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### I. Introduction and Background

1. In January 2020, the IESBA proposed revisions to the [International Independence Standards](#), especially those that apply to public interest entities (PIEs) audit clients. These proposals were set out in two Exposure Drafts, [Proposed Revisions to the Non-Assurance Services Provisions of the Code](#) (NAS ED) and [Proposed Revisions to the Fee-Related Provisions of the Code](#) (Fees ED) and they respond to specific Public Interest Oversight Board (PIOB) and regulatory concerns as well as growing public perceptions about the need to reinforce auditor independence.

   **About this Paper**

2. This paper summarizes the significant comments received by the IESBA on the NAS ED and the Task Force’s related responses. It also includes the matters that will be considered by the IESBA during its September 2020 meeting. Section II of the paper deals with the overarching issues raised...
by respondents to the NAS ED and the Task Force’s responses. Some of these overarching comments have implications for other IESBA projects. Sections III, IV and V deal with the key issues raised in the responses to the specific NAS ED questions.

3. **Agenda Item E-2, Revisions to Proposed Text in NAS ED (Mark-up)** sets out the Task Force’s proposed revisions to the NAS ED based on the feedback from respondents and a clean version of the same document is set out in **Agenda Item E-2.1**.

C. **Highlights of Feedback on NAS ED**

4. Appendix 2 of this paper includes a complete list of the 66 comment letters respondents to the NAS ED by stakeholder group and region.

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<tr>
<td>PAOs, including NSS</td>
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<td>Firms, including Forum of Firm members</td>
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5. On balance, respondents across stakeholder groups and regions expressed clear support for the NAS proposals. However, there were some reservations expressed. These related to:

- The proposed requirement and supporting application material relating to the prohibition on firms and network firms providing a NAS that will create a self-review threat in the case of an audit client that is a PIE.
- The timeline for finalizing the NAS revisions to the Code given the (i) impact of the COVID-19 pandemic and (ii) questions about the interaction of the NAS proposals and the forthcoming IESBA project to review the definition of a PIE.
- The IESBA’s approach and focus on responding to concerns about “independence in appearance”. There is a view that the approach would result in the Code, overtime, becoming
more “rules based”.

- The withdrawal of “materiality” as a conditionality in certain NAS prohibitions. With respect to the new self-review threat prohibition that applies to PIE audit clients, there is a view that materiality should be a factor in determining the likelihood that the result or outcome of a NAS will affect or impact the accounting records, or internal controls over financial reporting, or the financial statements on which the firm will express an opinion.

- The IESBA’s intent with respect to the prohibition of providing advice and recommendations that will create a self-review threat to PIE audit clients when such advice/recommendation is permissible under local laws, regulations, and auditing standards.

6. In addition, there were specific concerns from certain stakeholders. For example:

- Stakeholders who represent a small and medium-sized practice firm (SMP) perspective expressed concerns about the impact of the NAS proposals on small and medium-sized entities (SMEs), especially those that are PIEs.

- A large firm pointed to the practical challenges and inefficiencies in applying multiple different independence standards and noted that auditors, their clients and TCWG have to determine, on a situation by situation basis, which set of independence provisions is more restrictive when the audited entity is subject to two or more independence regimes. It suggested that the IESBA consider engaging in dialogue with key stakeholders including IOSCO, the US SEC and other leading regulators/standard setters to: (i) consider how the application of the IIS interact with existing jurisdictional standards;¹ and (ii) converge on a single set of common and robust independence standards, which ideally could be the IIS.

- Regulatory stakeholders, including the MG members questioned the qualification of the proposed provisions relating to firm communications to TCWG about NAS, including obtaining concurrence. There is a view that the provisions should: (i) apply to parent undertakings of PIEs even if they are unlisted; and (ii) extend to entities that the PIE audit client does not directly or indirectly control.

- Some regulatory respondents questioned the appropriateness of certain NAS safeguards.

7. The remainder of this paper addresses the Task Force’s responses and revised proposals in response to the above highlights.

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**Matter for IESBA Consideration**

1. IESBA members are asked to note the introduction and background information relating to the NAS project set out above.

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¹ In this regard, the Task Force notes the IESBA’s Benchmarking Initiative which involves comparing the IIS that are applicable to PIEs to the relevant independence requirements that apply in major jurisdictions, starting first with the requirements of the US SEC and the Public Company Accounting Oversight Board (PCAOB). The initiative will serve to provide insights to stakeholders about the similarities and key differences between the IIS and independence requirements in major jurisdictions.
II. Overarching Issues and Task Force Responses

A. Timing and Pace of Changes to the Code

8. The NAS EM set out the indicative timeline for the NAS project with an anticipated finalization date of December 2020 for the final pronouncements and noted that the IESBA’s plan to:

- Finalize the NAS and Fees pronouncements at the same time.
- Coordinate the timing of effective dates for the final provisions arising from the NAS and Fees projects with the effective date of the revised definition of a PIE.
- Develop NAS technology-related changes as part of the Technology project which started in January 2020. The NAS EM and the February 2020, Technology Phase 1 Report, noted that NAS technology-related work would involve:
  - Exploring whether and, if so, how the NAS provisions might be revised to address the ethical implications of technology on the provision of NAS to audit clients; and
  - Considering whether to modernize the terminology and examples in the Code with respect to technology.

Feedback from Respondents

9. Although the EM did not include an explicit question about the NAS project timeline, some respondents suggested that:

- The IESBA consider finalizing the PIE project first, prior to finalizing the proposals in the NAS and Fees projects, or provide the opportunity for stakeholders to provide comments based on the revised PIE definition. Several commentators from a range of stakeholder groups pointed out that due to the ongoing IESBA project aimed at revisiting the PIE definition in the Code, there is a lack of certainty regarding the entities that will be covered by the NAS provisions for PIE audit clients. They indicated that it is not possible for them to comment fully on the NAS proposals as there might be issues that they cannot yet envisage.

- The NAS-related technology proposals should be exposed and finalized before completing the NAS project and that the two sets of revisions should come into effect at the same time (see Section IV. A. of this paper).

- Noted that certain jurisdictions and SMPs (in particular non-native English speaking ones) find it difficult to keep up with the pace of changes to the Code and more broadly the changes in laws and regulations.

- The IESBA consider revisiting the timeline for the NAS project and its work-plan more broadly, particularly in light of the disruptions caused by the COVID-19 pandemic. There was a view that a post-COVID-19 world may look very different and it may be more appropriate for IESBA to postpone consideration of changes until there is more stability and the way that businesses have had to adapt is better understood.

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2 PAOs/ NSS: AICPA, CPAA, IDW, WPK; Firms: EY, KMPG; Others: SMPC
3 Regulators: IFIAR, NASBA, PAOs: ACCA CAANZ, AICPA, IDW, Firms: BDO, KPMG, Others: CAQ, IFAC SMPC
4 PAOs/ NSS: IDW; Others: SMPC
5 Firms: MOORE; PAOs/ NSS: IDW
NAS–Significant Comments & Task Force Responses
IESBA CAG Meeting (September 2020)

Task Force Response

10. In recommending that the Board adhere to the timetable proposed, the Task Force has had regard to the following considerations:

- The aim of the NAS project with respect to PIE audit clients is to strengthen the provisions relating to certain NAS-related matters in order to enhance stakeholder confidence in the auditor’s independence with respect to those audit clients. For the relevant provisions, the Task Force’s focus has been on the principles (and requirements) that should apply to audits of PIEs (however defined) as compared to audits of non-PIEs. The Task Force believes this is equally the case for the Fees project and that it will be for the PIE project Task Force to appropriately delineate the categories of entities that should be considered PIEs, having regard to the additional or more stringent independence requirements that would apply to them. It would not be appropriate for the NAS and Fees provisions to be made conditional on how a PIE is defined.

- The PIE project Task Force is not considering a radical change to the definition of a PIE. It is considering changes to amplify the existing definition and to enhance greater consistency of application.

- Respondents to the forthcoming ED from the PIE project will be given the opportunity to consider the proposals in that project in the light of the final NAS (and fees) provisions.

- The IESBA has committed to coordinating the effective dates of the revisions arising from the PIE, NAS and Fees projects to provide an appropriate transition for adoption and implementation of the changes.

B. Parent Undertakings of PIEs and Definition of Related Entities

11. The NAS ED introduced:

- A proposed general prohibition on the provision of a NAS that creates a self-review threat for PIE audit clients in proposed paragraph R600.14; and

- A proposed requirement for firms to obtain concurrence from TCWG of PIE audit clients for the provision of a NAS in proposed paragraph R600.19.

Feedback from Respondents

12. Some regulators, including two MG members\(^6\) observed that the proposals would be not applicable\(^7\) to unlisted parent undertakings of PIE audit clients, and considered that the creation of a self-review threat cannot be eliminated or reduced to an acceptable level for all PIE audit clients, whether it is listed or not. Accordingly, they suggested that the proposals should be extended to all related entities of a PIE, including controlled entities and parent undertakings.

13. Conversely, some other stakeholders\(^8\) suggested that the applicability of the proposals should be consistent with other regulations, such as the SEC and EU requirements on audit committee pre-

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\(^6\) Regulators/ MG: CEAOB, IAASA, IFIAR, IOSCO, IRBA, UKFRC

\(^7\) Paragraph R400.20 of the extant Code notes that “an audit client that is a listed entity includes all of its related entities” and for all other entities (including unlisted entities), the reference to audit client include related entities over which the client has direct or indirect control (i.e., an unlisted audit client includes downstream related entities).

\(^8\) PAOs/ NSS: AE, IPA, ISCA; Firms: DTTL, EY, MOORE, KPMG, RSM; Other: CAQ
approval of services, which pertain to the audit client and its consolidated entities only. Respondents also raised concerns on the practical implications of obtaining concurrence from TCWG from private equity complexes which are controlled by but not consolidated by the PIE audit.

Task Force Response

14. Taking into account the Planning Committee’s input, the Task Force focused on the scope of TCWG communications about NAS in relation to unlisted parent entities of a PIE audit client and the applicability of the self-review threat prohibition for PIE audit clients. The Task Force noted that clarifications about the description of listed and unlisted entities in extant paragraph R400.20 will be addressed by the PIE Task Force.

15. The Task Force has developed a stand-alone paragraph (see R600.21 of Agenda Item E-2) which requires a firm to consider whether the provision of NAS to entities to a related entity of the PIE audit client “over which that audit client does not have direct or indirect control” might create threats to its independence and to communicate its conclusions to TCWG of the PIE. The Task Force believes this approach will enhance transparency and support good corporate governance practices to support enhanced firm communications with TCWG about NAS, including related NAS fees so that TCWG can be better positioned to assess the firm’s independence.

16. The Task Force notes that the Fees Task Force is considering the potential practical difficulties that may arise in obtaining concurrence from TCWG for providing a NAS (e.g., in the case of private equity companies which may be controlled but not consolidated by the PIE audit client) in the context of developing revisions to their proposals for fee disclosure (for controlled and related entities). The Task Force plans to liaise with the Fees in finalizing its proposals concerning the scope of communication about provisions of NAS to an audit client. The NAS and Fees Task Forces plan to coordinate with the Engagement Team - Group Audit & Independence Task Force as appropriate in determining whether further application material is needed for applying their proposals in a group audit context.

C. Regulatory Concerns about the Appropriateness of NAS Safeguards

17. As signaled to the IESBA at its July 2020 meeting, several regulatory respondents, including MG members IFIAR and IOSCO questioned the adequacy of NAS safeguards involving:

- Using professionals who are not audit team members to perform the NAS; and
- Having an appropriate reviewer who was not involved in providing the service review the audit work of the NAS performed.

These examples of safeguards are pervasive throughout the NAS provisions and the IIS.

18. There was a view that these safeguards are not sufficient because “the professional may be incentivized to make judgements that protect the economics and other interests of the firm rather than the public interest and needs of investors.” It was suggested that IESBA consider replacing the NAS safeguards with the examples of actions the firm might take when a NAS is provided to an audit client that later becomes a PIE. These examples were set out in ED-600.20 A1 and involve:

- Recommending that the audit client engage another firm to review or re-perform the affected

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9 Regulators/ MG: CEAOB, IAASA, IFIAR, IRBA, IOSCO
audit work to the extent necessary.

- Engaging another firm to evaluate the results of the NAS or having another firm re-perform the NAS to the extent necessary to enable the other firm to take responsibility for the service.

19. The comment reiterated a point of view that was expressed in by IFIAR and IOSCO in response to the Safeguards Phase 2 ED.

**Task Force Considerations**

20. The Task Force noted that only one other respondent\(^\text{10}\) commented on this matter and pointed out that the “…use of persons other than the audit team” as a safeguard to reduce the independence threat created by providing a NAS to an acceptable level, the ability of a firm to enact effective separation in this way will be highly dependent on the size of the firm. For example, a multi-office firm is more likely to be able to adequately separate the performance of NAS from assurance services by utilizing staff from other offices. However, in a single-office firm, where there are not clear distinctions between those who perform the audit and those who perform NAS, effectively implementing this safeguard will be more difficult.

21. The Task Force noted that in finalizing the Safeguards project the IESBA extensively deliberated on the regulatory concerns about the appropriateness/ adequacy of NAS safeguards. In response, the following revisions were made in finalizing the revised and restructured Code.

- Explicit language was added to clarify the examples of actions that might [emphasis added] be safeguards. As part of applying the conceptual framework to deal with a threat to independence arising from the provision of a NAS to an audit client, the firm needs to decide on the appropriateness of safeguards applied. In this regard, new application material was added to:
  - Strengthen the description of a safeguard. The new description clarifies that an action is a safeguard only when it is effective in reducing a threat to an acceptable level.
  - Refer readers of NAS provisions in Section 600 to the relevant provisions in the conceptual framework (see extant 600.6 A1 to 600.6 A3). The application material explains that: “…In some situations, when a threat is created by providing a non-assurance service to an audit client, safeguards might not be available. In such situations, that application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the audit engagement.”

- New application material was added to explain the characteristics of an appropriate reviewer emphasizing the importance of the individual having the “…necessary knowledge, skills, experience and authority to review, in an objective matter the relevant work performed or service provided” (extant 300.8 A4).

**Appropriate Reviewer**

22. With respect to the introduction of the term appropriate reviewer, the Safeguards Basis for Conclusions notes that the IESBA considered whether safeguards involving the use of another

\(^{10}\) PAOs/ NSS: NYSSCPA
professional to review the audit or NAS work should be limited to a professional external to the firm, but agreed that the Code should remain principles-based. At the time, the IESBA determined that:

- The examples of safeguards in the Code should be neutral and should not distinguish between actions that might be performed by professionals who are employed by the firm versus those who are external to the firm, provided that those professionals are not involved in the audit.
- The exercise of professional judgment is needed to help firms and network firms make that determination. For example, for SMPs, it might be appropriate for the professionals used for reviewing the NAS or the audit work to be individuals external to the firm or network firm.

23. The Task Force noted that the IESBA will consider the EQR Task Force’s proposal to expand on the description of “appropriate reviewer” in extant paragraph 300.8 A4 with a new Section 325, Objectivity of Appropriate Reviewers (see Agenda Item B).

Task Force Proposed Approach

24. The Task Force had preliminary discussions about how it might address the comments about the appropriateness of certain NAS safeguards, and determined that before considering revisions to the extant Code’s NAS safeguards, it would be prudent to:

- Obtain IESBA’s views on how best to respond to IFIAR’s and IOSCO’s views; and
- Further consult with IFIAR and IOSCO to point out the specific revisions that the IESBA made to the Code in finalizing the Safeguards project in responding to their 2017 comments.

D. NAS Provisions Vis-à-vis Relevant Laws, Regulations, and Auditing Standards

25. The NAS ED included proposed application material in ED-600.6 A1 to remind firms and network firms of their obligation to understand and comply with the provisions in national laws and regulations in relation to NAS and comply with them (i.e., the provisions in extant R100.3 to 100.3 A2). The NAS ED also included new application material to explain the likelihood of a self-review threat being created by the provision of advice and recommendations to an audit client, and explained that in the case of PIE audit clients such advice and recommendation would be prohibited.

Feedback from Respondents

26. As signaled to the IESBA at its July 2020 meeting, respondents requested clarification about the following circumstances:

- Whether a firm may continue to provide a NAS to an audit client if the IESBA prohibits such NAS but the NAS is permissible under local laws or regulations.
- Whether the firm may continue to provide advice and recommendations in conjunction with the audit, especially when such advice is contemplated as part of relevant auditing standards.

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11 In developing the proposals, the IESBA was of the view that having this approach helps achieve an appropriate balance between (a) the need to have NAS provisions that are sufficiently specific to drive the consistency needed across firms in applying the NAS provisions globally, and (b) having a robust set of principles based general NAS provisions that: (i) Accommodate the need to supplement the Code’s NAS provisions with national laws and regulations that deal with jurisdictional-level circumstances as well as the evolving nature of the NAS that firms and network firms might provide to their audit clients; and (ii) Ensure that the Code will have continued relevance as business practices, technology, and financial markets evolve.

12 Regulators/ MG: CEAOB, IAASA, IRBA; Preparer/ TCWG: JASBMA; PAOs/ NSS: ASSIREVI, ISCA, SAICA; Firms: DTTL, EY
27. Additionally, some respondents\textsuperscript{13} noted that local laws, regulations, and codes had stricter NAS provisions and suggested the IESBA consider provisions apply a stricter approach (i.e., restrictions that go beyond the proposals in the NAS ED) in finalizing the NAS provisions, especially for PIE audit clients. One respondent\textsuperscript{14} sought clarification about whether the provision of a management letter in conjunction with an audit would continue to be permissible under the revised NAS provisions.

Task Force Response

28. At its July 2020 meeting, the IESBA reaffirmed that extant paragraphs R100. 3 and 100.3 A1 appropriately address the interaction between the Code and laws and regulations. In circumstances where laws or regulations take a stricter position than the Code, paragraph 100.3 A1 is clear that professional accountants should comply with such laws or regulations. Where the Code takes a stricter position than such laws and regulations, paragraph 100.3 A1 is clear that professional accountants should comply with the more stringent provisions in the Code unless prohibited from doing so by law or regulation. The Task Force is of the view that it would be overly prescriptive and impractical towards achieving a globally adoption to align the Code further with jurisdictional laws and regulations that are perceived to be stricter.

29. The Task Force believes that its proposals, including the general self-review threat prohibition for audit clients that are PIEs, are appropriate and achieve the right balance between (a) having NAS provisions that are sufficiently specific to drive the consistency needed across firms in applying the NAS provisions globally, and (b) having a robust set of principles-based NAS provisions that can accommodate circumstances where jurisdictions introduce supplemental laws and regulations to accommodate their jurisdiction-level contexts and circumstances.

30. As signaled during the July 2020 IESBA meeting, the Task Force has developed new application material to clarify that the provision of advice and recommendations as part of the audit process is not prohibited, including when such advice and recommendations is contemplated in auditing standards (see paragraph 600.10 A2 in Agenda Item E-2).

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<td>2. Do IESBA members agree with the Task Force’s proposal in relation to respondents’ comments about the:</td>
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<tr>
<td>(a) Timing and pace of changes to the Code?</td>
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<td>(b) Parent undertakings of PIEs and definition of related entities?</td>
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<tr>
<td>(c) NAS provisions vis-à-vis relevant laws, regulations, and auditing standards?</td>
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<td>3. IESBA members are asked to note and react to the regulatory concerns about the appropriateness of NAS safeguards, the Task Force’s considerations, and response.</td>
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\textsuperscript{13} Regulators/ MG: CEOAB, IAASA, IFIAR, IOSCO, UKFRC; Public Sector Organization: AGNZ

\textsuperscript{14} Preparer/ TCWG: JASBMA
III. General Provisions – Issues and Task Force Responses

A. Self-review Threat Prohibition, Providing Advice & Recommendations and Materiality

31. In finalizing the NAS ED, the IESBA came to the view that when an audit client is a PIE, stakeholders have heightened expectations regarding the firm’s independence and that in the case of audit clients that are PIEs:

- Self-review threats cannot be eliminated, and safeguards are not capable of being applied to reduce them to an acceptable level (see paragraph ED-600.13 A2).
- NAS that will create a self-review threat should be prohibited (see paragraph ED-R600.14). In contrast, for audit clients that are not PIEs, firms and network firms may continue to provide such NAS, provided that the identified self-review threat is reduced to an acceptable level in accordance with the provisions in the conceptual framework.

32. The NAS ED also included application material in paragraph ED-600.12 A1 to explain that providing advice and recommendations might create a self-review threat, and that:

- Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph ED-600.11 A2.
- If a self-review threat is identified, application of the conceptual framework requires the firm to address the threat where the audit client is not a PIE and if the audit client is a PIE, paragraph ED-R600.14 applies (i.e., the advice and recommendation is prohibited).

Within the subsections, new application material was included in the NAS ED to indicate when a self-review threat will not be created with respect to providing advice and recommendations.

33. The proposals included new application material to help firms to determine whether a NAS will create a self-review threat (ED-600.11 A2); and clarified that the same factors that firms consider in evaluating threats to independence are also relevant in identifying threats, including self-review threat. This is not a new concept – it is established in extant 120.6 A1. The examples of factors that are relevant in evaluating threats in extant paragraph 600.5 A1 were reordered and two new factors were added in paragraph ED-600.9 A2 (i.e., “the manner in which the NAS will be provided” and “the fees relating to the provision of the NAS”).

34. The IESBA proposed that the extant Code materiality qualifier be withdrawn for audit clients that are PIEs in the NAS ED. The NAS self-review threat prohibition would therefore apply even if the outcome or result of the NAS is immaterial. In addition, the IESBA proposed that the materiality qualifier should be withdrawn for all audit clients when: (i) the effectiveness of certain types of tax advice or corporate finance advice is dependent on a particular accounting treatment or presentation; and (ii) the audit team has doubt about the appropriateness of that treatment or presentation. The

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15 With respect to audit clients that are PIEs, the extant Code allows firms and network firms to provide certain types of NAS if the firm or network firm determines that the outcome or result of the NAS is immaterial or not significant to the financial statements on which the firm will express an opinion (See extant R603.5, R604.6, R604.8, R604.11, R605.5, R606.5, 607.3 A4, R608.6, R610.5): a high-level summary of those prohibited NAS is included in a November 2019 publication entitled, Summary of Prohibitions Applicable to Audit Clients that are Public Interest Entities. Some stakeholders suggested that the NAS prohibitions in the extant IIS should be more restrictive. These stakeholders:

- Questioned the appropriateness of an approach that allows firms the discretion to consider materiality in determining whether to provide a NAS to an audit client (highlighting the potential for inconsistent approaches).
- Urged the Board to explore limiting the availability of such discretion.
implication of this proposal is that, for non-PIEs, the NAS proposal would be more restrictive than the approach in the extant Code.

Feedback from Respondents

Self-review Threat

35. On balance, respondents were supportive of the new prohibition on NAS that will create a self-review threat in paragraph ED-R600.14 for PIE audit clients. It was noted that similar restrictions exist in the national requirements of many jurisdictions. In addition to many drafting suggestions\(^\text{16}\) to improve the clarity of the proposal and the related application material in 600.11 A1 to 600.11 A2, the following substantive comments were raised:

- In relation to the proposed requirement in ED-600.14:
  - It was suggested that the IESBA consider extending the prohibition to audits of non-PIEs.\(^\text{17}\) A respondent suggested that IESBA consider an approach that recognizes that all threats created by providing NAS to an audit client may be at an unacceptable level.\(^\text{18}\)
  - It was not immediately obvious to all readers that this prohibition applies to other NAS that not addressed in the subsections of the Code (e.g., emerging services and methods of delivery, such as those reflecting advances in technology).\(^\text{19}\)
  - There was a view that the prohibition should also apply where an advocacy threat is created.\(^\text{20}\)
  - It was suggested that the IESBA avoid the use of the phase “…will create…” because the phase was viewed as making the requirement less robust and more difficult to enforce.\(^\text{21}\)
  - A respondent wondered whether the proposed prohibition in ED-R600.14 is applicable to parent undertakings of an unlisted PIE and suggested that the IESBA consider having a consistent approach for all PIEs — listed and unlisted — that is aligned to the current approach in the European legislation.\(^\text{22}\)
  - There was a concern about the implications of the self-review threat prohibition on smaller PIEs, particularly in light of the COVID-19 pandemic.\(^\text{23}\)

- In relation to the proposed application material in ED-600.11 A1 to 600.11 A2:
  - It was pointed out that in many jurisdictions, the NAS topic covered in the subsections in the Code are all considered as creating self-review threats in almost all circumstances.

\(^{16}\) Independent NSS: APESB; PAOs/ NSS: ACCA, AE, CAANZ, ISCA; Firms: DTTL, EY, GTI, MAZARS, RSM

\(^{17}\) Regulators/ MG: IOSCO; Independent NSS: XRB; PAOs/ NSS: ICAI

\(^{18}\) PAOs/ NSS: ICAEW

\(^{19}\) Firms: PwC

\(^{20}\) Regulators/ MG: IOSCO, NASBA

\(^{21}\) Regulators/ MG: IOSCO, IRBA

\(^{22}\) Regulators/ MG: CEAOB

\(^{23}\) PAOs/ NSS: EFAA, IDW, WPK; Firms: MAZARS; Other: SMPC
Accordingly, it was suggested that the IESBA consider strengthening its proposals by elevating the application material in paragraph ED-600.11 A21 to a requirement.\(^ {24} \)

- There was disagreement about the withdrawal of materiality in determining whether a NAS will create a self-review threat.\(^ {25} \)

- There was confusion about:
  - Withdrawal of materiality in determining whether a NAS will create a self-review threat.\(^ {26} \)
  - Whether one or all of subparagraphs (a) to (c) of ED-600.11 A2 needed to be present in order for a self-review threat to exist and it was suggested that this should more clearly stated.\(^ {27} \)
  - It was pointed out that the terminology phase “whether there is a risk that” was inconsistent with the language used in the Code’s conceptual framework.\(^ {28} \)
  - The reference to “audit procedures” in paragraph ED-600.11 A2 was viewed as reintroducing the concept of materiality in determining whether a NAS will create a self-review threat and it was suggested that the IESBA consider using different language.\(^ {29} \)

- In relation to subparagraph (c) ED-600.11 A2, one regulator expressed concern that audit teams might circumvent the requirement by deliberately scoping out the NAS from the planned audit work.\(^ {30} \)

36. There were a few respondents who did not support the proposed self-review threat prohibition, particularly because it does not give regard to the materiality of the result or outcome of the NAS.\(^ {31} \)

It was suggested that consideration of the “real impact on auditor independence of mind” and the Code’s reasonable and informed third-party test would be appropriate in that context.

Providing Advice & Recommendations

37. There were different views about the likelihood of a threat being created by the provision of advice and recommendations to an audit client. Most respondents agreed with the ED position, but some expressed the following views.

- Providing advice and recommendations creates a self-review threat and should be identified as such, rather than ED approach of “might create.”\(^ {32} \)

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24 Regulators/ MG: IOSCO, IRBA
25 PAOs/ NSS: AICPA, IDW, Firms: PwC; Other: CAQ
26 PAOs/ NSS: AICPA, IDW, WPK; Firms: PwC; Other: CAQ
27 Regulators/ MG: UKFRC; Independent NSS: XRB; Public Sector Organization: GAO; PAOs/ NSS: ASSIREVI, CNCC, ICPAU, MICPA, SAICA; Firms: BDO, BKTI, PwC, RSM
28 PAOs/ NSS: AICPA, ICPAU, ISCA, JICPA; Firms: BDO, DTTL, EY, KPMG; Other: CAQ
29 PAOs/ NSS: ACCA & CAANZ, AE, ASSIREVI, CNCC, ICPAU, ICAS, SAICA, WPK; Firms: BDO, BKTI, MAZARS, PwC, RSM; Other: SMPC
30 Regulators/ MG: IRBA
31 PAOs/ NSS: IDW, WPK; Firms: MOORE
32 PAOs/ NSS: IPA
38. The Tax Services section of this paper includes a discussion of respondents’ feedback on the proposed application material relating to the provision of tax advice that do not create a self-review threat in ED-604.12 A2.

Materiality

39. As noted above some respondents challenged the withdrawal of the materiality qualifier and expressed concerns about the immediate implications for PIE audit clients that SMEs and the long-term implications for non-PIE audit clients. However, on balance respondents were generally supportive of the IESBA’s ED position with respect to materiality. Several drafting suggestions were provided to help clarify this position.

40. In relation to withdrawing the consideration of materiality in relation to the provision of certain tax and corporate finance services when: (i) the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements; and (ii) the audit team has doubt as to the appropriateness of the related accounting treatment under the relevant financial reporting framework, a respondent noted that “auditors should not support positions where the accounting treatment likely does not comply with the applicable financial reporting framework.”

Multiple NAS Provided to the Same Audit Client

41. Many respondents noted that it was difficult to understand, without specific examples, how a firm should assess whether the combined effect of providing multiple NAS to the same audit client creates new threats or affects the level of a previously identified threat. A question was also raised as to how the proposed requirement and related application material interacts with other provisions (e.g., threats created by the proportion of fees and fee dependency).

Task Force Response

Self-review Threats, Providing Advice & Recommendations & Materiality

42. The underlying premise and objective for the proposals in the NAS which are based on the feedback

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33 Firms: DTTL, EY, MAZARS, PwC; PAOs/ NSS: AE, ISCA
34 Firms: DTTL, EY
35 Regulators/ MG: IRBA; Public Sector Organizations: AGSA; PAOs NSS: AICPA, ASSIREVI, CNCC, EFAA, HKICPA, ICPAU, MICPA, SAICA, WPK; Firms: BDO, BKTi, MAZARS, PwC, RSM; Others: CAQ
36 PAOs NSS: AICPA, HKICPA, EFAA, ICAEW, ICAI, IDW, MIA, WPK; Firms: BKTi, PwC, KPMG, SRA; Others: CAQ, SMPC
37 PAOs NSS: NYSSCPA
38 PAOs NSS: AE, HKICPA, ISCA, SAICA; Firms: BKTi, DTTL, PwC; Others: SMPC
from the 2018 global roundtables remain unchanged. However, the Task Force carefully considered the various suggestions from respondents in revising the relevant paragraphs to clarify its proposals. The revised provision(s) for:

- Providing advice and recommendation are set out in paragraphs 600.10 A1 to 600.10 A2 of Agenda Item E-2. A new paragraph has been added to clarify that advice and recommendations that are provided to the audit client as part of the audit process continue to be permissible. The Tax Services section of this paper discusses the Task Force’s response on the proposed application material relating to the provision of tax planning advice that do not create a self-review threat.

- The consideration of the combined effect of threats created by the provision of multiple NAS to the same audit client are set out in paragraphs R600.11 to 600.11 A1 of Agenda Item E-2.

- The description of a self-review threat in the context of a NAS engagement are set out in paragraph 600.12 A1 of Agenda Item E-2.

- Determining whether a self-review threat will create a NAS, which is elevated to a requirement, is set out in paragraph R600.13 of Agenda Item E-2.

- The revised self-review threat prohibition is set out in R600.15 of Agenda Item E-2.

43. The Task Force anticipates refining its revisions further during the week of the September IESBA meeting as necessary in response to IESBA members’ reactions and suggestions. Consequential revisions to related paragraphs in subsections 601 to 610 will be made once the text of paragraphs R600.13 and R600.15 have been finalized.

44. The Task Force acknowledges that its proposed approach involves a departure from conceptual framework in the extant Code, in particular with respect to the self-review threat prohibition, the position on materiality and providing advice and recommendation. Accordingly, the Task Force believes that an explanation of the rationale for these proposals should feature prominently in the Basis for Conclusions for the project.

Identifying and Evaluating Threats other than Self-review

45. In addition to the revisions made to the aforementioned paragraphs, the Task Force made several revisions to the draft text to address queries about the provisions that are relevant to identifying and evaluating self-review versus other categories of threats. For example:

- Within the general provisions, the lead in sentence to paragraph 600.9 A2 is revised to state that “Factors that are relevant in identifying and evaluating the different threats that might be created by providing a non-assurance service...”

- Within the subsections that include different provisions for all audit clients, non-PIE audit clients and PIE audit clients, a statement has been added after the bulleted list of factors to be considered in identifying and evaluating threats to emphasize that when a self-review threat for an audit client that is a PIE has been identified, the relevant requirement within that subsection applies (see 600.3 A2, 604.12 A3, 604.22 A1, 607.4 A1 and 610.4 A1 of Agenda Item E-2).
Matters for IESBA Consideration

4. IESBA members are asked to consider and provide input on the Task Force’s revisions to address concerns about:

   (a) The prohibition on the provision of NAS that will create a self-review threat to PIE audit clients.

   (b) The clarity and usefulness of new application material to:

      (i) Explain how to identify and evaluate threats, including self-review threats.

      (ii) Help firms determine whether the provisions of a NAS to a PIE audit client will create a self-review threat to independence.

5. Do IESBA members agree that the ED-position on materiality should be retained?

B. Communication with TCWG

46. The NAS ED sought views on proposals to improve firm communication with TCWG in paragraphs ED-R600.18 to ED-600.19 A1, including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE in paragraph ED-R600.19.

Feedback from Respondents

47. Respondents generally supported 39 or supported with reservations 40 the proposals relating to improved firm communications with TCWG in paragraphs ED-R600.18 to ED-600.19 A1. Those with reservations:

   • Noted that NAS can be provided to parent undertakings of PIEs without information being provided to and concurrence obtained from TCWG of the PIEs. They suggested that the requirements should apply to all of a PIE’s related entities (both controlled entities and parent undertakings). The Task Force response regarding concerns over the applicability of the proposals to parent undertakings of PIEs and accordingly, the definition of related entities is included in Section II, C of this paper.

   • Wondered about the implications of the NAS proposals for private equity companies. By way of example, it was pointed out that a PIE might have control over portfolio companies that are not consolidated within the financial statements of the PIE audit client due to management or advisory agreements, but the audit committee of the PIE may not have the ability to concur with services provided at the portfolio company level that have no bearing or impact on the PIE audit client’s financial statements.

   • Pointed out that concurrence from TCWG should only be sought if the auditor has concluded that the NAS is permitted under the Code.

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39 **Regulators/ MG**: IOSCO, MAOB, NASBA; **Public Sector Organizations**: AGSA, GAO; **Independent National Standard Setters**: APESB, XRB; **PAOs/ NSS**: ACCA/CAANZ, BICA, CPAA, CPAC, EFAB, HKICPA, IAA, ICAEW, ICAl, ICAS, ICPAR, ICPAU, IDW, IMCP, IPA, JJCPA, KICPA, MIA, NBAAT, NYSSCPA, SAICA, WPt; **Firms**: BDO, Crowe, GTI, Mazars, Moore; **Others**: SMPC

40 **Regulators/ MG**: CAEOB, IAASA, IFIAR, IRBA, UKFRC; **Public Sector Organizations**: AGNZ; **PAOs/ NSS**: AE, CAI, ICAB, ICAG, ISCA, MICPA; **Firms**: BKTII, DTTL, EY, KPMG, PWC, RSM
- Noted that a de minimis threshold should be incorporated to consider potential: (i) inadvertent breaches similar to SEC requirements; or (ii) bureaucracy and cost in relation to immaterial NAS.

48. It was suggested that the IESBA consider:
   - Providing application material to indicate whether and how firms are to document concurrence obtained from TCWG for providing the NAS\(^41\) and one respondent\(^42\) recommended that this concurrence be in writing.
   - Having the firm obtain concurrence from TCWG for each NAS engagement individually.\(^43\)
   - Adding "the dollar value of the proposed NAS" or the fees related to the NAS engagement as an example of information that might be provided to TCWG.\(^44\)
   - Combining paragraphs ED-R600.18 and ED-R600.19 for more clarity.\(^45\)

Task Force Response

Requirement Communicating with TCWG about NAS, including Obtaining Concurrence

49. The Task Force is of the view that the present structure of having two separate requirements (R600.18 and R600.19) has merit because it emphasizes the two-stage process of communication with TCWG: (i) provision of sufficient information; and (ii) obtaining concurrence.

50. The Task Force reaffirmed its view that information communicated to TCWG should be sufficient to enable them to make an informed decision about the impact of the provision of such NAS on the firm's independence. In this regard, the Task Force has included two suggested examples of information that might be provided to TCWG in paragraph 600.19 A1 of Agenda Item E-2 as follows:
   - Whether, when the firm or network firm provides multiple NAS to an audit client, the combined effect of such services creates or impacts threats to independence.
   - The basis and amount of the [NAS] fee proposed. The Task Force notes that this wording is subject to refinements to align to the Fees Task Force’s most current thinking.

51. The Task Force has developed drafting refinements to incorporate feedback from respondents in R600.20 of Agenda Item E-2. The refinements are to clarify NAS cannot be provided unless “the firm has concluded that the proposed NAS is not prohibited… and TCWG concur with the provision of that service and the firm’s assessment that any threat to independence has been eliminated…”. The Task Force also discussed whether the frequency of communication to TCWG needed to be specified and concluded that to do so would be overly prescriptive.

52. The Task Force considered whether communications with TCWG about NAS should be in writing and determined that it was best to allow firms and TCWG the flexibility to determine the optimal mode of communication that allow for timely, informative, frank, and non-boiler-plate discussions. However,

\(^{41}\) Independent NSS: APESB, XRB; PAOs/ NSS: CPAA, SAICA; Firms: GTI
\(^{42}\) Independent NSS: XRB
\(^{43}\) PAOs/ NSS: SAIPA
\(^{44}\) Regulators/ MG: IRBA; Firm: RSM
\(^{45}\) Independent NSS: APESB; Firm: KPMG
the Task Force believes that there is merit to evidencing the communications with TCWG (e.g., via board or audit committee minutes).

53. Responsive to respondents’ requests, the Task Force has developed new application material to provide general guidance relating to documentation in relation to NAS in 600.24 A1 of Agenda Item E-2. The new application material builds on the overarching documentation requirements with respect to independence in extant paragraphs R400.60 to 400.60 A1 and provides specific examples to help guide the firm document compliance with the NAS provisions.

De Minimis Provision

54. The Task Force believes that inadvertent breaches are appropriately addressed in extant paragraphs R400.80 to R400.89 and therefore a de minimis threshold is not necessary.

IV. NAS Subsections – Key Issues and Task Force Responses

A. Accounting & Bookkeeping, Administrative Services, NAS of a Routine and Mechanical Nature and Technology-related NAS

Recap of IESBA December 2019 Discussions

55. The NAS ED sought views about:

- The proposed concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1; and
- The proposals to withdraw the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met.

56. Shortly after the release of the NAS ED, the IESBA released the Technology Working Group (TWG) Phase 1 Final Report in February 2020. Recommendation 6 of the Technology Report outlined the IESBA’s current thinking with respect the use of the term “routine and mechanical” in the Code. The Report noted that the TWG took the view that:

- “…the litmus test of whether a task is considered routine and mechanical or an administrative service is whether the task requires little or no professional judgment and not whether the task can be executed in a routine and mechanical manner.”
- The term “routine and mechanical” should be withdrawn from subsections 601 to 602 of the Code to focus on the level of professional judgment used in performing a task. This was to avoid any confusion about the nature of the services that might be permitted under these subsections with the continued evolution of automated services.

57. The TWG Report (Recommendation 7) and the EM to the NAS ED (para. 20 to 21) signaled that the impact of technology relating to NAS, including a consideration of how the terminology and examples in Section 600 might be modernized with respect to technology would be better addressed holistically as part of the IESBA’s Technology project.

58. The IESBA approved the Technology project proposal, including the proposed approach and timing for the project in March 2020 and provided input on the Technology Task Force’s initial proposals in June 2020.
59. The Task Force shared the technology-related feedback on the NAS ED with the TTF. The Chairs and Staff of the two Task Forces have liaised closely in developing their respective agenda materials for the September 2020 IESBA meeting.

**Feedback from Respondents**

**NAS that are Routine and Mechanical, including Administrative Services**

60. Respondents to the NAS ED either generally supported\(^46\) or supported with reservations\(^47\) the proposed concluding paragraph in ED-601.4 A1 which explained that a firm may provide the stated examples of accounting and bookkeeping services to non-PIE audit clients provided that the firm does not assume a management responsibility. Those who had reservations:

- Suggested the need to clarify the term “routine or mechanical” and provided suggestions for consideration.
- Pointed out that preparing financial statements and disclosure notes should not always be considered “routine or mechanical” in nature because in some cases, there is judgment involved.
- In relation to subsection 602, noted that routine and mechanical tasks can be both manual in nature as well as automated and that merely performing an automated task does not immediately bring it outside the realms of an administrative service and that additional evaluation of the nature of the task would be required, for example whether the automated task is routine and requires no judgment to be made, or the judgement is based on client-defined criteria, etc.
- Expressed concern about the inclusion of last bullet “…preparation of financial statements…” and suggested that the IESBA addresses the preparation of financial statements and related disclosures separately from the list of routine and mechanical services.

**Description of Bookkeeping Services**

61. With respect to the inclusion of the last bullets in ED-601.2 A3 relating to the description of accounting and bookkeeping services, there was a concern that the provision of technical advice on accounting issues, including the conversion of existing financial statements from one financial reporting accounting framework to another would create a self-review threat and it was suggested that that material should be deleted.

**Exemption for Divisions and Related Entities (for PIE Audit Clients)**

62. With respect to the proposal to withdraw the exemption in extant paragraph R601.7 respondents were generally supportive.\(^48\)

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\(^{46}\) **Regulators/ MG:** UKFRC; **Public Sector Organization:** AGSA, GAO; **Independent NSS:** APESB, XRB; **PAOs/ NSS:** ACCA/CAANZ, AE, CNCC, CPAA, CPAC, HKICPA, IAA, ICAB, ICAG, ICPAU, ICAI, ICAS, ICPAR, IDW, IMCP, ISCA, JICPA, NBAAT, SAICA, SAIPA, ZICA; **Firms:** BDO, Crowe, DTTL, EY, GTI, KPMG, Mazars, Moore, PwC, RSM; **Others:** EFAA, SMPC

\(^{47}\) **Regulators/ MG:** IRBA, NASBA, MAOB; **Public Sector Organization:** AGNZ; **PAOs/ NSS:** CAI, ICAEW, ICPAU, IPA, KICPA, MICPA, WPK

\(^{48}\) **Regulators/ MG:** IRBA, MAOB, NASBA, UKFRC; **Public Sector Organization:** AGNZ, AGSA, GAO; **Independent National Standard Setters:** APESB, XRB; **PAOs/ NSS:** ACCA/CAANZ, AE, BICA, CPAA, EFAA, CPAC, IAA, ICAB, ICAG, ICAI, ICAS,
63. A few respondents expressed reservations,\(^49\) including that the preparation of statutory financial statements based on client-approved information for related entities of a PIE audit client would generally not create a self-review threat at the PIE level if it is not used in consolidation. A few respondents did not support\(^50\) the withdrawal of the exemption and pointed out the exemption applied only if the NAS relates to matters that are collectively immaterial.

Use of “Significant” as a Threshold

64. With respect to technology-related provisions in subsection 606, two regulators\(^51\) questioned the appropriateness of the words "not significant" which was used in ED-606.3 A1(c) as a threshold for indicating the permissibility of a NAS involving the customization of off-the-shelf accounting or financial reporting software that was not developed by the firm or network firm.

Task Force Response
Description of Accounting and Bookkeeping Services

65. The Task Force has developed drafting refinements to ED-601.2 A3 to incorporate feedback from respondents about the description of accounting and bookkeeping services in 601.2 A3 of Agenda Item E-2. Specifically, the words “technical” and “advice” have been removed to eliminate any connotation that the provision of such services might require technical expertise or the exercise of professional judgment.

NAS that are Routine and Mechanical (including NAS that are Provided Using Automated Tools)

66. The Task Force has developed drafting refinements to ED-601.4 A1 to incorporate feedback from respondents to the ED. The suggested changes are to establish a clear description of “accounting and bookkeeping services that are routine and mechanical” and clarify that such services involve information, data or material in relation to which (i) the client has made any judgments and decisions that may be necessary and (ii) require little or no technical expertise and professional judgment. In developing the revised language to explain “routine or mechanical” services, the Task Force liaised with the TTF to ensure that their approaches are aligned.

67. The Task Force’s revisions include new application material to describe automated services that may appear to be routine and mechanical because of the ease with which the task is completed, or the volume of data that can be processed as part of the service. Noting that some respondents to the NAS ED called for such guidance, this application material incorporated the current thinking of the TTF in relation to their proposal the inclusion of new application material to explain the relationship between “routine and mechanical” and “automated” services. The proposal, which is set out in paragraph 601.4 A2 of Agenda Item E-2, is subject to further Task Force consideration and refinements after the IESBA deliberation on the Technology Task Force proposals.

68. In addition, the Task Force has accepted the suggestion that the examples of services accounting and bookkeeping services that are “routine and mechanical” should be set out in a stand-alone paragraph (see 601.4 A3 of Agenda Item E-2). The lead-in sentence to 601.4 A3 is now qualified

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\(^{49}\) ICPAR, IMCP, IPA, JICPA, KICPA, MICPA, NBAAT, SAICA, SAIPA, ZICA; \(^{50}\) Firms: BDO, Crowe, DTTL, EY, GTI, KPMG, Moore, PwC, RSM; Others: SMPC

\(^{51}\) PAOs/ NSS: CNCC, ICAEW, ICPUA, ISCA; Firms: EY

\(^{50}\) PAOs/ NSS: CAI, HKICPA, IDW, MIA, WPK; Firms: BKTI, Mazars, Nexia

\(^{51}\) Regulators/ MG: IFIAR, IRBA

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with the phrase “…might be regarded as routine and mechanical…” to signal the importance of the firm’s or network firm’s consideration of the audit client’s facts and circumstances in determining whether the bulleted list of services is in fact “routine and mechanical” in nature. The Task Force believes that its approach is a balanced response to respondents’ mixed views about whether certain examples should be retained in the Code (e.g., “preparing financial statements based on information in the client-approved trial balance and preparing notes based on client-approved records”).

Exemption for Divisions and Related Entities (for PIE Audit Clients)

69. The Task Force acknowledges the views expressed about withdrawing the extant Code’s exemption for providing immaterial accounting and bookkeeping services to divisions and related entities for PIE audit clients. However, on balance, the Task Force continues to be of the view that the provisions of such services to a PIE audit client will create a self-review threat that cannot be eliminated or reduced to an acceptable level. Therefore, the position in the ED is retained.

Use of “Significant” as a Threshold

70. With respect to the use of the term “not significant” in ED-606.3 A1(c) that sets out the threshold for permissible NAS that involving “the customization of off-the-shelf accounting or financial reporting software …”, the Task Force has developed revisions to explain that “not significant” applies when the scope of the work is specified by management and the work involved does not require specialist expertise and detailed customization. The Task Force did not agree with the suggestion to withdraw the use of the term “not significant”, and noted its use is long-standing and pervasive throughout the Code. The Task Force noted that the terms “significant” and “not significant” are subject to review by the TTF. Accordingly, the Task Force will revisit its position after the September IESBA meeting to ensure that its position remains aligned to the TTF’s most current thinking.

*Technology-Related NAS Proposals*

71. In preparing for the September 2020 meeting, the Chairs and Staff of the NAS Task Force and TTF reconfirmed the planned timelines for the two projects.\(^52\) It was agreed that the Task Forces would continue to coordinate their workstreams to accommodate joint thinking as appropriate to ensure that the outcome of the two workstreams are aligned. The Task Force also:

- Reflected on the suggestions of a few respondents\(^53\) who wondered about the IESBA’s plan to finalize the NAS project before consulting on the technology-related revisions (see Section II, A.). The Task Force referred all the technology-related NAS suggestions to the TTF.
- Noted the TTF’s current proposal to expand on the description of the categories of threats that might be created by undertaking activities that are deemed “complex”.
- Noted that the TTF will present its preliminary views about changes that might be made to the Code in relation to technology-related NAS in September 2020 (see Agenda Item C). This question and the TTF’s proposals to deal with technology-related NAS engagements that are not covered in the extant Code (e.g., the sale or licensing of new technology applications to audit clients) will be considered as part of the Task Force’s discussions with the TTF after the

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\(^52\) The anticipated finalization date for the NAS project is December 2020. The IESBA plans to consider a first read of its Technology proposals, including those related to NAS, in March 2021. The anticipated finalization date for the Technology project is September 2022.

\(^53\) PAOs/NSS: ICAS; Firms: PwC, EY
September 2020 meeting.

Matters for IESBA Consideration

6. Do IESBA members agree with:
   (a) The proposed new application material for accounting and bookkeeping services that are routine and mechanical in nature?
   (b) The proposed new application material to describe accounting and bookkeeping services involving the use of an automated tool that may appear to be routine and mechanical?
   (c) The other revisions made to subsections 601 to subsection 602 in Agenda Item E-2?

B. Tax Services

72. With respect to tax services, the IESBA expressly sought views about:
   • The prohibition on the provision of certain tax services or recommending a transaction for which the significant purpose is tax avoidance in ED-R604.4, and
   • The proposed application material outlining when the provision of tax advisory and tax services will not create a self-review threat in ED-604.12 A2.

Feedback from Respondents

Use of “Likely to Prevail”

73. Respondents generally supported\(^54\) or provided conditional support\(^55\) for the application material relating to the provision of tax planning and advisory services that will create a self-review threat in paragraph ED-604.12 A2.\(^56\) Many questioned the use of the term “likely to prevail”.\(^57\) Respondents\(^58\) also questioned the use of the same term in ED-R604.4 and they described it as being “subjective” and lacking clarity. Substantive comments and suggestions include:
   • The term “more likely than not” should be used in place of “likely to prevail” because it is more prevalent in accounting literature (e.g., the analogous PCAOB Rule 3522).\(^59\) It was suggested that the IESBA consider making it clear that the phrases “more likely than not” and “likely to prevail” are equivalent.\(^60\)

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\(^{54}\) **Regulators/ MG:** IRBA, MAOB, NASBA, UKFRC; **Public Sector Organizations:** AGNZ, AGSA, GAO; **Independent NSS:** APS-ESB, XRB; **PAOs/ NSS:** BICA, EFAA, IAA, ICAB, ICAG, ICAI, ICAS, ICPAR, IPCAU, IPM, JICPA, MBAAT, SAICA, SAIPA, ZICA; **Firms:** BDO, Crowe, DTTL, EY, G&TM, Mazars, Moore, RSM; **Others:** CAQ

\(^{55}\) **PAOs/ NSS:** ACCA/CAANZ, AE, AICPA, CNCC, CPAC, ICAEW, MICPA; **Firms:** KPMG, PwC

\(^{56}\) **Regulators/ MG:** MAB, NASBA; **Independent NSS:** APESB; **PAOs/ NSS:** ACCA-CAANZ, BICA, CPAC, EFAA; **Firms:** Crowe, DTTL, G&TM, Moore, Nexia

\(^{57}\) **Regulators/ MG:** IRBA, UKFRC; **Public Sector Organizations:** AGNZ, AGSA, GAO; **Independent NSS:** XRB; **PAOs/ NSS:** AE, AICPA, ASSIREVI, CAI, CNCC, CPAA, IDW, WPK; **Firms:** BDO, BKT, EY, KPMG, Mazars, Nexia, PwC, RSM; **Others:** SMPC

\(^{58}\) **Regulators/ MG:** IRBA, NASBA, UKFRC; **Independent NSS:** APESB, **PAOs/ NSS:** AICPA, CAI, CNCC, CPAC, EFAA; **Firms:** BDO, BKT, DTTL, KPMG, Mazars, Nexia; **Others:** SMPC

\(^{59}\) **Firms:** BDO, KPMG

\(^{60}\) **Firms:** DTTL
The threshold of what is "likely to prevail" should be prescribed, for example, under US federal tax practice where more likely than not is better than 50 percent likelihood that the tax authority will accept a tax position. Additionally, it was not clear how these thresholds would link to the proposals.  

A respondent interpreted the term "likely to prevail" as meaning that tax services are permissible whenever national or tax law allows.

One respondent suggested the IESBA consider deleting the term "likely to prevail" from the Code, citing the concerns about its subjective nature.

Use of “Tax Avoidance” and “Significant Purpose”

74. Respondents generally supported or provided conditional support for the proposed prohibition in ED-R604.4. Only a few respondents did not. There were questions about the meaning of the terms "significant purpose", and “tax avoidance” used in ED-R604.4. The term “tax avoidance” was described as being ambiguous and it was observed that a globally accepted definition of the term does not exist. Some respondents wondered whether the issue of tax avoidance might be best dealt with at the jurisdictional level by regulators, or by the IESBA Tax Planning and Related Services project team.

Tax Calculations for the Purpose of Preparing Accounting Entries

75. Two respondents suggested that the prohibition on the preparation of tax calculations of current and deferred tax liabilities (or assets) for a PIE audit client in ED-R604.10 should be prohibited in all circumstances because tax calculations always create a self-review threat (as set out in ED-604.8 A1). Accordingly, it was suggested that the IESBA consider dropping the words “if such calculations will create a self-review threat” in ED-R604.10.

Task Force Response

Likely to Prevail

76. The Task Force carefully considered respondents feedback and their concerns about the use of the term "likely to prevail" that is used in the extant Code versus “more likely than not” that is used in the PCAOB Rule 3522.

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61 Regulators/ MG: NASBA
62 PAOs/ NSS: EFAA
63 Regulators/ MG: IRBA
64 Regulators/ MG: IRBA, MAOB, NASBA, UKFRC; Public Sector Organizations: AGNZ, AGSA, GAO; Independent NSS: XRB; PAOs/ NSS: ACCA-CAANZ, AE, AICPA, BICA, CNCC, EFAA; Firms: Crowe, DTTL, EY, GTIL, KPMG, Mazars, Moore, Nexia, PwC, RSM; Others: SMPC
65 PAOs/ NSS: ACCA-CAANZ, AE, AICPA, CNCC, CPAC, ICAEW, MICPA; Firms: KPMG, PwC
66 PAOs/ NSS: CPAA, Firms: BDO
67 Independent NSS: APESB; PAOs/ NSS: ACCA-CAANZ, AE, CNCC, CPAC, ICAEW, ISCA, MICPA; Firms: EY; Other: SMPG
68 Regulators/ MG: IOSCO; Independent NSS: APESB
69 PCAOB Rule 3522 states:
77. The Task Force is of the view that the terms “more likely than not” and “likely to prevail” are not equivalent. In its view, “more likely that not” requires only a marginal increased probability. In contrast, “likely to prevail” implies a clear probability that the advice will prevail. In considering whether to revise the proposed text, the Task Force reflected on the IESBA’s deliberations in finalizing the NAS ED and noted that the PIOB expressed concerns about the use of “more likely than not” in earlier drafts of the NAS proposals.

78. Given the differing views, the Task Force will seek input from the IESBA as to which of the two phrases — “more likely than not to prevail” or “likely to prevail” — should be used in the NAS proposals.

Tax Avoidance and Significant Purpose

79. The Task Force is of the view that the term “tax avoidance” should be retained in the NAS proposals because it generally well-understood and aligns to the terminology used in PCAOB Rule 3522. With respect to concerns about breach of law, the Task Force noted that the provisions in R100.4 to 100.4 A1 would apply.

80. The Task Force agreed with respondents who expressed concerns about the appropriateness of the term “significant purpose”. Accordingly, the term is replaced with a more suitable term “principal purpose.”

Tax Calculations for the Purpose of Preparing Accounting Entries

81. The Task Force has accepted respondents’ suggestion to deleting the words “if such calculations will create a self-review threat” in ED-R604.10 (see R604.10 in Agenda Item E-2).

**Matters for IESBA Consideration**

7. Do IESBA members agree with:

   (a) Replacing the term “significant purpose” with “principal purpose” in R604.4?
   (b) The proposed revision to R604.10 to the prohibition on the preparation of tax calculations of current and deferred tax liabilities (or assets) for a PIE audit client?

8. IESBA members are asked to consider and provide advice as to which of the two phrases - “more likely than not to prevail” or “likely to prevail” - should be used in the NAS proposals.

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“A registered public accounting firm is not independent of its audit client if the firm, or any affiliate of the firm, during the audit and professional engagement period, provides any non-audit service to the audit client related to marketing, planning, or opining in favor of the tax treatment of, a transaction -

(a) Confidential Transactions - that is a confidential transaction; or

(b) Aggressive Tax Position Transactions - that was initially recommended, directly or indirectly, by the registered public accounting firm and a significant purpose of which is tax avoidance, unless the proposed tax treatment is at least more likely than not to be allowable under applicable tax laws.

Note 1: With respect to transactions subject to the United States tax laws, paragraph (b) of this rule includes, but is not limited to, any transaction that is a listed transaction within the meaning of 26 C.F.R. § 1.6011-4(b)(2).

Note 2: A registered public accounting firm indirectly recommends a transaction when an affiliate of the firm or another tax advisor, with which the firm has a formal agreement or other arrangement related to the promotion of such transactions, recommends engaging in the transaction.”

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C. Litigation Support Services, Including Acting as a Witness

82. The NAS ED included new provisions in ED-607.8 A1 to ED-R607.9 relating to acting as an expert witness. In addition, the general description of litigation support services was modified to include forensic or investigative services, and the extant language was changed by the removal of the word “public” before “court” or “tribunal” because an advocacy threat arises irrespective of whether the dispute is heard in private or in public.

Feedback from Respondents

83. Two respondents\(^{70}\) suggested that the IESBA consider including an additional exceptions to allow for a firm, network firm or individual within a firm or network firm to be engaged to act as an expert witness in circumstances where a firm or network firm is engaged to advise or act as an expert witness in relation to a class action suit. It was also suggested that the IESBA consider the approach taken in the AICPA’s relevant interpretative guidance.

84. In relation to the provision of litigation support services to a PIE audit client, two respondents\(^{71}\) did not think that court appointment removes the ground for prohibiting litigation support services to a PIE audit client because in their view an advocacy threat that involves taking a position that is closely aligned to that of management cannot be eliminated even if the firm or individual is appointed by a tribunal or court.

Task Force Response

85. The Task Force has revised its proposals to add an exception in paragraph 607.7 A3 of Agenda Item E-2 to allow for the provision of expert witness services in relation to a class action suit (or an equivalent group representative action). The Task Force’s revised proposals are adapted from the AICPA interpretative guidance. The Task Force took on several drafting suggestions provided by respondents which are reflected in the revised provisions in paragraphs 607.6 A1 and R607.9 of Agenda Item E-2.

86. The Task Force believes that when the firm is appointed by a court or tribunal to provide expert witness, the witness owes a duty to the Court and not the audit client. The Task Force seeks IESBA members views on this rationale for the approach taken and, if supported, plans to highlight this issue in the Basis for Conclusions for the project.

Matter for IESBA Consideration

9. Having regard to the feedback from respondents, do IESBA members agree with the Task Force revised proposals relating to litigation support services, in particular with respect to acting as an expert witness?

V. Conforming and Consequential Changes

87. The NAS ED included conforming and consequential revisions to Sections 400, 900 (Revised) and 950 (Revised) of the Code. In addition to drafting suggestions provided by a number of respondents, the feedback on the conforming and consequential changes related to:

\(^{70}\) PAOs/ NSS: AICPA; Firm: BDO

\(^{71}\) Regulators/ MG: UKFRC; PAOs/ NSS: ICAEW
• The proposals relating to the provision of a NAS to an audit client that later becomes a PIE in Section 400.72
  o Some respondents73 pointed out that in their view, certain NAS (such as designing or implementing internal control or risk management procedures or a financial information technology system) will always impair an audit firm’s ability to accept appointment and suggested that IESBA consider including a requirement in the Code to require firms to perform an assessment of the threats and whether they are acceptable in the view of an objective, reasonable and informed third party.
  o Some respondents74 emphasized that the actions that to be taken in subparagraphs (b) and (c) of ED R400.3275 were unrealistic and would result in practical challenges in implementing them. Similar concerns were raised about similar actions set out in ED 600.20 A1.

• The proposed new location for provisions relating to the prohibition on assuming a management’s responsibility. Respondents generally supported 76 the provisions. One respondent77 suggested drafting refinements.

• The proposed revisions to Section 950. Respondents generally supported78 the provisions, but:
  o Two respondents79 questioned the robustness of the proposed amendments for PIE assurance clients and questioned whether certain types of NAS should be prohibited (i.e., similar to the prohibited NAS for PIE audit clients).
  o A respondent80 did not agree that an assurance engagement provided to a PIE should be considered in a broader public interest context like an audit engagement.
  o A respondent81 expressed concern that the disclosure requirement in paragraph ED 950.9 A2 would confuse intended users and cause unnecessary questions about the independence of the assurance firm and the validity of the assurance report.

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72 As a conforming change to the proposed self-review threat prohibition, paragraph ED R400.32 restricts a firm from accepting appointment as auditor of a PIE to which the firm or the network firm has provided a NAS prior to such appointment that would create a self-review threat, unless the provision of such NAS has ceased.
73 Regulators/ MG: CEOAB, IAASA, IFIAR, IRBA, UKFRC
74 Independent NSS: XRB; PAOs/ NSS: ACCA/CAANZ, CPAA, EFAA, ICAEW, IDW; Firms: BKTI, EY; Other: SMPC
75 Refers to the engagement of a professional accountant who is not a member of the firm to perform an engagement quality review and the where the PIE engages another auditor who is not a member of the firm to evaluate/re-perform the prior NAS, respectively.
76 Regulators/ MG: IRBA, MAOB, NASBA, UKFRC; Public Sector Organizations: AGNZ, AGSA; Independent NSS: APESB, XRB; PAOs/ NSS: ACCA/CAANZ, AE, BICA, CNCC, CPAA, EFAA, HKICPA, IAA, ICAB, ICAEW, ICAG, ICAI, ICAS, IPAR, IPCAU, IDW, IMCP, IPA, ISCA, JICPA, KICPA, MIA, MICPA, NBAAT, SAICA, SAIPA, WPK; Firms: BDO, BKTI, Crowe, DTTL, EY, GTI, KPMG, Mazars, Moore, PwC, RSM; Others: SMPC
77 PAOs/ NSS: ICAS
78 Regulators/ MG: IRBA, MAOB, NASBA; Public Sector Organizations: AGSA; Independent NSS: APESB; PAOs/ NSS: ACCA/CAANZ, AE, BICA, CNCC, CPAA, CPAC, EFAA, IAA, ICAB, ICAEW, ICAG, ICAI, ICAP, IPCAU, IPD, IMCP, IPA, ISCA, JICPA, KICPA, MIA, MICPA, NBAAT, SAICA, SAIPA, WPK; Firms: BDO, BKTI, Crowe, EY, GTI, Mazars, RSM; Others: SMPC
79 Regulators/ MG: UKFRC; Independent NSS: XRB
80 Firms: DTTL
81 Firm: KPMG
Task Force Response

Provision of a NAS to an Audit Client that Later Becomes a PIE

88. The Task Force accepted respondents’ suggestions to refine the proposals relating to the provision of a NAS to an audit client that later becomes a PIE (see revisions in paragraphs R400.32 to 400.32 A1 in Agenda Item E-2). Among other matters, paragraph R400.32 requires a firm, before accepting appointment, to determine whether a reasonable and informed third party would conclude that any continuing threats to independence arising from the provision of NAS in prior periods had been addressed. To address the practical challenges in relation to engaging a third-party reviewer raised by respondents, the actions that a firm might take to address any such concerns have be converted to application material (paragraph 400.32 A1).

Matters Relevant to Section 950

89. The revisions in Section 950 in Agenda Item E-2 are aligned to the revisions that the Task Force developed for the general NAS provisions in Section 600. The Task Force does not believe that it is necessary to elevate the proposed application material in ED-950.9 A1 and ED-950.A2 to requirements similarly to the approach taken for audit engagements.

90. The Task Force also clarified the application material on disclosure in 950.10 A2 of Agenda Item E-2 to address concerns expressed on potential confusion to intended users.

Recommended Revision to Section 525

91. When finalizing the NAS ED, the Task Force determined that extant R525.4(b) relating to the loan of firm personnel did not need to be changed to conform to the proposed self-review threat prohibition.

92. In considering the responses to the ED, the Task Force revisited its position having received a question about the matter. The Task Force’s current thinking is that there is merit in further clarifying the language in R525.4(b) as follows.

### Task Force Proposed Revisions to Section 525 (Mark-up from Extant Code)

**R525.4** A firm or network firm shall not loan personnel to an audit client unless [the firm or network firm is satisfied that]:

- (a) Such assistance is provided only for a short period of time;
- (b) The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and
- **(e) (b)** Such personnel will not assume management responsibilities and the audit client will be responsible for directing and supervising the activities of such the personnel;
- (d) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
- (e) Such personnel will not undertake or be involved in professional services prohibited by the Code if undertaken by the firm or network firm.
Matters for IESBA Consideration

10. Do IESBA members agree with the Task Force’s revised conforming and consequential changes in Sections 400, 900 and 950?

11. IESBA member are asked to consider and react to the Task Force’s suggested revisions to Section 525, Temporary Personnel Assignments.

VII. Next Steps

93. The Task Force will consider the input from the IESBA CAG and IESBA September meetings when refining the proposed texts during its October meeting and presenting revised proposals and any remaining issues to the IESBA in December 2020 at which time, the IESBA anticipates finalizing the NAS revisions.

94. As noted in Section II of this paper, the IESBA is planning to align the effective dates of the revisions to the Code arising from the NAS, Fees, and the PIE projects. The Task Force is also liaising closely with the Technology Task Force to ensure that technology-related NAS proposals reflect its current thinking.
### Overview of Key Revisions to Subsections

The table below highlights the key revisions to subsections 601 to 610, the most substantive of which are also discussed in the body of this paper.

<table>
<thead>
<tr>
<th>Name of Subsection</th>
<th>Nature of Proposed Revision</th>
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| Subsection 601 – Accounting and Bookkeeping Services     | • Refined the descriptions of accounting and bookkeeping services  
• Further clarifications about permissible services that form part of the audit process.  
• Added new application material to describe (i) accounting and bookkeeping services that are routine and mechanical in nature; and (ii) accounting and bookkeeping services that involve the use of automated tools  
• Retained ED position to withdraw the exemption relating to the provision of accounting and bookkeeping services to divisions and related entities of audit clients that are PIEs in certain circumstances. |
| Subsection 602 – Administrative Services                 | • No substantive revisions to ED proposals                                                                                                                                                                                                                                                                                                                 |
| Subsection 603 – Valuation Services                      | • Minor clarifications to help in identifying and evaluating threats (self-review threats vs advocacy threats)                                                                                                                                                                                                                                                                                       |
| Subsection 604 – Tax Services                            | • Refined language of the new prohibition on a tax service relating to marketing, planning or advocating in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or the network firm and a significant purpose of which is tax avoidance to address questions about the use of “significant” and the meaning of “likely to prevail”  
• Refined application material outlining tax advisory and tax planning services that will not create a self-review threat to delete the words “over long period” and address questions about the meaning of “likely to prevail” |
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| Subsection 605 – Internal Audit Services                | • Retained proposals that clarify when firms and network firms are to comply with the valuation provisions in subsection 603  
                                                  | • Retained the description of NAS relating to the provision of assistance in the resolution of tax disputes                                                                                                                                                                             |
| Subsection 605 – Internal Audit Services                | • No substantive revisions to proposals in ED.                                                                                                                                                                                                                                        |
| Subsection 606 – Information Technology (IT) Systems Services | • Narrowed the circumstances in which a firm or network firm may be allowed to provide IT systems services relating to the implementation of “off-the-shelf” accounting or financial reporting information software  
                                                  |   ○ Cannot be developed by the firm or network firm  
                                                  |   ○ Scope of the work specified by management  
                                                  |   ○ Work do not require specialist expertise and detailed customization                                                                                                                                               |
| Subsection 607 – Litigation Support Services            | • Retained forensic or investigative services as part of the general description of litigation support services  
                                                  | • Clarified the circumstances in which acting as a witness do not create an advocacy threat leveraging material in AICPA’s relevant standards  
                                                  | • Revised prohibition on acting as an expert witness in a dispute involving an audit client that is a PIE unless appointed by a tribunal or court.                                                                                                                                  |
| Subsection 608 – Legal Services                         | • Retained structural refinements that highlight and clarify the provisions that relate to providing legal advice, acting as general counsel and acting in an advocacy role.  
                                                  | • Repositioned the examples of legal advice that might create self-review threats  
<pre><code>                                              | • Added new application material to explain that negating on behalf of an audit client might increase feedback                                                                                                                                                                       |
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<td>subsection 609 – Recruiting Services</td>
<td>• Further structural refinements.</td>
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<td>• New prohibition on the provision of recruiting services that relate to (i) recommending the person to be appointed; and (ii) advising on the terms of employment, remuneration or related benefits of a particular candidate</td>
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<td>subsection 610 – Corporate Finance Services</td>
<td>• Retained “valuation of prospective acquisition” as part of the general description for corporate financial services; but deleted “performing due diligence in relation to potential acquisitions and disposals”</td>
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<td>• Withdraw “whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements ….” as a factor that firms consider in identifying and evaluating threats created by the provision of corporate finance advice</td>
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## List of Respondents to ED

**Note:** Members of the Monitoring Group are shown in **bold** below.

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<th>Respondent (66)</th>
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\(^{82}\) The SMPC recently changed its name to the IFAC Small and Medium Practices Advisory Group.