIE Provisions

- Is there merit to having the same global ethics and independence provisions for all entities, irrespective of their nature and size?

- Should NAS provisions for audits of PIEs and non-PIEs be different?

  – Different approach needed?

  – What changes, if any, are required in Code?

Users of audited f/s that are PIEs have unique information needs

Unconditional NAS Prohibitions (i.e., Black List)

- What criteria should be used to determine whether a NAS should be prohibited?

  – Which service(s)?

  – Should new criteria apply to all audit clients?

- In view of issues relating to materiality and PIEs and non-PIEs, are there types of NAS that should be **unconditionally prohibited*** in the Code for PIEs?

> * NAS prohibitions that are not qualified by specific circumstances or conditions (e.g., materiality)

New and Emerging Services

- Are there specific types of services, including new or emerging services, that should be dealt with explicitly if not already addressed in Code?

  - Which NAS?

  - Nature and extent of additional guidance required?

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Communication between Auditors and TCWG

- What additional requirements, if any, relating to auditor communication with TCWG should be included in the Code?

  – Should requirements in ISAs be reflected in Code?

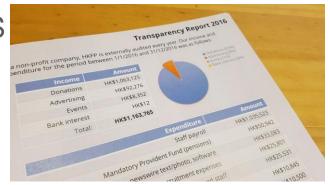 – Should Code deal with circumstances warranting pre-approval by TCWG, including level of fees?

For listed entities – ISAs require auditor communications with TCWG about independence

Code encourages all PAPPs (includes auditors) to communicate with TCWG about independence matters

Disclosure and Other Matters

- What disclosure requirements about NAS should be included in Code?

- Should Code establish fee restrictions re NAS (e.g., fee caps)?

  – What factors, if any, should be considered?

- What actions, if any, should IESBA take in response to broader concerns re firms' business models?

  – What role should others play?

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Group 1 Chair – Richard Fleck, IESBA Deputy Chair and Working Group Chair

Group 2 Chair – Patricia Mulvaney, IESBA Member and Working Group Member

NAS Breakouts

Warren Allen, CEO, NZ XRB

Jacinta Hanrahan, Senior Technical Manager, APESB

NAS Breakout Report-Backs and Summarization

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Richard Fleck, IESBA Deputy Chair and Working Group Chair

NAS Recapitulation of Discussions and Way Forward

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LUNCH

Patricia Mulvaney, IESBA Member and Working Group Member

Professional Skepticism

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Views expressed in earlier PS Initiative

- No question asked, but some took opportunity to comment

- Substantive majority of those who commented believe that PS should apply to all PAs

  – Exercise of PS is important for tax and consulting engagements; Code should explain role of PS for those NAS

  – Code should acknowledge that PS enables compliance with FPs

  – Coordination among IAASB, IESBA and IAESB

  – Approach taken by IAESB seems appropriate for the Code

- Some cautioned against potential unintended consequences

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Professional Skepticism

- Consultation paper released in May 2018
- Seeking stakeholder views on:
  - Behavioral characteristics comprised in PS
  - Whether all PAs should exercise them
  - Whether the Code should be further developed as a result
- Ongoing close coordination with IAASB and IAESB

Meeting Public Expectations

- Preliminary behavioral characteristics identified by WG
  - Obtaining and understanding information necessary for reliable judgments
  - Making informed challenges of views developed by others
  - Being sensitive to the integrity of information
  - Withholding judgment pending thoughtful consideration of all known and available information
  - Being alert to potential bias or other impediments to professional judgment
  - Ability and willingness to stand ground when facing pressure to do otherwise

What is Behavior Expected of All PAs?

- Proposed articulation:

PAs should:

(a) Approach professional activities with an impartial and diligent mindset; and

(b) Apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated.

- Recognize concept of scalability

Options

1. PS as currently defined in auditing standards

2. PS re-defined

3. Develop another term and definition

4. Enhance guidance in the Code

5. Address role of bias, pressure and other impediments

Choosing Options 1, 2 or 3 would not preclude also doing Options 4 and/or 5

New Option 6

- Identified during previous Roundtable discussions
- Introduce to the Code an overarching statement of for PAs
  - To act in the public interest
  - Uphold the fundamental principles, etc.
- Similar to the Hippocratic Oath of the medical profession
  - *First, do no harm…*

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Group 1 Chair – Patricia Mulvaney, IESBA Member and PS Working Group Member

Group 2 Chair – Richard Fleck, IESBA Deputy Chair and Working Group Chair

Breakouts

Craig Fisher, Board Member, NZ AuASB

Channa Wijesinghe, CEO, APESB

PS Breakout Report-Backs and Summarization

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Richard Fleck, IESBA Deputy Chair and Working Group Chair

PS Recapitulation of Discussions and Way Forward

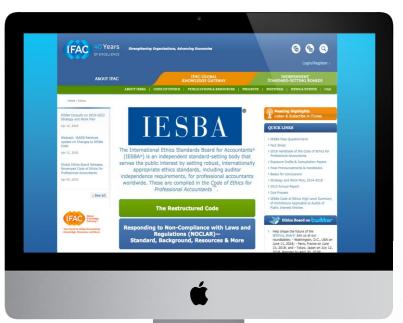**IESBA**®

Next Steps

- Full review of roundtable and CP input Sept 2018 IESBA meeting
  - WG recommendations
  - Scope of possible standard-setting projects
- IESBA CAG discussion Sept 2018
- Project proposals anticipated by Q4 2018
  - Issues and approach
  - Proposed timelines

The Honourable Nicola Roxon, APESB Chairman

Closing Remarks

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