

IESBA

Non-Assurance Services

Richard Fleck, Task Force Chair

IESBA CAG Meeting
Virtual
September 10, 2020

Matters for CAG Consideration

Representatives are asked to consider and react to:

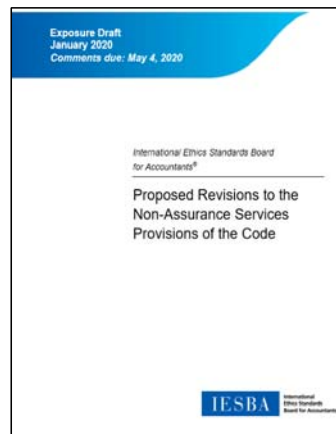
- The summary of significant matters arising from responses to NAS ED
- The proposed Task Force responses and revised proposals which takes into account preliminary views from July 2020 IESBA discussion

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2

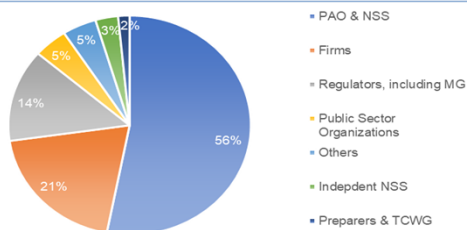
NAS Project Status and Plan

- NAS project prioritized in 2019-2023 SWP
 - Global roundtables in June/ July 2018
 - Project proposal approved in September 2018
- ED released in January 2020, comment deadline in June 4
 - 66** comment letters received, available on [IESBA website](#)
- IESBA Meeting in [July 2020](#)
 - Preliminary views expressed on significant comments
 - Directional input provided on overarching issues

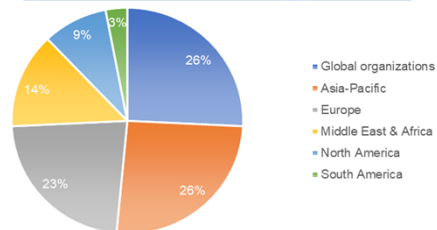


Overview of Respondents

Stakeholder Group	#
PAO & NSS, including AE & EFAA	35
Firms	13
Regulators, including IFIAR, IOSCO & NASBA	9
Public Sector Organizations	3
Others, including IIA & SMPC	3
Independent NSS	2
Preparer/ TCWG	1



Geographical Region	#
Global	17
Asia-Pacific	17
Europe	15
Middle East & Africa	9
North America	6
South America	2



Highlights of ED Comments by Stakeholder Group

Clear support expressed across stakeholder groups and regions but:

PAOs incl NSS	Project should be delayed given COVID-19 and PIE definition project
	Removal of materiality deviates from principles-based approach
	Some disagreement with the prohibition of NAS for PIE audit clients where there is SRT
Firms	Some disagreement with the removal of the materiality qualifier
	Prohibition of A&R that will create a SRT, in the case of in PIE audit clients, might extend to audit procedures
Regulators incl MG	Provisions should align with SEC and EU regulations (which extend to "controlled downstream entities" only)
	Provisions should apply to parent undertakings of PIEs
	Use of professionals from the same firm is not a sufficient safeguard
General	Alignment of the Code with stricter national laws/regulations in some jurisdictions
	Scale and pace of change of the Code
	Impact on non-PIEs or small PIEs
	Wording of "whether there is a risk that" in the SRT prohibition will create diverse interpretations

Concerns about Timing

The NAS EM set out an anticipated finalization date of Dec 2020

Feedback from Respondents

- Consider extending the timeline for completion of the NAS project timeline given:
 - The concurrent project to revise the Code’s definition of a PIE
 - Challenges and pressures due to the COVID-19 pandemic
 - The need for further understanding about how SMEs will be affected
- Questions about the pace & frequency of changes to the Code and the implications for SMPs & SMEs as jurisdictions that need to translate

IESBA Initial View (July 2020)

- No change to proposed timetable; approval of NAS and Fees projects anticipated in December 2020
- Effective dates of final NAS and fee-related provisions to be aligned with the revised definition of PIE

Parent Undertaking of PIEs (1)

The NAS ED set out a SRT prohibition and TCWG concurrence requirement for PIE audit clients and its controlled related entities

Feedback from Respondents

- Some regulators suggested that proposals be extended to all related entities of a PIE
- Some firms called for closer alignment to SEC/ EU requirements by specifying that NAS proposals will apply to related entities that are consolidated

Task Force Response

- Developed a new requirement in **R600.21** to specify the firm's responsibilities for related entities that the audit client does not control → will enhance transparency with TCWG about NAS
- New requirement recognizes that TCWG of a PIE does not have authority to approve provision of NAS to entities they have no control/influence over

Parent Undertaking of PIEs (2)

Revised proposal for consideration

R600.21 Before a firm or network firm that is the auditor of a public interest entity provides a non-assurance service to a related entity of an audit client over which that audit client does not have direct or indirect control, the firm or network firm shall:

- (a) Evaluate whether the provision of such non-assurance service might create a threat to its independence as auditor of the public interest entity; and
- (b) Inform those charged with governance of the audited entity the public interest entity whether it has provided that it has been asked to provide, or has accepted an engagement to provide, a non-assurance services to a related entity over which the audit client does not have direct or indirect control and confirm that, if so, that:
 - (i) It has evaluated whether the provision of such non-assurance service might create a threat to its independence as auditor of the public interest entity; and
 - (ii) It is satisfied that any threat to independence has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level.

Regulators' Concerns about Certain NAS Safeguards

The NAS ED included safeguards as set out in the extant Code

Feedback from Respondents

- Questions about the adequacy of NAS safeguards involving:
 - Using professionals who are not audit team members to perform the NAS
 - Having an appropriate reviewer who was not involved in providing the NAS review the audit work of the NAS performed
- Concerned that a **professional within the same firm** “may be motivated to make judgements that protect the economics and other interests of the firm rather than the public interest and needs of investors”

Task Force Considerations

- Similar comment raised by the same respondents in response to Safeguards ED
- Revised and restructured Code includes revisions, including a description of appropriate reviewer in 300.8 A4 to address adequacy of NAS safeguards
- These safeguards are long-standing and removal will have significant implications for non-PIEs
- To further consult with IFIAR and IOSCO

Laws, Regulations & Auditing Standards (1)

The NAS ED reminded firms to comply with national laws & regulations; and clarified that providing A&R that will create SRT to PIE audit clients are prohibited

Feedback from Respondents

- Requests for clarification about the interaction b/w the prohibition of the provision of NAS and applicable laws, regulations and auditing standards, specifically when:
 - Laws or regulations take a stricter position than the NAS proposals
 - Laws or regulations permit (but do not require) provision of a NAS that would be prohibited under the NAS proposals
 - Certain A&R is required/ permitted under auditing standards or as part of audit process (e.g., management letters)
- Consider aligning the NAS proposals more closely with similar jurisdiction-level independence rules which they perceive to be stricter (e.g., EU regulation)

Laws, Regulations & Auditing Standards (2)

IESBA Initial View (July 2020)

- Reaffirmed that extant paragraphs [R100.3/100.3 A1](#) appropriately address the interaction between the NAS proposals and laws & regulations
- Task Force was asked to develop new AM to clarify that the position for A&R for PIE audit clients → A&R that is required under auditing standards or as part of audit process will not be prohibited

Task Force Response

- Extant 100.3 A1 applies with respect to laws & regulations
 - “...Some jurisdictions might have provisions that differ from or go beyond those set in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.”
- NAS ED was informed by [benchmarking](#) against EU Regulation & PCAOB/ SEC independence rules; global roundtables and extensive input from IESBA CAG, NSS, and outreach with key stakeholders, including regulators and firms
 - Important to achieve right balance; further alignment with jurisdictional laws & regulations that are perceived to be stricter will be overly prescriptive and impractical towards achieving global adoption
- New AM to clarify interaction between provisions relating to A&R and auditing standards in 600.10 A2

SRT Prohibition

The NAS ED included the prohibition of NAS for PIE audit clients when there is a SRT

Feedback from Respondents

- On balance, substantial support for SRT prohibition, but calls for enhanced clarity
 - Numerous drafting suggestions on how to identify a SRT
 - Consider elevating AM to a requirement given the stricter approach in many jurisdictions
 - Questions about provisions relating to re-evaluating threats created by providing multiple NAS to the same audit client
- Consider extending the prohibition to:
 - All audit clients
 - NAS that will create an advocacy threat for PIE audit clients
- Concerns about the impact for smaller PIEs

SRT Prohibition – Key Revisions

Task Force Response

Underlying concepts of proposals remain unchanged, clarifications proposed:

- ✓ AM elevated
- ✓ Emphasized that assessment is whether there is a risk that a SRT will be created

R600.13 ~~600.11 A2. Identifying whether the provision of~~ Before providing a non-assurance service to an audit client ~~will create a self-review threat involves determining, a firm or network firm shall determine~~ whether there is a [risk/possibility] that ~~the provision of the non-assurance service will create a self-review threat by evaluating whether:~~

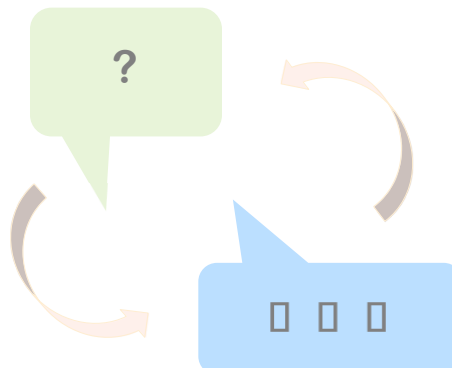
- (a) The results of the service will affect the accounting records, or the internal controls over financial reporting, or the financial statements on which the firm will express an opinion;
- (b) ~~In the course of the audit of those financial statements,~~ the results of the service will be subject to audit procedures; and
- (c) When ~~making an performing such~~ audit ~~judgment~~procedures, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the non-assurance service.

R600.1415 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if there is a [risk/possibility] that the provision of that non-assurance service will create a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion.

SRT Prohibition – Other Revisions

Task Force Response

- Clarified how to assess:
 - ✓ Multiple threats (600.11 A1)
 - ✓ Other threats (600.9 A2)
 - ✓ Emerging NAS (600.5)



Advice and Recommendations

The NAS ED emphasized that provision of A&R might create a SRT

Feedback from Respondents

- Varied views about ED position on A&R
 - Some believed providing A&R always creates a SRT and did not support the ED approach of “might create”
 - Some questioned the need for ED clarifications, did not support restrictions for PIE audit clients, noting that in their view restrictions on assuming a management responsibility for an audit client are sufficient
- Concerns that SRT prohibition may restrict firms from providing A&R that is integral to the performance of high-quality audits

Task Force Response

- Underlying concepts of proposals remain unchanged, clarifications proposed in 600.10 A1 to 600.10 A2
- Subsections clarify when a NAS or A&R will not create a SRT

Advice and Recommendations – Revisions

Providing advice and recommendations

600.10A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in [R600.13. Where the audit client is not a public interest entity and a self-review threat is identified, the firm is required to address the threat by application of the conceptual framework.](#) 600.11 A2. This includes considering the nature of the advice and recommendations and how such advice and recommendations might be implemented by the audit client. 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 public interest entity. If the audit client is a public interest entity, paragraph R600.154 applies.

600.10 A2 [A firm or a network firm is not prohibited from providing advice and recommendations to an audit client where the provision of such advice and recommendations is \[permitted or contemplated by auditing standards applicable to the audit of that audit client.\]](#)

Materiality

The NAS ED withdrew the materiality qualifier for PIE audit clients and clarified how firms are to consider materiality in the context of applying NAS provisions

Feedback from Respondents

- On balance, support for ED position, including the withdrawal of materiality qualifier
- Some concerns about
 - The immediate implications for PIE audit clients that are SMEs and the long-term implications for non-PIE audit clients
 - Questions about how can immaterial NAS be a threat to independence
 - ED approach may lead to an increase in inadvertent breaches

Task Force Response

- No change
- Explanations of the rationale for the new approach and how it interacts with the Code's conceptual framework will be featured in the Basis for Conclusions for the project

Routine or Mechanical – Current Thinking

NAS ED refined material on NAS of a routine & mechanical nature and withdrew the exemption relating to accounting & booking for divisions and related entities of a PIE

Feedback from Respondents

- Suggestions on how to clarify the term "routine & mechanical"
 - Routine or mechanical tasks can be both manual in nature as well as automated
 - Automated tasks do not necessarily equal "routine & mechanical"
 - Whether automated task is routine & mechanical depends on the extent of professional judgment being made and whether the judgement is based on client-defined criteria
- Some did not support some of the examples "routine & mechanical" in the NAS ED
 - E.g., "...preparing f/s based on information in the client-approved trial balance and preparing notes based on client-approved records" that is permissible for non-PIEs"
- Questions about the use of the term "not significant" 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

Routine or Mechanical – Current Thinking

Task Force Response

- ✓ Revised AM to clarify "routine or mechanical" and explain "automated services"
- ✓ Incorporates input from the Technology TF
- ✓ Further input from TTF being sought to refine drafting

601.4 A1 Routine and mechanical accounting and bookkeeping services that are routine and mechanical.

- (a) Involve information, data or material in relation to which the client has made such judgments or decisions as may be necessary; and
- (b) Require little or no technical expertise and professional judgment.

601.4 A2 Accounting and bookkeeping services that are routine and mechanical can either be manual or automated. Automated services may appear to be routine and mechanical because of the ease with which the task can be completed. Therefore, in addition to the matters set out at 601.4 A1, determining whether an automated service is provided in a manner that is routine and mechanical involves:

- Having an understanding of [the methodology used by the automated tool/how the tool operates], including any algorithms or machine learning involved;
- [Considering/assessing] the extent to which [any] professional judgement attributable to the firm is embedded [in its operation/in the methodology]; and
- Determining whether the automated tool has the potential to [affect/influence] the output of the service provided.]

601.4 A3 Examples of services that might be regarded as routine and mechanical include:

Tech-related NAS – Current Thinking

- The IESBA to consider questions about IESBA's plan to finalize the NAS project before consulting on the technology-related revisions.
- The Task Force and the Technology TF will continue to coordinate their workstreams to accommodate joint thinking as appropriate to ensure that the outcome of the two workstreams are aligned.
- Two regulators questioned the use of "not significant" in ED-606.3 A1(c) as a threshold for indicating the permissibility of a NAS.

- ✓ Further input from TTF being sought to refine drafting

606.3 A1 Providing the following IT systems services to an audit client does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility:

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming part of the accounting records or financial statements; and
- (c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization-required to meet the client's needs is not significant.scope of the work is specified by management and the work involved does not require specialist expertise and detailed customization.

Tax Planning (1)

The NAS ED prohibited certain tax services or recommending a transaction for which the significant purpose is tax avoidance unless certain conditions are met

Feedback from Respondents

- Respondents generally supported the prohibition
- However, many questioned the use of the term “likely to prevail” as it is subjective
 - Some suggested the use of “more likely than not” since it is more prevalent in accounting & auditing standards including PCAOB
 - Threshold for “likely to prevail” should be prescribed, e.g., US federal tax practice where more likely than not is better than 50% likelihood. Additionally, not clear how these thresholds would be linked to the proposals.
- Questions about the meaning of the terms “significant purpose”, and “tax avoidance”
- Preparation of tax calculations of current and deferred tax liabilities (or assets) for a PIE audit client should be prohibited as tax calculations always create a SRT

Tax Planning (2)

Task Force Response

- The Task Force is of the view that the terms “more likely than not” and “likely to prevail” are not equivalent.
 - “More likely than not” requires only a marginal increased probability. In contrast, “likely to prevail” implies a clear probability that the advice will prevail
- The Task Force is of the view that the term “tax avoidance” should be retained as it is generally understood and aligns with PCAOB Rule 3522
- Term “significant purpose” replaced with “principle purpose” in R604.4
- R604.10 include revised text relating to tax calculations

Tax Planning – Revisions

- R604.4** A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and ~~a significant~~the principal purpose of the tax treatment or transaction is tax avoidance, unless ~~that~~the proposed treatment has a basis in applicable tax law and regulation that is more likely [than not] to prevail.
- R604.10** A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity ~~if such calculations will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.~~

Litigation Services

The NAS ED included new provisions relating to acting as an expert witness

Feedback from Respondents

- Disagree with court appointment removing prohibition of litigation services as it creates an advocacy threat
- Add exception to allow engagements where the firm acts as an expert witness in a class action suit

Task Force Response

- In a court appointment, a firm's duty is to court and not to the audit client. Proposed to be included in Basis for Conclusions
- Exception added for class action suit

Appointment as Auditor of a PIE

The NAS ED prohibits a firm from accepting an appointment as auditor of a PIE to which it has previously provided a NAS that would create a SRT, unless certain actions are taken

Feedback from Respondents

- Certain NAS will always impair an audit firm's ability to accept appointment and hence an RTIP test should be added
- ED R400.32 (b) and (c) would result in practical challenges

Task Force Response

- RTIP test added
- Actions converted to AM

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that would create a self-review threat in relation to the financial statements on which the firm will express an opinion unless ~~the provision of such service has ceased and:~~

- The provision of such service has ceased,
- The firm takes action to address any continuing threats arising from the provision of such service; and
- The firm determines that, in the view of a reasonable and informed third party, any continuing threats to the firm's independence would have been eliminated or reduced to an acceptable level.

400.32 A1 Actions that a reasonable and informed third party might consider to eliminate or reduce to an acceptable level any threats to the firm's independence from the provision of non-assurance services to a public interest entity prior to appointment as auditor of that entity include:

Loan of Firm Personnel to an Audit Client

- Loan of firm personnel to audit client might create SRT → No change to R524.4 proposed in NAS ED
- Task Force is proposing the following revisions

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

- Such assistance is provided only for a short period of time;
- ~~The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and~~
- ~~(b) Such~~ The personnel will do not assume management responsibilities and the audit client will be is responsible for directing and supervising the activities of such the personnel;
- ~~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~~
- ~~Such personnel will not undertake or be involved in professional services prohibited by the Code if undertaken by the firm or network firm.~~

Next Steps

IESBA “first read” of revised proposals in Sep

Stakeholder outreach in Q4

Approval anticipated in Dec

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27

The Ethics Board

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28